

DISCOVERY WORLD, LTD.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020

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 statement of financial position as of December 31, 2020, 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, 2020, 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 small mark above the 'A' in "Associates".

Krause & Associates, SC
Grafton, Wisconsin
August 12, 2021

DISCOVERY WORLD, LTD.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,367,706
Cash – restricted for unemployment fund	44,317
Operating investments	1,044,347
Accounts receivable	17,309
Contributions receivable, net	2,621,657
Inventory	1,257
Prepaid expenses	43,832
Beneficial interest in charitable trusts held by others	222,154
Endowment investments	<u>945,719</u>
Subtotal	6,308,298
PROPERTY AND EQUIPMENT, NET	<u>47,306,415</u>
TOTAL ASSETS	<u>\$53,614,713</u>
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES	
Accounts payable	\$ 91,124
Accrued payroll and payroll taxes	129,549
Accrued interest	67,989
Deferred revenue	242,866
Lines of credit	744,071
Capitalized leases	7,423
Notes payable	<u>2,175,631</u>
TOTAL LIABILITIES	<u>3,458,653</u>
NET ASSETS	
Without donor restrictions	<u>45,285,839</u>
With donor restrictions:	
Purpose restrictions	3,920,502
Perpetual in nature	<u>945,719</u>
	<u>4,866,221</u>
TOTAL NET ASSETS	<u>50,156,060</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$53,614,713</u>

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

DISCOVERY WORLD, LTD.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 1,794,037	\$ 1,818,103	\$ 3,612,140
Payroll Protection Program grant	847,500	-	847,500
In-kind contributions	195,050	-	195,050
Admissions and program revenue	591,024	-	591,024
Memberships	557,729	-	557,729
Other supporting revenue	342,810	-	342,810
Net investment income	9,024	176,158	185,182
Net assets released from restrictions	3,069,565	(3,069,565)	-
Total revenue and support	7,406,739	(1,075,304)	6,331,435
EXPENSES			
Program services:			
Museum programming and exhibits	7,554,932	-	7,554,932
	7,554,932	-	7,554,932
Supporting services:			
Management and general	864,711	-	864,711
Fundraising	356,490	-	356,490
	1,221,201	-	1,221,201
Total expenses	8,776,133	-	8,776,133
Changes in net assets	(1,369,394)	(1,075,304)	(2,444,698)
Net assets, beginning of year	46,659,233	5,941,525	52,600,758
Net assets, end of year	\$ 45,289,839	\$ 4,866,221	\$ 50,156,060

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

DISCOVERY WORLD, LTD.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (2,444,698)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	3,061,260
Change in fair value of contributions receivable	(80,615)
Change in beneficial interest of charitable trust held by others	(75,638)
Contributions restricted to endowment	(2,830)
Realized and unrealized gain on investments	(3,119)
Endowment net investment return	(100,520)
Decrease in accounts receivable	144,229
Decrease in contributions receivable	1,559,560
Increase in prepaid expenses	(11,795)
Decrease in accounts payable	(106,385)
Decrease in payroll and payroll taxes accrual	(30,018)
Increase in interest accrual	7,465
Decrease in deferred revenue	<u>(289,507)</u>
Net cash provided by operating activities	<u>1,627,389</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(299,556)
Purchase of investments	(662,398)
Proceeds from sale of investments	<u>662,021</u>
Net cash used in investing activities	<u>(299,933)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net repayments under lines of credit	(999,679)
Principal payments on notes payable	(187,046)
Principal payments on capitalized leases	<u>(13,579)</u>
Net cash used in financing activities	<u>(1,200,304)</u>
Net increase in cash, cash equivalents and restricted cash	127,152
Cash, cash equivalents and restricted cash, beginning of year	<u>1,284,871</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 1,412,023</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, 2020

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	\$ 1,367,706
Cash restricted for unemployment fund	<u>44,317</u>
	<u>\$ 1,412,023</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, 2020

	Program Services	Supporting Services		Total
	Museum Programming and Exhibits	General & Administrative	Fundraising	
Advertising and marketing communications	\$ 94,516	\$ -	\$ 127	\$ 94,643
Depreciation and amortization	2,849,054	212,206	-	3,061,260
Exhibit supplies	135,756	-	-	135,756
General administration and supplies	237,414	50,286	13,977	301,677
Gift shop materials and supplies	-	-	15,699	15,699
Insurance	238,929	22,763	-	261,692
Interest	95,165	10,574	-	105,739
Lease expense	6,769	2,042	-	8,811
Maintenance	384,792	39,454	-	424,246
Meetings and travel	2,370	2,478	20	4,868
Payroll expenses:				
Salaries and wages	2,305,264	288,703	199,729	2,793,696
Payroll taxes	279,953	26,911	23,119	329,983
Employee benefits	350,261	30,497	42,598	423,356
Professional fees	90,530	124,326	28,035	242,891
Programs	2,271	-	-	2,271
Special events	445	2,341	33,458	36,244
Utilities and telephone	448,272	49,807	-	498,079
Vessel supplies	28,417	-	-	28,417
Other	4,754	2,323	(272)	6,805
	<u>\$ 7,554,932</u>	<u>\$ 864,711</u>	<u>\$ 356,490</u>	<u>\$ 8,776,133</u>

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

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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.

Discovery World was impacted by the COVID-19 world-wide pandemic throughout the year, see Note R.

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, 2020

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, 2020, management determined that no allowance for uncollectible accounts receivable was required. Receivables from contracts with customers are reported as accounts receivable, in the accompanying statement of financial position. Contract liabilities are reported as deferred revenue in the accompanying statement of financial position.

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, 2020, 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, 2020

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, 2020

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, 2020.

10. Advertising costs

Advertising costs are charged to general operations as incurred. Advertising costs totaled \$94,643 for the year ended December 31, 2020.

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.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Net assets - continued

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.

12. Revenue and Revenue Recognition

Revenue is recognized from programs when the services are provided. All services are transferred at a point in time.

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. Consequently, at December 31, 2020, contributions approximating \$400,000, have not been recognized in the accompanying statement of activities because the condition on which they depend has not yet been met, which is construction of a specific exhibit.

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 P.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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, and those differences could be material.

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 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, 2020. Discovery World has not incurred any interest or penalties for income taxes for the year ended December 31, 2020.

17. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through August 12, 2021, which is the date that the financial statements were available to be issued. See Notes M and R.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

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, 2020, comprise the following:

Cash and cash equivalents	\$ 1,367,706
Operating investments	1,044,347
Accounts receivable	17,309
Contributions receivable, net	<u>2,621,657</u>
	5,051,019
Less amounts not available to be used within one year:	
Net assets with donor restrictions	1,076,690
Contributions receivable with donor restrictions	<u>2,621,657</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,352,672</u>

Discovery World's goal is generally to maintain financial assets to meet 6 months of general expenses (approximately \$3.1 million). Management continually monitors the funds available for operating expenses. 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, 2020, the balance in the trust account is \$44,317.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

C - RESTRICTED UNEMPLOYMENT FUND ACCOUNT – CONTINUED

Due to the Covid pandemic (Note R), Discovery World increased the balance of the trust by \$41,552, paid \$6,000 and accrued an additional \$110,690 in unemployment expenses to the state of Wisconsin for the year ended December 31, 2020. The payments and amount accrued are included in payroll taxes expense on the statement of activities. The amount accrued is included in accrued payroll and payroll taxes on the statement of financial position. Discovery World may receive a refund of a portion, or all of the expenses paid and may not be required to remit a portion, or all of the amount accrued. The potential refund and amount due is subject to review and computations determined by the state of Wisconsin.

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.

DISCOVERY WORLD, LTD.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2020

D – FAIR VALUE MEASUREMENT AND DISCLOSURES - CONTINUED

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.

A significant portion of Discovery World’s 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, 2020 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	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,044,347</u>
<u>Endowment investments:</u>				
Money market funds	\$ -	\$ -	\$ -	\$ 18,367
Mutual funds	<u>927,352</u>	<u>-</u>	<u>-</u>	<u>927,352</u>
Total	<u>\$ 927,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 945,719</u>
<u>Beneficial interest in charitable</u>				
<u>trusts held by others</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$222,154</u>	<u>\$ 222,154</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

D – FAIR VALUE MEASUREMENT AND DISCLOSURES – CONTINUED

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, 2020:

Balance, beginning of year	\$ 146,516
Contributions	-
Transfers to operations	-
Investment returns, net	<u>75,638</u>
Balance, end of year	<u>\$ 222,154</u>

E – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are to be collected as follows as of December 31, 2020:

Within one year	\$ 1,366,096
In one to five years	1,221,545
Over five years	<u>150,000</u>
	2,737,641
Less discount to net present value at 3.5%	(115,984)
Less allowance for uncollectible amount	<u>-</u>
	<u>\$ 2,621,657</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

F – PROPERTY AND EQUIPMENT

At December 31, 2020, property and equipment consist of the following:

Building and building improvements	\$ 66,575,568
Office equipment	1,239,358
Vessel outfitting and equipment	271,709
Theater equipment	645,665
Construction equipment	14,278
Exhibits	22,670,279
Schooner vessel	4,024,178
Catering equipment	443,576
Exhibit in process	<u>844,768</u>
	96,729,379
Less accumulated depreciation	<u>(49,422,964)</u>
Property and equipment, net	<u>\$ 47,306,415</u>

Depreciation expense for the year ended December 31, 2020 was \$3,061,260.

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. In August 2020, the pledge line of credit was reduced from \$3,000,000 to \$1,000,000. The pledge line of credit bears interest monthly at one-month LIBOR plus 1.5% (3.2625% as of December 31, 2020), 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 pledge line of credit was \$744,071 as of December 31, 2020.

Discovery World has a \$1,100,000 operating line of credit subject to renewal in August 2021. The operating line of credit bears interest at one-month LIBOR plus 1.50% (3.26253% as of December 31, 2020), which was payable monthly. As of December 31, 2020, no balance is outstanding on the operating line of credit.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

G – LINES OF CREDIT – CONTINUED

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, 2020. As of December 31, 2020, accrued interest on the note totaled \$62,125. See Note O.

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 \$11,500, 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 \$1,239,906 as of December 31, 2020.

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 \$635,725 as of December 31, 2020.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

H – NOTES PAYABLE – CONTINUED

Aggregate annual maturities on the foregoing borrowings at December 31, 2020 are as follows:

2021	\$ 460,994
2022	167,611
2023	176,466
2024	1,032,660
2025	80,339
2026 and thereafter	<u>257,561</u>
Total	<u>\$ 2,175,631</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, 2020 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, 2020

I – LEASE COMMITMENTS – CONTINUED

Operating Leases - continued

Discovery World leases various office equipment under operating lease agreements that expire through May 2023. Lease expense under these operating leases totaled \$8,811 for the year ended December 31, 2020. Future minimum lease payments are as follows:

2021	\$ 2,450
2022	2,071
2023	<u>1,036</u>
Total	<u>\$ 5,557</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:

2021	\$ <u>7,642</u>
Amounts representing interest	<u>(219)</u>
Total obligation	<u>\$ 7,423</u>

The net book value of assets capitalized under these leases is \$20,291 at December 31, 2020.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

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, 2020, 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, 2020

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, 2020, funds had original gift values of \$479,237, and fair values of \$842,370.

As of December 31, 2020, 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	\$ -	\$ 482,068	\$ 482,068
Accumulated investment gains	<u>-</u>	<u>463,651</u>	<u>463,651</u>
	<u>\$ -</u>	<u>\$ 945,719</u>	<u>\$ 945,719</u>

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 842,370	\$ 842,370
Investment return, net	-	100,519	100,519
Contributions and transfers	<u>-</u>	<u>2,830</u>	<u>2,830</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 945,719</u>	<u>\$ 945,719</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, 2020

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, 2020:

Purpose restriction:	
Contributions receivable, the proceeds from which have been restricted by donors for:	
Capital and exhibits	\$ 1,518,921
Operations and programs	602,712
Design It Lab	500,024
Capital and exhibits	702,765
Design It Lab	209,947
Programs and operational support	<u>163,979</u>
	3,698,348
Subject to the passage of time:	
Beneficial interest in charitable trusts held by others	222,154
Endowments:	
Perpetual in nature:	
Education	162,844
Sustainability	<u>782,875</u>
	<u>945,719</u>
	<u>\$ 4,866,221</u>

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

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, 2020:

Satisfaction of purpose restriction:	
Capital and exhibits	\$ 1,292,348
Design It Lab	1,084,923
Programs and operational support	<u>692,294</u>
Total	<u>\$ 3,069,565</u>

L – REVENUE FROM CONTRACTS WITH CUSTOMERS

Program service fees consist of admissions, fees paid for specific programs and annual memberships. Admission and program revenue is reported at the amount that reflects the consideration to which Discovery World expects to be entitled in exchange for museum admission and program participation. Discovery World is paid by customers for daily admissions, specific programs, and annual memberships. Annual memberships are paid at time of purchase and revenue is recognized each month as performance obligations are satisfied. Performance obligations are considered to be satisfied evenly over the time period the customer holds the membership.

Deferred revenue at beginning of period	\$ 523,373
Revenue recognized from prior year deferred	(478,192)
New membership and program fee revenue collected	899,677
Revenue recognized on new membership and program fees	<u>(701,992)</u>
Deferred revenue at end of period	<u>\$ 242,866</u>

M – REFUNDABLE ADVANCE – PAYROLL PROTECTION LOAN FORGIVENESS

Discovery World was granted a \$847,500 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner during the COVID-19 outbreak (see Note R). The loan is uncollateralized and is fully guaranteed by the Federal government. Discovery World initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. Discovery World has recognized \$847,500 as grant revenue for the year ended December 31, 2020.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

M – REFUNDABLE ADVANCE – PAYROLL PROTECTION LOAN
FORGIVENESS – CONTINUED

Subsequent to year end, Discovery World applied for and received a second PPP loan of \$847,500 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 of the PPP.

N – 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 \$75,749 for the years ended December 31, 2020.

O – 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, 2020. As of December 31, 2020, accrued interest on the note totaled \$62,125.

P – 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 \$195,050 for the year ended December 31, 2020.

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, 2020. 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.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Q – 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.

R – RISKS AND UNCERTAINTIES

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.

After a strong start to the year, the COVID-19 pandemic forced Discovery World to temporarily close to the public on March 13, 2020. While Discovery World hoped to reopen after a few short weeks, the closure lasted much longer, and it was not until July 2020 that Discovery World reopened with limited capacity. Discovery World faced further challenges as health indicators forced the museum to close again in November 2020 for another extended period that carried into 2021.

But throughout 2020, Discovery World never lost sight of its educational mission. The pandemic made it clear that the need for a scientifically literate public is even more essential and reminded us that every child deserves access to high quality science learning experiences.

Efforts like DW@Home allowed Discovery World to quickly support parents who found themselves in the role of educator when schools closed, learning was focused at home and instruction moved online. Even when school resumed in the fall, teachers and students found themselves in a very different environment. Onsite field trips were not an option, so the Discovery World team launched the School and Community Initiative (SCI) program, ensuring that students and teachers could continue hands-on science learning in a virtual setting.

DISCOVERY WORLD, LTD.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

R – RISKS AND UNCERTAINTIES

Discovery World was forced to make many difficult decisions from temporary closures to revising budgets and dramatically reducing our staffing levels. The focus for much of the year was on stabilizing Discovery World and surviving these challenging times. The scale of the organization has been reduced, but the commitment to the community served has never been greater. As Discovery World moves into 2021, we remain focused on ensuring financial sustainability and emerging as a stronger organization.

Subsequent to year end, Discovery World applied for and received a second PPP loan of \$847,500 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 of the PPP.

Subsequent to year end, Discovery World applied for and received a Shuttered Venue Operators Grant (SVOG) of \$1,723,677. The SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. Grant funds can be used to cover a variety of expenses related to operations. The goal of the SVOG is to assist with much-needed financial support for performing arts venues, movie theatres, and museums.

S – 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.