

DISCOVERY WORLD, LTD.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019

DISCOVERY WORLD, LTD.
MILWAUKEE, WISCONSIN

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KRAUSE & ASSOCIATES, S.C.

CERTIFIED PUBLIC ACCOUNTANT

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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 statement of financial position as of December 31, 2019, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Discovery World, Ltd. as of December 31, 2019, 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.

A handwritten signature in black ink that reads "Krause & Associates, SC". The signature is written in a cursive style with a large initial 'K' and a distinct 'A'.

Krause & Associates, SC
Grafton, Wisconsin
September 2, 2020

DISCOVERY WORLD, LTD.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,282,106
Cash – restricted for unemployment fund	2,765
Operating investments	1,040,850
Accounts receivable	161,538
Contributions receivable, net	4,100,602
Inventory	1,257
Prepaid expenses	32,037
Beneficial interest in charitable trusts held by others	146,516
Endowment investments	<u>842,370</u>
Subtotal	7,610,041
PROPERTY AND EQUIPMENT, NET	<u>50,068,119</u>
TOTAL ASSETS	<u>\$57,678,160</u>
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES	
Accounts payable	\$ 197,509
Accrued payroll and payroll taxes	159,567
Accrued interest	60,524
Deferred revenue	532,373
Lines of credit	1,743,750
Capitalized leases	21,002
Notes payable	<u>2,362,677</u>
TOTAL LIABILITIES	<u>5,077,402</u>
NET ASSETS	
Without donor restrictions	<u>46,659,233</u>
With donor restrictions:	
Purpose restrictions	5,099,156
Perpetual in nature	<u>842,369</u>
	<u>5,941,525</u>
TOTAL NET ASSETS	<u>52,600,758</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$57,678,160</u>

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

DISCOVERY WORLD, LTD.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 1,224,874	\$ 3,743,204	\$ 4,968,078
In-kind contributions	175,683	-	175,683
Memberships	901,746	-	901,746
Admissions and program revenue	2,917,362	-	2,917,362
Other supporting revenue	1,596,123	-	1,596,123
Net investment income	28,902	172,384	201,286
Net assets released from restrictions	2,070,169	(2,070,169)	-
Total revenue and support	8,914,859	1,845,419	10,760,278
EXPENSES			
Program services:			
Museum programming and exhibits	9,608,254	-	9,608,254
	9,608,254	-	9,608,254
Supporting services:			
Management and general	967,112	-	967,112
Fundraising	581,349	-	581,349
	1,548,461	-	1,548,461
Loss on disposal of assets	32,422	-	32,422
Total expenses and losses	11,189,137	-	11,189,137
Changes in net assets	(2,274,278)	1,845,419	(428,859)
Net assets, beginning of year	48,933,511	4,096,106	53,029,617
Net assets, end of year	\$ 46,659,233	\$ 5,941,525	\$ 52,600,758

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

DISCOVERY WORLD, LTD.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (428,859)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	3,336,079
Change in fair value of contributions receivable	(87,924)
Contribution received of beneficial interest of charitable trust held by others	(146,516)
Contributions restricted to endowment	(4,164)
Realized and unrealized loss on investments	5,474
Endowment net investment return	(172,384)
Loss on disposal of assets	32,422
Decrease in accounts receivable	99,368
Increase in contributions receivable	(624,893)
Decrease in inventory	1,018
Decrease in prepaid expenses	13,419
Decrease in operating accounts payable	(59,684)
Increase in interest accrual	6,883
Increase in payroll and payroll taxes accrual	22,553
Increase in deferred revenue	<u>39,142</u>
Net cash provided by operating activities	<u>2,031,934</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(1,747,633)
Purchase of investments	(800,979)
Proceeds from sale of investments	<u>423,308</u>
Net cash used in investing activities	<u>(2,125,304)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net repayments under lines of credit	(708,723)
Principal payments on notes payable	(234,465)
Principal payments on capitalized leases	<u>(12,968)</u>
Net cash used in financing activities	<u>(956,156)</u>
Net decrease in cash, cash equivalents and restricted cash	(1,049,526)
Cash, cash equivalents and restricted cash, beginning of year	<u>2,334,397</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 1,284,871</u>

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

DISCOVERY WORLD, LTD.
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Supplemental cash flow information:

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows:

Cash and cash equivalents	\$ 1,282,106
Cash restricted for unemployment fund	<u>2,765</u>
	<u>\$ 1,284,871</u>
Cash paid during the year for interest	<u>\$ 147,555</u>
In-kind contributions received	<u>\$ 175,683</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, 2019

	Program Services	Supporting Services		Total
	Museum Programming and Exhibits	General & Administrative	Fundraising	
Advertising and marketing communications	\$ 260,241	\$ -	\$ 13,103	\$ 273,344
Depreciation and amortization	3,127,204	208,875	-	3,336,079
Exhibit supplies	358,396	-	-	358,396
General administration and supplies	474,868	41,259	18,242	534,369
Gift shop materials and supplies	-	-	-	-
Insurance	218,627	19,664	-	238,291
Interest	138,994	15,444	-	154,438
Lease expense	12,891	2,445	-	15,336
Maintenance	701,745	65,846	-	767,591
Meetings and travel	15,185	8,079	3,099	26,363
Payroll expenses:				
Salaries and wages	2,856,941	359,396	244,224	3,460,561
Payroll taxes	214,746	21,349	18,486	254,581
Employee benefits	457,640	37,590	48,412	543,642
Professional fees	128,616	114,931	885	244,432
Programs	6,505	-	-	6,505
Special events	5,101	7,384	234,779	247,264
Utilities and telephone	528,078	58,569	-	586,647
Vessel supplies	76,882	-	-	76,882
Other	25,594	6,281	119	31,994
Total expenses	\$ 9,608,254	\$ 967,112	\$ 581,349	\$ 11,156,715

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

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

2. Cash and cash equivalents

Discovery World considers all highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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, 2019, 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 statement 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, 2019, management determined that no allowance for uncollectible contributions receivable was required. See Note E.

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 statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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 statement of financial position and statement of activities.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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. Beneficial interests in charitable trusts held by others

Discovery World has been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, Discovery World has neither possession nor control over the assets of the trusts. At the date Discovery World receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statement of activities, and a beneficial interest in charitable trusts held by others is recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statement of financial position, with changes in fair value recognized in the statement of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. 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 statement 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 year ended December 31, 2019.

10. 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 \$475,937 as of December 31, 2019.

11. Advertising costs

Advertising costs are charged to general operations as incurred. Advertising costs totaled \$273,344 for the year ended December 31, 2019.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. 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 statement of activities as net assets released from restrictions.

13. 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, 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. As of December 31, 2019, Discovery World has no conditional contributions.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. 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 N.

15. 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.

16. 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.

17. 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, 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

17. 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, 2019. Discovery World has not incurred any interest or penalties for income taxes for the year ended December 31, 2019.

18. Change in accounting principle

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. The changes in the ASU have been applied on a modified prospective basis, that is, the changes have been applied to agreements that are either not completed as of January 1, 2019, or entered into after that date.

19. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through September 2, 2020, which is the date that the financial statements were available to be issued. See Note Q.

DISCOVERY WORLD, LTD.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2019

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, 2019, comprise the following:

Cash and cash equivalents	\$ 1,282,106
Operating investments	1,040,850
Accounts receivable	161,538
Contributions receivable, net	4,100,602
Prepaid expenses	<u>32,037</u>
	6,617,133
Less amounts not available to be used within one year:	
Net assets with donor restrictions	835,038
Contributions receivable with donor restrictions	<u>4,100,602</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 1,679,493</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 - 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, 2019, the balance in the trust account is \$2,765.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

D – 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 Discovery World 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.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

D – FAIR VALUE MEASUREMENT AND DISCLOSURES – CONTINUED

A significant portion of our investment assets are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values. The fair values of beneficial interests in charitable trusts are determined by us using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. These are considered to be Level 3 measurements.

Assets that were accounted for at fair value on a recurring basis as of December 31, 2019 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	\$ -	\$ -	\$ -	\$ 7,347
Equities	1,498	-	-	1,498
Mutual funds	<u>1,032,005</u>	<u>-</u>	<u>-</u>	<u>1,032,005</u>
Total	<u>\$ 1,033,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,040,850</u>
<u>Endowment investments:</u>				
Money market funds	\$ -	\$ -	\$ -	\$ 21,471
Mutual funds	<u>820,899</u>	<u>-</u>	<u>-</u>	<u>820,899</u>
Total	<u>\$ 820,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 842,370</u>
<u>Beneficial interest in charitable trusts held by others</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$146,516</u>	<u>\$ 146,516</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2019:

Balance, beginning of year	\$ -
Contributions	146,516
Transfers to operations	-
Interest, dividends, unrealized and realized gains, net	<u>-</u>
Balance, end of year	<u>\$ 146,516</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

E – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are to be collected as follows as of December 31, 2019:

Within one year	\$ 1,671,854
In one to five years	2,385,347
Over five years	<u>240,000</u>
	4,297,201
Less discount to net present value at 3.5%	(196,599)
Less allowance for uncollectible amount	<u>-</u>
	<u>\$ 4,100,602</u>

F – PROPERTY AND EQUIPMENT

At December 31, 2019, property and equipment consist of the following:

Building and building improvements	\$ 66,562,880
Office equipment	1,239,358
Vessel outfitting and equipment	271,709
Theater equipment	618,377
Construction equipment	14,278
Exhibits	22,662,217
Schooner vessel	4,024,178
Catering equipment	443,576
Exhibit in process	<u>593,250</u>
	96,429,823
Less accumulated depreciation	<u>(46,361,704)</u>
Fixed assets, net	<u>\$ 50,068,119</u>

Depreciation expense for the year ended December 31, 2019 was \$3,336,079.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

G – 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% (3.19713% as of December 31, 2019), which is 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 \$1,493,750 as of December 31, 2019.

Discovery World has a \$1,100,000 operating line of credit subject to renewal in August 2020. The operating line of credit bears interest at one-month LIBOR plus 1.50% (3.19713% as of December 31, 2019), which was payable monthly. The balance outstanding on the line of credit was \$250,000 as of December 31, 2019.

Subsequent to year end, the lines of credit have been extended through August 2021. The pledge line of credit has been reduced from \$3,000,000 to \$1,000,000. The operating line of credit remained at \$1,100,000.

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.

H – 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, 2019. As of December 31, 2019, accrued interest on the note totaled \$51,625. See Note M.

In July 2017, Milwaukee Economic Development Corporation ("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 \$11,250, 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 \$1,357,348 as of December 31, 2019.

DISCOVERY WORLD, LTD.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2019

H – NOTES PAYABLE – CONTINUED

In December 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, 2019.

Aggregate annual maturities on the foregoing borrowings at December 31, 2019 are as follows:

2020	\$ 453,685
2021	160,790
2022	167,611
2023	176,466
2024	1,066,225
2025 and thereafter	<u>337,900</u>
Total	<u>\$ 2,362,677</u>

I – 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, 2019 related to this lease agreement.

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, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

I – LEASE COMMITMENTS – CONTINUED

Operating Leases - continued

Discovery World leases various office equipment under operating lease agreements that expire through May 2023. In addition, Discovery World leased a vehicle under an operating lease agreement which expired in 2019. Rent expense under these operating leases totaled \$15,336 for the year ended December 31, 2019. Future minimum lease payments are as follows:

2020	\$ 6,620
2021	2,450
2022	2,071
2023	<u>1,036</u>
Total	<u>\$ 12,177</u>

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:

2020	\$ 14,271
2021	<u>7,533</u>
Total payments	21,804
Amounts representing interest	<u>(802)</u>
Total obligation	<u>\$ 21,002</u>

The net book value of assets capitalized under these leases is \$28,106 at December 31, 2019.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

J – ENDOWMENT FUNDS

Discovery World's endowment fund (Fund) consists of two individual funds established by donors 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, 2019, 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, 2019

J – 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, 2019, funds had original gift values of \$479,237, and fair values of \$842,370.

As of December 31, 2019, 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>
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 479,237	\$ 479,237
Accumulated investment gains	<u>-</u>	<u>363,133</u>	<u>363,133</u>
	<u>\$ -</u>	<u>\$ 842,370</u>	<u>\$ 842,370</u>

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 665,822	\$ 665,822
Investment return, net	-	172,384	172,384
Contributions and transfers	<u>-</u>	<u>4,164</u>	<u>4,164</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 842,370</u>	<u>\$ 842,370</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.

DISCOVERY WORLD, LTD.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2019

J – ENDOWMENT FUNDS - CONTINUED

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.

K –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, 2019:

Purpose restriction:	
Contributions receivable, the proceeds from which have been restricted by donors for:	
Capital and exhibits	\$ 2,253,743
Operations and programs	846,906
Design It Lab	999,953
Capital and exhibits	497,425
Design It Lab	125,012
Programs and operational support	<u>229,600</u>
	4,952,639
Subject to the passage of time:	
Beneficial interest in charitable trusts held by others	146,516
Endowments:	
Perpetual in nature:	
Education	150,714
Sustainability	<u>691,656</u>
	<u>842,370</u>
	<u>\$ 5,941,525</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

K – NET ASSETS – CONTINUED

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, 2019:

Satisfaction of purpose restriction:	
Capital and exhibits	\$ 963,806
Design It Lab	375,035
Programs and operational support	<u>731,328</u>
Total	<u>\$ 2,070,169</u>

During the fiscal year ended December 31, 2019, Discovery World performed additional analysis and identified and reclassified \$122,193 of donor restricted – perpetual in nature net assets that had been previously reported as donor restricted net assets. This reclassification had no effect on beginning total net assets at the beginning of the fiscal year.

L – 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. Contributions to the plan were \$86,567 for the years ended December 31, 2019.

M – RELATED PARTY TRANSACTIONS

As noted in Note H, 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, 2019. As of December 31, 2019, accrued interest on the note totaled \$51,625.

N – 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 \$175,683 for the year ended December 31, 2019.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

N – DONATED FACILITIES, SERVICES AND PERSONAL PROPERTY –
CONTINUED

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 statement 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 year ended December 31, 2019. Revenue received from the sale of the auction and raffle items is reflected in the statement of activities and no amounts have been reflected for the donation of supplies for the charity events in the statement of activities.

O – DEFERRED REVENUE

The following provides information about significant changes in deferred revenue for the year ended December 31, 2019:

Deferred revenue, beginning of year	\$ 601,515
Revenue recognized that was included in deferred revenue at the beginning of the year	(601,515)
Increases in deferred revenue due to cash received during the period	<u>532,373</u>
Deferred revenue, end of year	<u>\$ 532,373</u>

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, 2019

Q – SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact support and revenue. The COVID-19 outbreak in the United States has resulted in reduced activities, cancellation or postponement of events, as well as temporary closures where government mandated. At the current time, Discovery World is unable to quantify the potential effects of this pandemic on our future financial statements. In April 2020, Discovery World applied for and received a Paycheck Protection Program (Program) loan to help cover payroll costs, rent and utilities during the outbreak. This loan will be forgiven if Discovery World meets all of the compliance obligations for loan forgiveness in the Program.

In addition, and subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the worldwide coronavirus pandemic. Discovery World is closely monitoring its investments and its liquidity and is actively working to minimize the impact of these declines. Discovery World's financial statements do not include adjustments to fair value that have resulted from these declines.

R – RECENT ACCOUNTING GUIDANCE

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. Management is currently evaluating the impact of the standard.