

DISCOVERY WORLD, LTD.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018 AND 2017

DISCOVERY WORLD, LTD.
MILWAUKEE, WISCONSIN

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Independent Auditor's Report

Board of Directors
Discovery World, Ltd
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the Discovery World, Ltd. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Discovery World, Ltd. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Krause & Associates, SC". The signature is written in a cursive style.

Krause & Associates, SC
Grafton, Wisconsin
June 20, 2019

DISCOVERY WORLD, LTD.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,329,692	\$ 4,777,836
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$0 for 2018 and 2017, respectively	260,902	119,154
Contributions receivable, net Related party	3,377,785	8,130,593
	-	-
Investments, at fair value	617,308	111,385
Endowment investment, at fair value	543,628	581,703
Inventory	2,275	2,370
Prepaid expenses	45,456	28,886
Restricted unemployment fund account	<u>4,705</u>	<u>3,820</u>
Subtotal	7,181,751	13,755,747
 PROPERTY AND EQUIPMENT, NET	 <u>52,458,749</u>	 <u>45,705,723</u>
 TOTAL ASSETS	 <u><u>\$59,640,500</u></u>	 <u><u>\$59,461,470</u></u>

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

	<u>2018</u>	<u>2017</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Bank lines of credit	\$ 2,452,473	\$ 250,000
Notes payable:		
Related parties	300,000	300,000
Other	2,297,142	1,600,000
Capitalized leases	33,970	19,717
Accounts payable:		
Operating	257,193	268,011
Capital	477,935	919,730
Accrued payroll and vacation	137,014	128,357
Accrued interest	53,641	46,827
Deferred revenue	<u>601,515</u>	<u>456,261</u>
TOTAL LIABILITIES	<u>6,610,883</u>	<u>3,988,903</u>
NET ASSETS		
Without donor restrictions	48,933,511	46,486,387
With donor restrictions:		
Purpose restrictions	3,552,478	8,404,477
Perpetual in nature	<u>543,628</u>	<u>581,703</u>
	<u>4,096,106</u>	<u>8,986,180</u>
TOTAL NET ASSETS	<u>53,029,617</u>	<u>55,472,567</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$59,640,500</u>	<u>\$59,461,470</u>

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

DISCOVERY WORLD, LTD.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions	\$ 1,679,921	\$ 1,307,203	\$ 2,987,124
Memberships	863,000	-	863,000
Admissions and program revenue	2,866,990	-	2,866,990
Other supporting revenue	1,470,901	-	1,470,901
Interest and dividends	31,248	50,390	81,638
Unrealized gain (loss) on investments	(998)	(74,651)	(75,649)
Realized gain (loss) on sale of investments	43	(17,061)	(17,018)
Loss on disposal of assets	(249,752)	-	(249,752)
Net assets released from restrictions	<u>6,155,955</u>	<u>(6,155,955)</u>	<u>-</u>
 Total revenue and support	 12,817,308	 (4,890,074)	 7,927,234
EXPENSES			
Program services:			
Museum programming and exhibits	<u>9,017,449</u>	<u>-</u>	<u>9,017,449</u>
	9,017,449	-	9,017,449
Supporting services:			
Management and general	682,278	-	682,278
Fundraising	<u>670,457</u>	<u>-</u>	<u>670,457</u>
	<u>1,352,735</u>	<u>-</u>	<u>1,352,735</u>
 Total expenses	 <u>10,370,184</u>	 <u>-</u>	 <u>10,370,184</u>
 Changes in net assets	 2,447,124	 (4,890,074)	 (2,442,950)
 Net assets related to merger	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Net assets, beginning of year	 <u>46,486,387</u>	 <u>8,986,180</u>	 <u>55,472,567</u>
 Net assets, end of year	 <u>\$ 48,933,511</u>	 <u>\$ 4,096,106</u>	 <u>\$ 53,029,617</u>

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

DISCOVERY WORLD, LTD.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 8,673,962	\$ 7,183,813	\$ 15,857,775
Memberships	766,418	-	766,418
Admissions and program revenue	2,697,270	-	2,697,270
Other supporting revenue	1,645,575	-	1,645,575
Interest and dividends	8,543	26,893	35,436
Unrealized gain (loss) on investments	-	(51,642)	(51,642)
Realized gain (loss) on sale of investments	(88)	122,984	122,896
Loss on disposal of assets	(652,204)	-	(652,204)
Net assets released from restrictions	2,063,944	(2,063,944)	-
 Total revenue and support	 15,203,420	 5,218,104	 20,421,524
EXPENSES			
Program services:			
Museum programming and exhibits	9,136,393	-	9,136,393
	<u>9,136,393</u>	<u>-</u>	<u>9,136,393</u>
Supporting services:			
Management and general	744,705	-	744,705
Fundraising	539,689	-	539,689
	<u>1,284,394</u>	<u>-</u>	<u>1,284,394</u>
 Total expenses	 <u>10,420,787</u>	 <u>-</u>	 <u>10,420,787</u>
 Changes in net assets	 4,782,633	 5,218,104	 10,000,737
 Net assets related to merger	 <u>8,398,317</u>	 <u>-</u>	 <u>8,398,317</u>
 Net assets, beginning of year	 <u>33,305,437</u>	 <u>3,768,076</u>	 <u>37,073,513</u>
 Net assets, end of year	 <u>\$ 46,486,387</u>	 <u>\$ 8,986,180</u>	 <u>\$ 55,472,567</u>

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

DISCOVERY WORLD, LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,442,950)	\$ 10,000,737
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	3,011,577	3,101,045
Interest expense attributable to amortization of debt issuance costs	-	40,987
Unrealized (gain) loss on investments	75,649	51,642
Realized (gain) loss on sale of investments	17,018	(122,896)
Loss on disposal of assets	249,752	652,204
In-kind donations capitalized	(35,697)	-
Debt forgiveness	-	(2,738,845)
(Increase) decrease in accounts receivable	(141,748)	59,195
(Increase) decrease in contributions receivable	4,752,808	(5,408,265)
(Increase) decrease in accounts receivable-related party	-	(31,304)
(Increase) decrease in inventory	95	(837)
(Increase) decrease in prepaid expenses	(16,570)	49,301
Increase (decrease) in operating accounts payable	(10,818)	(31,510)
Increase (decrease) in interest accrual	6,814	(101,431)
Increase (decrease) in payroll and vacation accrual	8,657	19,458
Increase (decrease) in deferred revenue	<u>145,254</u>	<u>(27,736)</u>
 Net cash provided by (used in) operating activities	 <u>5,619,841</u>	 <u>5,511,745</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(10,478,217)	(2,080,673)
Transfer from (to) restricted unemployment fund account	(885)	(1,070)
Purchase of investments	(870,914)	(594,535)
Proceeds from sale of investments	<u>391,293</u>	<u>567,418</u>
 Net provided by (cash used) in investing activities	 <u>(10,958,723)</u>	 <u>(2,108,860)</u>

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

DISCOVERY WORLD, LTD.
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on note payable, bank line of credit	\$ -	\$ (20,000)
Proceeds from notes payable	3,002,473	1,600,000
Repayments on notes payable	(102,858)	(1,599,325)
Repayment on capitalized leases	(8,877)	(11,426)
Net cash provided by (used in) financing activities	2,890,738	(30,751)
Net increase (decrease) in cash and cash equivalents	(2,448,144)	3,372,134
Cash and cash equivalents at beginning of year	4,777,836	1,405,702
Cash and cash equivalents at end of year	\$ 2,329,692	\$ 4,777,836

Supplemental cash flow information:

Cash paid during the year for interest	\$ 77,088	\$ 373,335
In-kind contributions received	\$ 375,419	\$ 605,628
Equipment financed through capital lease arrangements	\$ 23,130	\$ 21,759
Accounts payable for property and equipment	\$ 477,935	\$ 919,730

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

DISCOVERY WORLD, LTD.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total
	Museum Programming and Exhibits	General & Administrative	Fundraising	
Payroll salaries and wages	\$ 2,756,031	\$ 224,290	\$ 361,062	\$ 3,341,383
Payroll taxes	198,772	15,903	25,746	240,421
Employee benefits	380,806	24,889	67,407	473,102
Lease expense	16,058	2,292	-	18,350
General administration and supplies	456,579	40,621	14,205	511,405
Gift shop materials and supplies	-	-	-	-
Advertising and marketing communications	263,818	-	1,718	265,536
Exhibit supplies	430,534	-	-	430,534
Vessel supplies	66,320	-	-	66,320
Programs	15,094	-	-	15,094
Special events	1,246	6,957	193,468	201,671
Maintenance	621,687	51,628	-	673,315
Utilities and telephone	552,111	61,295	-	613,406
Insurance	203,213	17,569	-	220,782
Depreciation and amortization	2,830,604	180,973	-	3,011,577
Interest	75,512	8,390	-	83,902
Professional fees	110,245	30,139	586	140,970
Meetings and travel	31,872	11,126	787	43,785
Other	6,947	6,206	5,478	18,631
	<u>\$ 9,017,449</u>	<u>\$ 682,278</u>	<u>\$ 670,457</u>	<u>\$ 10,370,184</u>
Total expenses	<u>\$ 9,017,449</u>	<u>\$ 682,278</u>	<u>\$ 670,457</u>	<u>\$ 10,370,184</u>

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

DISCOVERY WORLD, LTD.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total
	Museum Programming and Exhibits	General & Administrative	Fundraising	
Payroll salaries and wages	\$ 2,674,874	\$ 189,690	\$ 277,952	\$ 3,142,516
Payroll taxes	196,521	13,740	25,464	235,725
Employee benefits	316,898	18,508	40,502	375,908
Lease expense	13,604	4,535	-	18,139
General administration and supplies	380,072	41,292	7,789	429,153
Gift shop materials and supplies	-	-	-	-
Advertising and marketing communications	241,140	-	4,427	245,567
Exhibit supplies	281,781	-	-	281,781
Vessel supplies	68,563	-	-	68,563
Programs	16,386	-	-	16,386
Special events	1,566	9,747	181,841	193,154
Maintenance	819,860	54,723	-	874,583
Utilities and telephone	494,747	54,932	-	549,679
Insurance	219,637	18,258	-	237,895
Depreciation and amortization	2,915,753	185,292	-	3,101,045
Interest	244,713	68,177	-	312,890
Professional fees	163,190	62,458	1,083	226,731
Meetings and travel	28,917	13,474	16	42,407
Other	58,171	9,879	615	68,665
	<u>\$ 9,136,393</u>	<u>\$ 744,705</u>	<u>\$ 539,689</u>	<u>\$ 10,420,787</u>
Total expenses	<u>\$ 9,136,393</u>	<u>\$ 744,705</u>	<u>\$ 539,689</u>	<u>\$ 10,420,787</u>

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

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization and business activity

Discovery World, Ltd. (Discovery World) is a non-profit organization and is incorporated under the laws of the State of Wisconsin. Discovery World serves as an educational and cultural center that connects innovation and technology with exploration, the Great Lakes and freshwater through interactive exhibits and experiential learning programs. The Sailing Vessel (S/V) *Denis Sullivan* is used for multi-disciplinary educational programs and the promotion of the Greater Milwaukee Area and the State of Wisconsin.

Discovery World is Milwaukee's premier science and technology center. The 120,000 square foot center offers fun and educational experiences and features interactive exhibits, the Reiman Aquarium, educational labs and programs, and other exciting activities. Discovery World's unique, hands-on exhibits and programs focus on two areas – technology and freshwater sciences. Discovery World has nine learning labs that comprise more than 10,000 square feet. of space. Discovery World also offers an award-winning summer camp, Boy Scout and Girl Scout programs, community partnership programs, and learning experiences aboard Discovery World's tall ship the S/V *Denis Sullivan*. Discovery World strives to light the spark of curiosity in children and inspire them to become the next generation of engineers, designers, scientists, innovators, community leaders, and makers.

Effective December 31, 2017, Discovery World merged with Great Lakes Future, Inc. (a related party) see Note N.

2. Cash and cash equivalents

For purposes of the statements of cash flows, Discovery World considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational and other programs. Discovery World determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2018 and 2017, management determined that no allowance for uncollectible accounts receivable was required.

4. Contributions receivable

Discovery World records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Discovery World determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectable. At December 31, 2018 and 2017, management determined that no allowance for uncollectible contributions receivable was required. See Note C.

5. Investments

Discovery World 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 statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. All interest and dividend income is recorded in the unrestricted fund, unless a donor restricts that money.

Investment securities, in general, are inherently subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Inventory

Inventory consists of program-related merchandise held for sale on the *S/V Denis Sullivan*. Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

7. Prepaid expenses

Prepaid expenses represent disbursements paid in advance for the subsequent fiscal year.

8. Property and equipment

Property and equipment are recorded at cost or fair market value if donated. Discovery World's policy is to capitalize all tangible assets which separately or in the aggregate have an acquisition cost of \$5,000 or greater. Major additions and improvements are capitalized. Property and equipment are depreciated over the estimated useful lives of the assets, ranging from 5 to 39 years, using the straight-line method. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Discovery World reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2018 and 2017.

9. Deferred revenue

Deferred revenue consists of unearned revenue related to advance program fees received for the subsequent fiscal year and unearned membership dues. Nonrefundable membership dues for 12-month membership terms are recognized ratably over the 12-month membership period. Deferred revenue includes nonrefundable membership dues of \$430,175 and \$390,409 as of December 31, 2018 and 2017, respectively.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Advertising costs

Advertising costs are charged to general operations as incurred. Advertising costs totaled \$263,057 and \$224,206 for the years ended December 31, 2018 and 2017, respectively.

11. Net assets

Discovery World follows the accrual method of accounting wherein revenues and expenses are recorded in the period earned or incurred. 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) restrictions.

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 resources be maintained in perpetuity.

Discovery World 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.

12. Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and rental payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Donated services and in-kind contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Discovery World records donated professional services at the respective fair values of the services received (see Note O).

14. Allocation of functional expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, salaries and wages, benefits, payroll taxes, professional services, office expenses, supplies, insurance, and other, which are allocated on the basis of estimates of time and effort.

15. Use of estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

16. Income taxes

Discovery World is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Discovery World evaluates its tax positions and assesses their uncertainty, if any, through review and application of various sources of tax authority including statutes, regulations, rulings, court cases and widely held administrative practices.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Income taxes - continued

Discovery World informational returns are subject to examination by the IRS, generally for three years after they were filed. Management believes that no uncertain tax positions exist for Discovery World at December 31, 2018 and 2017. Discovery World has not incurred any interest or penalties for income taxes for the years ended December 31, 2018 and 2017.

17. Change in accounting principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Discovery World has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by \$42,962,493 and decreased net asset with donor restrictions by \$42,962,493 resulting from the reclassifications of net assets used for the original construction of the Discovery World complex on the lake front, which were being released from restriction in an amount equal to depreciation of the complex as required under ASU 2016-14.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Discovery World has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

18. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through June 20, 2019, which is the date that the financial statements were available to be issued.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

B – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date of December 31, 2018, comprise the following:

Cash and cash equivalents	\$ 2,329,692
Accounts receivable	260,902
Contributions receivable	<u>3,377,785</u>
	5,968,379
Less amounts not available to be used within one year:	
Net assets with donor restrictions	71,810
Contributions receivable with donor restrictions	<u>3,289,006</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 2,607,563</u>

Discovery World's goal is generally to maintain financial assets to meet 90 days of general expenses (approximately \$1.9 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and short-term bonds.

Discovery World's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

C – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are to be collected as follows as of December 31, 2018 and 2017:

	2018	2017
Within one year	\$ 1,260,309	\$ 6,104,165
In one to five years	2,071,999	2,049,500
Over five years	<u>330,000</u>	<u>135,000</u>
	3,662,308	8,288,665
 Less discount to net present value at 3.5%	 (284,523)	 (158,072)
Less allowance for uncollectible amount	<u>-</u>	<u>-</u>
	<u>\$ 3,377,785</u>	<u>\$ 8,130,593</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

D - RESTRICTED UNEMPLOYMENT FUND ACCOUNT

Discovery World is subject to Wisconsin Unemployment Compensation Law and during 2012 elected reimbursement financing. Pursuant to these elections, Discovery World must maintain a trust account to pay unemployment claims. As of December 31, 2018 and 2017, the balance in the trust account is \$4,705 and \$3,820, respectively.

E – PROPERTY AND EQUIPMENT

At December 31, 2018 and 2017, property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Building	\$ 65,297,990	\$ 55,644,735
Building improvements	685,676	635,738
Office equipment	1,225,160	1,647,751
Vessel outfitting and equipment	271,709	271,709
Theater equipment	618,377	1,234,950
Construction equipment	14,278	18,228
Exhibits	22,668,726	25,230,683
Schooner vessel	4,024,178	4,018,508
Catering equipment	443,576	443,576
Construction in process	<u>291,824</u>	<u>1,657,441</u>
	95,541,494	90,803,319
Less accumulated depreciation	<u>(43,082,745)</u>	<u>(45,097,596)</u>
Fixed assets, net	<u>\$ 52,458,749</u>	<u>\$ 45,705,723</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$3,011,577 and \$3,101,045, respectively.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

F – FAIR VALUE MEASUREMENT AND DISCLOSURES

Discovery World reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 or liability, 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 or liability 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 or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access 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 for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

All of Discovery World's investment assets are classified within Level 1 because they comprise open-end mutual funds and bonds with readily determinable fair values based on daily redemption values.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

F – FAIR VALUE MEASUREMENT AND DISCLOSURES – CONTINUED

Assets that were accounted for at fair value on a recurring basis as of December 31, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Operating investments:</u>				
Money market funds	\$ 4,542	\$ -	\$ -	\$ 4,542
Equities	1,599	-	-	1,599
Bond funds	523,571	-	-	523,571
Mutual funds	<u>87,596</u>	<u>-</u>	<u>-</u>	<u>87,596</u>
Total	<u>\$ 617,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 617,308</u>

<u>Endowment investments:</u>				
Money market funds	\$ 10,356	\$ -	\$ -	\$ 10,356
Mutual funds	<u>533,272</u>	<u>-</u>	<u>-</u>	<u>533,272</u>
Total	<u>\$ 543,628</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 543,628</u>

Assets that were accounted for at fair value on a recurring basis as of December 31, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Operating investments:</u>				
Money market funds	\$ 12,077	\$ -	\$ -	\$ 12,077
Bond funds	73,941	-	-	73,941
Mutual funds	<u>25,367</u>	<u>-</u>	<u>-</u>	<u>25,367</u>
Total	<u>\$ 111,385</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,385</u>

<u>Endowment investments:</u>				
Money market funds	\$ 24,980	\$ -	\$ -	\$ 24,980
Bond funds	107,211	-	-	107,211
Mutual funds	<u>449,512</u>	<u>-</u>	<u>-</u>	<u>449,512</u>
Total	<u>\$ 581,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 581,703</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

G – INVESTMENTS

All investments are held in brokerage custodial accounts. Stock and bond investments are presented in the financial statements at fair value. The fair value and corresponding costs of investments at December 31, 2018 are summarized below:

	<u>Fair Value</u>	<u>Cost</u>
Fixed Income		
Bond funds	\$ 523,571	\$ 522,413
Equities	1,599	1,376
Mutual funds	620,689	660,262
Money market funds	<u>14,898</u>	<u>14,898</u>
Total investments	<u>\$ 1,160,756</u>	<u>\$ 1,198,949</u>

The fair value and corresponding costs of investments at December 31, 2017 are summarized below:

	<u>Fair Value</u>	<u>Cost</u>
Fixed Income		
Bond funds	\$ 181,152	\$ 131,240
Mutual funds	474,879	489,302
Money market funds	<u>37,057</u>	<u>37,057</u>
Total investments	<u>\$ 693,088</u>	<u>\$ 657,599</u>

The following schedule summarizes the investment return without restrictions in the statements of activities for the year ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 31,248	\$ 8,543
Net realized gain on sale of investments	43	(88)
Net unrealized (loss) on investments	<u>(998)</u>	<u>-</u>
Total return on investment without restrictions	30,293	8,455
Investment counsel expense	<u>(215)</u>	<u>(88)</u>
Net return on investment without restrictions	<u>\$ 30,078</u>	<u>\$ 8,367</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

H – ENDOWMENT FUNDS

Discovery World established an endowment fund (Fund) to provide for the ongoing support and benefit of Discovery World. Discovery World has established terms and conditions with respect to the governance of the Fund. The Fund may also include funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including board-designated funds to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Fund consists of certain donor-imposed endowment gifts and bequests previously received by Discovery World and future donor-restricted gifts and bequests limited to endowment purposes, that in each case do not preclude the use of income or realized and unrealized appreciation from the donated assets. The Fund is held and administered under a segregated fund on the books and records of Discovery World and in accordance with Discovery World's investment guidelines, as in effect from time to time.

Discovery World's Board of Directors has interpreted the Wisconsin Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, Discovery World retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Fund and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. Discover World considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

H – ENDOWMENT FUNDS - CONTINUED

Funds with Deficiencies. From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). Discovery World has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds had original gift values of \$357,163, and fair values of \$543,628.

As of December 31, 2018 and 2017, Discovery World had the following net asset composition by type of fund:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2018</u>			
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor-restricted gift amount amount and amounts required to be maintained in perpetuity by donor	-	357,163	357,163
Accumulated investment gains	<u>-</u>	<u>186,465</u>	<u>186,465</u>
	<u>\$ -</u>	<u>\$ 543,628</u>	<u>\$ 543,628</u>
<u>December 31, 2017</u>			
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor-restricted gift amount amount and amounts required to be maintained in perpetuity by donor	-	357,163	357,163
Accumulated investment gains	<u>-</u>	<u>224,540</u>	<u>224,540</u>
	<u>\$ -</u>	<u>\$ 581,703</u>	<u>\$ 581,703</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

H – ENDOWMENT FUNDS - CONTINUED

Changes in endowment net assets for the year ended December 31, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2018</u>			
Endowment net assets, beginning of year	\$ -	\$ 581,703	\$ 581,703
Investment return, net	-	(38,075)	(38,075)
Contributions and transfers	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 543,628</u>	<u>\$ 543,628</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2017</u>			
Endowment net assets, beginning of year	\$ -	\$ 496,758	\$ 496,758
Investment return, net	-	84,945	84,945
Contributions and transfers	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 581,703</u>	<u>\$ 581,703</u>

Discovery World has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Discovery World must hold in perpetuity or for a donor-specified period.

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to 1) maintain high quality securities in the fund with appropriate diversification, and 2) meet the minimum income requirement (as budgeted annually) and 3) provide sufficient liquidity to meet emergency needs.

To satisfy its long-term rate-of-return objectives, Discovery World relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Discovery World targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

I – BANK LINES OF CREDIT

During 2018, Discovery World obtained a \$3,000,000 pledge line of credit with a maturity date of July 20, 2023. The pledge line of credit bears interest monthly at one-month LIBOR plus 1.5% (4.01988% as of December 31, 2018), which was payable monthly. The pledge line of credit is secured by eligible pledged receivables related to Discovery World's capital campaign. Discovery World may borrow, repay, and reborrow on this pledge line of credit. The balance outstanding on the line of credit was \$2,202,473 as of December 31, 2018.

Discovery World has a \$1,100,000 operating line of credit subject to renewal in August 2019. The operating line of credit bears interest at one-month LIBOR plus 1.50% (4.01988% as of December 31, 2018), which was payable monthly. The balance outstanding on the line of credit was \$250,000 and \$250,000 as of December 31, 2018 and 2017, respectively.

Both the operating line of credit and pledge line of credit are secured by a General Business Security Agreement (GBSA) on all business assets of Discovery World, which includes capital campaign eligible pledge receivables. Further, the amount outstanding under the pledge line of credit cannot exceed 100% of the eligible pledge receivables outstanding at any given time. Finally, there is a Negative Pledge Agreement in place on Discovery World's real estate, which restricts Discovery World from pledging the real estate to another party.

J – NOTES PAYABLE

During 2015, Discovery World received an unsecured \$300,000 loan payable to a related entity with no specified repayment terms. Interest is accrued at 3.5% per year. A balance of \$300,000 was outstanding as of December 31, 2018 and December 31, 2017, respectively.

On January 29, 2009, Discovery World entered into a \$9,000,000 New Market Tax Credits ("NMTC") financing transaction involving the Cudahy Foundation, First-Ring Industrial Redevelopment Enterprises, Inc. ("FIRE") and U.S. Bank Community Development Corporation ("USBCDC"). The financing incorporated NMTC through a leveraged structure ("Structure"). Cudahy Foundation lent \$6,442,200 to the Structure. FIRE provided an allocation of tax credits that were purchased by USBCDC, and \$2,377,800 of these proceeds were thereafter loaned to Discovery World ("NMTC Loan"). Under the terms of the agreement, these loans must remain in place for 7 years, with no pre-payment of principal. Discovery World was required to make quarterly interest payments. The note bears interest at 1.33% on the \$6,442,200 portion and 0.5% on the \$2,377,800 portion. During 2016, Discovery World closed on this note.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

J – NOTES PAYABLE – CONTINUED

On July 2, 2010, Discovery World entered into a New Market Tax Credits (NMTC) financing transaction for \$13,350,000 involving the M&I Bank (now BMO), the Redevelopment Authority of the City of Milwaukee (“RACM”), Milwaukee Economic Development Corporation (“MEDC”), USBCDC and Great Lakes Future, Inc., a related party, (“GLF”) see Note N. GLF lent \$1,700,483 to the Structure; RACM sold bonds to M&I Bank and lent \$8,012,467 to the Structure. MEDC provided an allocation of tax credits that were purchased by USBCDC and \$3,644,550 of these proceeds were thereafter loaned to Discovery World (“NMTC Loan 2”). As part of the overall transaction, GLF agreed to purchase 100% of the bonds outstanding from M&I and Discovery World pledged financial support to GLF. Under the terms of the agreement, these loans were to remain in place for 7 years, with no pre-payment of principal. During 2017, Discovery World unwound this transaction.

On February 26, 2016, Discovery World unwound the New Market Transaction entered into on January 29, 2009. Following the unwind, Discovery World had a liability to GLF, a related party of \$7,868,880 and a liability for exit fees owed to First-Ring Industrial Redevelopment Enterprises, Inc. (FIRE) of \$951,120 at an interest rate of 3% per year. Thereafter, FIRE entered a grant agreement with Discovery World and forgave \$250,000 of the exit fees over the term of the payment schedule. A balance of \$451,200 was outstanding as of December 31, 2016. During 2017, the note was refinanced and paid in full.

On December 15, 2016, Discovery World obtained 12 month term financing from a local bank of \$250,000, the proceeds of which were used to pay the 2016 installment to FIRE. The note bears interest at one-month LIBOR plus 2.50% (3.1345% as of December 31, 2016). Principal and interest payments were due monthly using a 5 year amortization schedule, with a balloon payment due December 15, 2017. During 2017, the note was refinanced and paid in full.

In July 2017, Discovery World unwound the New Market Transaction entered into on July 2, 2010. Post-closing, Discovery World had a liability to GLF, a related party of \$9,712,950 and a liability owed to MEDC of \$3,637,050. As part of the closing, MEDC conveyed its interest in the note to GLF, resulting in the cancellation of debt in an amount of \$2,738,845 which would have been the balance owed. In addition, MEDC provided funds to refinance the amounts due from the closing of the 2009 New Market Transaction. In total, MEDC provided \$1,600,000 in financing. The note bears interest at a fixed annual rate of 3.65%. Monthly payments of \$11,000, including principal and interest payments are due based on a 7-year amortization schedule, with a balloon payment due in 2024. The balance outstanding was \$1,527,142 and \$1,600,000 as of December 31, 2018 and 2017, respectively.

DISCOVERY WORLD, LTD.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2018 AND 2017

J – NOTES PAYABLE – CONTINUED

On December 31, 2017, Discovery World and GLF merged, Note N. As a result of the merger, the liabilities owed to GLF were, as part of the closing of the New Market Transaction, eliminated in the consolidation of the two organizations.

During 2018, Discovery World obtained a note from MEDC in the amount of \$800,000. The note bears interest at a rate of 3.141592% for the first 60 month and at 6.283184% for the remainder of the term. Monthly payments of \$7,500, including principal and interest are due based on a 10-year amortization schedule, with a balloon payment due in 2028. The note is secured by certain pledge receivable agreements outstanding. The balance outstanding was \$770,000 as of December 31, 2018.

Aggregate annual maturities on the foregoing borrowings at December 31, 2018 are as follows:

2019	\$ 445,610
2020	153,685
2021	160,790
2022	167,611
2023	176,466
2024 and thereafter	<u>1,492,980</u>
Total	<u>\$ 2,597,142</u>

K – LEASE COMMITMENTS

Operating Leases

Discovery World leases the “North Harbor Tract” land and pier from the City of Milwaukee Board of Harbor Commissioners. The lease is for a period of 30 years through July 2033, with a 30 year renewal option. Discovery World was responsible for infrastructure costs (sewer, water, and other utilities). As part of the lease agreement, an annual payment of 5% of all amounts in excess of \$5,000,000 of Discovery World’s net income is due to the City. Capital campaign contributions are excluded from the calculation of Discovery World’s net; therefore no rent has been expensed or accrued as of December 31, 2018 and 2017 related to this lease agreement.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

K – LEASE COMMITMENTS – CONTINUED

Operating Leases - continued

In 2017, Discovery World entered into a sublease with Specialty Restaurants of Wisconsin (“SRW”) pursuant to which Discovery World leased the Property SRW is located on to SRW after assuming SRW’s lease with the Milwaukee Board of Harbor Commissioners. The sublease provides, among other things, that rent will be paid to Discovery World, that SRW will hold Discovery World harmless from any claims that may arise on account of the sublease and that further consideration will be paid for an additional extension of the sublease. The sublease (1) provides adequate consideration for the lease, (2) provides additional consideration for an extension of the lease, and (3) solidifies the operations of a restaurant contiguous to Discovery World for the benefit of Discovery World’s members and visitors.

Discovery World leases various office equipment under operating lease agreements that expire through January 2023. In addition, Discovery World leases a vehicle under an operating lease agreement which expires in 2019. Rent expense under these operating leases totaled \$13,197 and \$18,138 for the year ended December 31, 2018 and 2017, respectively. Future minimum lease payments are as follows:

2019	\$ 8,065
2020	6,169
2021	2,413
2022	2,071
2023	<u>1,036</u>
Total	<u>\$ 19,753</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

K – LEASE COMMITMENTS – CONTINUED

Capital Leases

During 2018, Discovery World entered into a capitalized lease for telephone equipment, under a non-cancelable lease agreement. Minimum lease payments have been capitalized and the related assets and obligations recorded using an annual interest rate 3.8161%.

During 2017, Discovery World entered into a capitalized lease for computer equipment, under a non-cancelable lease agreement. Minimum lease payments have been capitalized and the related assets and obligations recorded using an annual interest rate 5.725%. The assets are depreciated on a straight-line method over their estimated useful lives. Interest expense is recognized using the effective interest method.

The following summarizes the future obligations under capital leases:

2019	\$ 14,271
2020	14,271
2021	<u>7,025</u>
Total payments	35,567
Amounts representing interest	<u>(1,597)</u>
Total obligation	<u>\$ 33,970</u>

The net book value of assets capitalized under these leases is \$35,922 and \$19,258 at December 31, 2018 and 2017, respectively.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

L –NET ASSETS

Contributions received are recorded as donor restricted net assets depending on the existence and or nature of any donor imposed restrictions. As restrictions are met and funds expended, assets are released from restrictions. Net assets with donor restrictions are restricted for the following purposes as of December 31, 2018 and 2017:

Purpose restriction	2018	2017
Contributions receivable, the proceeds from which have been restricted by donors for:		
Capital projects	\$ 3,169,551	\$ 6,709,596
Operations and programs	198,233	722,283
Educational programs	10,000	20,000
Design It Lab	-	678,714
Exhibit	62,500	162,500
Educational programs	112,193	111,384
Total	3,552,477	8,404,477
Endowments:		
Restricted by donors for sustainability	543,629	581,703
	\$ 4,096,106	\$ 8,986,180

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

Contributions received	\$ 5,377,241	\$ 1,391,094
Exhibit	100,000	-
Design It Lab	678,714	672,850
Total	\$ 6,155,955	\$ 2,063,944

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

M – RETIREMENT PLAN

Discovery World has a qualified 401(k) plan covering all eligible employees. The Board of Directors has the ability to authorize annual discretionary contributions to the plan; no discretionary contributions were authorized for the years ended December 31, 2018 and 2017. Contributions to the plan were \$43,711 and \$35,437 for the years ended December 31, 2018 and 2017.

N – RELATED PARTY TRANSACTIONS

During 2015, Discovery World received an unsecured \$300,000 loan payable to a related entity with no specified repayment terms. Interest is accrued at 3.5% per year. A balance of \$300,000 was outstanding as of December 31, 2018 and 2017, respectively.

In support of the 2010 New Market Tax Credits (NMTC) financing transaction, Discovery World has provided financial support to Great Lakes Future, Inc. (GLF). GLF was a non-profit organization, incorporated under the laws of the State of Wisconsin. GLF functioned as a supporting organization of Discovery World. Discovery World and GLF were related through common board members and shared administrative functions. GLF made supporting contributions to Discovery World of \$235,500 for the year ended December 31, 2017,

During 2017, Discovery World provided financial support to GLF of \$31,304 which was reported as receivable from related party on the statements of financial position, (prior to the merger discussed below), as required under the terms of the NMTC financing, and GLF used the financial support to purchase a portion of the bonds outstanding.

As part of the closure of the 2009 and 2010 New Market Tax Credits (Note J), Discovery World had notes payable to GLF of \$17,581,830, prior to the merger discussed below.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

N – RELATED PARTY TRANSACTIONS – CONTINUED

On December 31, 2017, Discovery World and GLF completed a merger of their operations. The combined organization will continue as Discovery World, Ltd. Through their merger, the organizations seek to further their common mission as an educational and cultural center that connects innovation and technology with exploration. As of December 31, 2017, the major classes of assets, liabilities and net assets of Discovery World and GLF follow:

			Adjustments		Total
	Discovery World	GLF	Debit	Credit	
Assets:					
Cash and cash equivalents	\$ 4,771,884	\$ 5,952	\$ -	\$ -	\$ 4,777,836
Receivables, net	17,439,212	17,581,830	-	26,771,295	8,249,747
Other assets	728,164	-	-	-	728,164
Fixed assets, net	45,705,723	-	-	-	45,705,723
Total assets	\$ 68,644,983	\$ 17,587,782	\$ -	\$ 26,771,295	\$ 59,461,470
Liabilities:					
Accounts payable and accrued expenses	\$ 1,819,186	\$ 9,189,465	\$ 9,189,465	\$ -	\$ 1,819,186
Notes payable	19,751,547	-	17,581,830	-	2,169,717
Total liabilities	21,570,733	9,189,465	26,771,295	-	3,988,903
Net assets:					
Unrestricted	(8,874,423)	8,398,317	-	-	(476,106)
Temporarily restricted	55,591,510	-	-	-	55,591,510
Permanently restricted	357,163	-	-	-	357,163
Total net assets	47,074,250	8,398,317	-	-	55,472,567
Total liabilities and net assets	\$ 68,644,983	\$ 17,587,782	\$ 26,771,295	\$ -	\$ 59,461,470

On the date of the merger, Discovery World had notes payable to GLF of \$17,581,830 and a related party receivable of \$9,189,465 from GLF related to the 2009 and 2010 New Markets Tax Credits financings, See Note J.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

O – DONATED FACILITIES, SERVICES AND PERSONAL PROPERTY

Discovery World receives various types of contributed goods and services support, including, professional services and auction items. Donated services are reported in the financial statements for voluntary donations of professional services when those services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically would be purchased if not provided by donation. The approximate fair value of donated goods and services totaled \$375,419 and \$605,628 for the years ended December 31, 2018 and 2017, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to develop Discovery World's programs. No amounts have been recognized in the statements of activities because the criteria for recognition under U.S. GAAP have not been satisfied.

Discovery World received donated personal property which was used as auction and raffle items and supplies for the charity events held during the years ended December 31, 2018 and 2017. Revenue received from the sale of the auction and raffle items is reflected in the statements of activities and no amounts have been reflected for the donation of supplies for the charity events in the statements of activities.

P – FINANCIAL INSTRUMENTS AND CREDIT RISK

Discovery World manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, Discovery World has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from organizations supportive of Discovery World's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018 AND 2017

Q – BUILDING EXPANSION

During 2017 Discovery World commenced a \$12 million major expansion and renovation that added nearly 20,000 square feet of accessible public space. The project began in August 2017, the majority of the project was completed prior to December 31, 2018. The project included construction of a 10,000 square foot permanent pavilion that will replace the seasonal tent typically constructed each spring and summer on Discovery World's north lawn.