

KNOCK KNOCK CHILDREN'S MUSEUM, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

To the Board of Directors
Knock Knock Children's Museum, Inc.
Baton Rouge, Louisiana

Opinion

We have audited the accompanying financial statements of Knock Knock Children's Museum, Inc. (the "Museum") (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2022 and 2021, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Knock Knock Children's Museum, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States for the 2022 year only. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Knock Knock Children's Museum, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Knock Knock Children's Museum, Inc. internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Knock Knock Children's Museum, Inc. ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2023, on our consideration of the Museum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control over financial reporting and compliance.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Baton Rouge, Louisiana
November 10, 2023

KNOCK KNOCK CHILDREN'S MUSEUM, INC.

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Current Assets:		
Cash and Cash Equivalents	\$ 1,362,572	\$ 1,428,443
Restricted Cash Maintenance Fund	100,000	100,000
Accounts Receivable	29,716	14,609
State Grant Receivable	145,722	-
Employee Retention Tax Credit Receivable	-	411,729
Promises Receivable, Current	100,000	100,000
Building Lease Receivable, Current	51,601	51,601
Merchandise Inventory	9,548	-
Prepaid Expenses	20,538	25,545
	1,819,697	2,131,927
Total Current Assets		
	-	100,000
Promises Receivable, Long-Term		
Building Lease Receivable, Long-Term	4,437,266	4,488,867
Property and Equipment, Net	3,373,678	3,972,644
	\$ 9,630,641	\$ 10,693,438
Total Assets	\$ 9,630,641	\$ 10,693,438

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 61,745	\$ 90,854
Accrued Expenses	61,952	28,005
Deferred Revenues	130,065	129,278
Current Portion of Note Payable - Paycheck Protection Program	-	288,807
	253,762	536,944
Total Current Liabilities		
Net Assets:		
Without Donor Restrictions:	4,755,044	5,309,194
With Donor Restrictions:		
Time-Restricted for Future Periods	4,588,867	4,740,468
Purpose Restrictions	32,968	106,832
	4,621,835	4,847,300
Total Net Assets	9,376,879	10,156,494
Total Liabilities and Net Assets	\$ 9,630,641	\$ 10,693,438

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

KNOCK KNOCK CHILDREN'S MUSEUM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	\$ 178,998	\$ -	\$ 178,998
Sponsorships	110,699	-	110,699
BREC Reimbursements & CEA	65,629	-	65,629
Grants	248,932	-	248,932
Admission Income	890,796	-	890,796
Membership Income	286,546	-	286,546
Other Income	68,446	-	68,446
PPP Loan Forgiveness Income	288,807	-	288,807
	2,138,853	-	2,138,853
Net Assets Released From Restriction	225,465	(225,465)	-
	2,364,318	(225,465)	2,138,853
Expenses:			
Program Expenses	1,964,988	-	1,964,988
Supporting Services:			
Fundraising	247,268	-	247,268
General and Administrative	741,285	-	741,285
	2,953,541	-	2,953,541
Other Income:			
Interest Income	15,354	-	15,354
Miscellaneous Income	6,269	-	6,269
Rental Income	13,450	-	13,450
	35,073	-	35,073
Change in Net Assets	(554,150)	(225,465)	(779,615)
Net Assets - Beginning of Year	5,309,194	4,847,300	10,156,494
Net Assets - End of Year	\$ 4,755,044	\$ 4,621,835	\$ 9,376,879

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

KNOCK KNOCK CHILDREN'S MUSEUM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Contributions	\$ 280,758	\$ 2,500	\$ 283,258
Sponsorships	48,475	-	48,475
BREC Reimbursements	27,334	-	27,334
Grants	18,120	-	18,120
Admission Income	391,008	-	391,008
Membership Income	73,681	-	73,681
Other Income	22,381	-	22,381
PPP Loan Forgiveness Income	288,800	-	288,800
Employer Retention Tax Credit Income	411,729	-	411,729
Net Assets Released From Restriction	67,134	(67,134)	-
	1,629,420	(64,634)	1,564,786
Expenses:			
Program Expenses	1,581,335	-	1,581,335
Supporting Services:			
Fundraising	177,259	-	177,259
General and Administrative	452,461	-	452,461
	2,211,055	-	2,211,055
Other Income:			
Interest Income	2,863	-	2,863
Rental Income	19,464	-	19,464
	22,327	-	22,327
Change in Net Assets	(559,308)	(64,634)	(623,942)
Net Assets - Beginning of Year	5,868,502	4,911,934	10,780,436
Net Assets - End of Year	\$ 5,309,194	\$ 4,847,300	\$ 10,156,494

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

KNOCK KNOCK CHILDREN'S MUSEUM, INC.**STATEMENT OF FUNCTIONAL EXPENSES**

FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Expenses	Supporting Services		Total Expenses
		Fundraising	General and Administrative	
Salaries and Wages	\$ 611,495	\$ 166,771	\$ 333,544	\$ 1,111,810
Payroll Taxes	47,369	12,919	25,838	86,126
Other Employee Costs	37,130	10,126	20,253	67,509
Contract Services	-	-	19,894	19,894
Professional Fees	36,454	2,448	190,723	229,625
Office Expenses	-	2,379.00	11,051	13,430
Repairs and Maintenance	55,338	3,123	6,246	64,707
Meetings and Events	14,648	20,002	20,415	55,065
Program Elements and Exhibits	63,082	-	-	63,082
Equipment	5,269	310	620	6,199
Gifts	787	-	-	787
Operations	258,980	15,234	30,469	304,683
IT Technology and Software	17,347	1,020	18,738	37,105
Communications	60,701	3,570	7,142	71,413
Insurance	56,474	3,322	6,644	66,440
Dues and Fees	58,893	3,464	17,244	79,601
Depreciation	584,604	-	18,081	602,685
Miscellaneous	-	-	9,223	9,223
Amortization (Building Rent Expense)	43,861	2,580	5,160	51,601
In-Kind Donations	12,556	-	-	12,556
Total Expenses	<u>\$ 1,964,988</u>	<u>\$ 247,268</u>	<u>\$ 741,285</u>	<u>\$ 2,953,541</u>

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

KNOCK KNOCK CHILDREN'S MUSEUM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Expenses	Supporting Services		Total Expenses
		Fundraising	General and Administrative	
Salaries and Wages	\$ 438,271	\$ 119,528	\$ 239,057	\$ 796,856
Payroll Taxes	34,843	9,503	19,005	63,351
Other Employee Costs	27,614	7,531	15,062	50,207
Contract Services	-	-	19,722	19,722
Professional Fees	15,989	5,264	56,855	78,108
Office Expenses	-	4,134	11,612	15,746
Repairs and Maintenance	36,975	1,684	3,368	42,027
Meetings and Events	3,516	10,038	6,371	19,925
Program Elements and Exhibits	89,963	-	-	89,963
Equipment	1,551	91	183	1,825
Gifts	5,093	-	-	5,093
Operations	158,105	9,300	18,601	186,006
IT Technology and Software	16,390	964	22,022	39,376
Communications	45,631	2,684	5,369	53,684
Insurance	30,271	1,781	3,561	35,613
Dues and Fees	37,004	2,177	7,200	46,381
Depreciation	589,961	-	18,246	608,207
Miscellaneous	65	-	1,067	1,132
Amortization (Building Rent Expense)	43,861	2,580	5,160	51,601
In-Kind Donations	6,232	-	-	6,232
Total Expenses	\$ 1,581,335	\$ 177,259	\$ 452,461	\$ 2,211,055

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

KNOCK KNOCK CHILDREN'S MUSEUM, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (779,615)	\$ (623,942)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	602,685	608,207
Amortization of Building Lease Receivable	51,601	51,601
PPP Loan Forgiveness	(288,807)	(288,800)
Changes in Assets and Liabilities:		
(Increase) Decrease Accounts Receivable	250,900	45,728
(Increase) Decrease Employer Retention Credits Receivable	-	(411,729)
(Increase) Decrease Prepaid Expenses	5,007	(2,367)
(Increase) Decrease Inventory	(9,548)	-
(Increase) Decrease Promises Receivable	100,000	100,000
Increase (Decrease) Accounts Payable	(29,109)	59,449
Increase (Decrease) Accrued Expenses	33,947	5,777
Increase (Decrease) Deferred Revenues	787	46,122
Net Cash Used In Operating Activities	(62,152)	(409,954)
Cash Flows from Investing Activities:		
Payments for Purchases of Property and Equipment	(3,719)	(40,283)
Net Cash Used In Investing Activities	(3,719)	(40,283)
Cash Flows from Financing Activities:		
Proceeds from Issuance of Debt	-	288,807
Net Cash Provided by Financing Activities	-	288,807
Net Decrease in Cash and Cash Equivalents	(65,871)	(161,430)
Cash and Cash Equivalents at Beginning of Year	1,528,443	1,689,873
Cash and Cash Equivalents at End of Year	\$ 1,462,572	\$ 1,528,443
Recap of Cash:		
Cash and Cash Equivalent	\$ 1,362,572	\$ 1,428,443
Restricted Cash	100,000	100,000
	\$ 1,462,572	\$ 1,528,443
Supplemental Disclosures:		
Cash Paid During the Year for Interest	\$ 2,134	\$ 921
Non-Cash Financing Activities:		
PPP Loan Forgiveness	\$ 288,807	\$ 288,800

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

KNOCK KNOCK CHILDREN'S MUSEUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Activities and Summary of Significant Accounting Policies -

Nature of Activities

Knock Knock Children's Museum, Inc. (the Museum) opened in 2017. The mission of the Museum is to provide an inclusive gathering place where families and children of all backgrounds and experiences can interact and learn through play.

Significant Accounting Policies

Basis of Presentation

The Museum prepares its financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

The Museum is required to report information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets Without Donor Restrictions - not subject to donor-imposed restrictions. Net assets may be designated for specific purposes by action of the Board of Directors. Board designations include designation for reserves and other designations.

Net Assets With Donor Restrictions - subject to donor-imposed restrictions. Some donor imposed restrictions are temporary in nature for future periods, such as those that will be met by the passage of time or other events specified by the donor, and some donor restrictions are restricted for purpose. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resource be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

The Museum recognizes revenue from admission and membership fees in the year which the related services are provided to patrons. Performance obligation for admission fees are generally fulfilled at the same time of payment, therefore the revenue is recognized when a patron enters the museum under general admission. The Museum recognizes the exchange portion of memberships over the membership period which expires and must subsequently be renewed at the end of membership. All payments received in advance of membership expiration in future fiscal year are recorded as deferred revenue. Sponsorship revenue is recognized when the event is held.

Contributions and Promises to Give

Contributions received are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restriction, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give cash and other assets donated to the Museum are reported at fair value on the date the promise is received. Due to the relatively short-term nature of the promises to give, fair value equals the amount of the promise at December 31, 2022. Management determined that an allowance for uncollectible amounts and a discount to present value is not material therefore no amounts were recorded for these items. Unconditional promises to give of \$100,000 as of December 31, 2022 are due in 2023. Unconditional promises to give were \$200,000 as of December 31, 2021.

Grant Revenue Recognition

Grants which represent exchange transactions are recorded as a receivable as the grant dollars are spent. Grants which represent contributed support are recognized in the same manner as promises to give.

Compensated Absences

Full-time exempt museum employees will accrue up to (20) days of vacation leave. The leave will accrue at the rate of 6.15 hours per payroll period, beginning with the first payroll period after being hired. Eligible employees can roll over up to (5) days of vacation leave into the next fiscal year. Difference between accrued balance and roll over cap are paid out to the employee at the end of each year. Unused paid time off balances will be paid out to employee upon termination. Accumulated unused vacation leave at December 31, 2022 and 2021 is \$15,892 and \$10,157 respectively and is included in accrued expenses on the Statements of Financial Position.

Accounts Receivable

The Museum uses the direct write-off method of recognizing uncollectible accounts receivable. Under this method, accounts are charged to operations when they are deemed by management to be uncollectible. Management believes the use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

Deferred Revenue

Deferred revenue represents memberships that have been sold with expiration dates beyond the current year end date and sales from gift cards that have not be used for payment by customers as of December 31, 2022 and 2021. Membership revenue will be realized and recorded as revenue for the months of the year that the membership is active. Gift card revenue will be realized and recorded when the gift card is used as payment by the customer. Deferred membership income at December 31, 2022 and 2021 was \$108,730 and \$107,452 respectively. Deferred gift card revenue was \$21,335 and \$21,826 for the years ended December 31, 2022 and 2021 respectively.

Contributed and Volunteer Services

The Museum recognizes contribution revenue for certain services received at the fair value of those services provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased, if not provided by donation. The value of contributed services meeting the requirements for recognition in the financial statements was \$-0- for the years ended December 31, 2022 and 2021.

A substantial number of unpaid volunteers have made a significant contribution of service to develop the Museum's programs, principally in fund raising activities, operations, and board participation. The value of this service is not reflected in these statements since it does not meet the criteria for recognition, as described above.

Property and Equipment

Property and equipment are stated at cost. The Museum capitalizes all assets with an initial cost that is greater than \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Leases

Effective January 1, 2022, the Museum adopted Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), and all related amendments retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment, electing not to adjust the comparative period. This guidance requires that right-of-use (ROU) assets and lease liabilities be recorded on the statement of financial position. The Museum elected the practical expedient relief package allowed by the new standard, which does not require the reassessment of (1) whether existing contracts contain a lease, (2) the lease classification or (3) unamortized initial direct costs for existing leases. Additionally, the Museum made accounting policy elections for the exclusion of short-term leases (leases with an initial term of 12 months or less and which do not include a purchase option that the Museum is reasonably certain to exercise) from the statement of financial position presentation. The Museum had no operating or finance leases as of December 31, 2022, which required the capitalization of related assets and liabilities under Topic 842.

The Museum does not recognize ROU assets and lease liabilities on short-term leases but recognizes lease expense for these leases on a straight-line basis over the lease terms and any variable lease payments in the period in which the obligation for those payments is incurred. The total lease expense for these short-term leases for the years ended December 31, 2022 and 2021, is \$5,723 and \$1,700, respectively.

The Museum's reporting as of and for the year ended December 31, 2021, is in accordance with ASC Topic 840, Leases, under U.S. GAAP.

Income Taxes

The Museum has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 509(a)(1) of the Internal Revenue Code and is exempt from federal income taxes. Accordingly, no provision for income taxes on related income has been included in the financial statements.

The Museum files an income tax return in the U.S. federal jurisdiction. With few exceptions, the Museum is no longer subject to federal tax examinations by tax authorities for years before 2019. Any interest and penalties assessed by income taxing authorities are not significant and are included in general and administrative expenses in these financial statements, if applicable.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Museum may recognize the tax benefit from an uncertain tax position only if it more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended December 31, 2022 or 2021.

Cash and Cash Equivalents

The Museum considers all highly liquid investments with maturities of three months or less at the date of acquisition to be “cash equivalents.” Cash and cash equivalents for purposes of the statements of cash flows excludes cash and cash equivalents and amounts held in brokerage accounts that are perpetual in nature with donor restricted net assets.

The Museum maintains cash balances at several financial institutions. At various times during the year, the balances on deposit may exceed the limits insured by the Federal Deposit Insurance Corporation.

The Museum is required to maintain \$100,000 in cash per the Cooperative Endeavor Agreement with BREC as discussed in Note 6, to these financial statements.

Functional Allocation of Expenses

The costs of providing for the various programs and other activities of the Museum have been summarized on their functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses are recorded directly in the program service or supporting service classification in which they were incurred except for salaries and wages, payroll taxes, and other employee costs which are allocated based on actual time spent on each function; depreciation which is allocated based on the actual use of the fixed asset owned by the museum, and communications, operations, repairs and maintenance, dues and fees, equipment, insurance, IT technology and software, and professional services which are allocated based on management’s best estimate of usage by program or supporting services.

Advertising

The Museum incurred advertising expenses of \$71,413 and \$53,684 for the year ended December 31, 2022 and 2021. The Museum expenses advertising costs as incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and such differences may be material.

Subsequent Events

The Museum evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 10, 2023 the date which the financial statements were available to be issued.

Note 2 - Receivables and Deferred Revenues -

The following amounts are included in the Statement of Financial Position at December 31, 2022 and 2021 under the following captions:

	<u>2022</u>	<u>2021</u>
Receivables:		
Accounts Receivables	\$ 29,716	\$ 14,609
State Grant Receivable	145,722	-
Employee Retention Tax Credits	-	411,729
	<u>\$ 175,438</u>	<u>\$ 426,338</u>
Current Liabilities:		
Deferred Revenues	<u>\$ 130,065</u>	<u>\$ 129,278</u>

As of December 31, 2020 there were trade receivables of \$60,357, and deferred revenues totaled \$68,014.

Note 3 - Liquidity and Availability -

The following reflects the Museum's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial Assets at Year-End:	
Cash and Cash Equivalents	\$ 1,362,572
Promises Receivable, Current	100,000
Accounts Receivables	29,716
State Grant Receivable	145,722
	<u>1,638,010</u>
Less Amounts not Available for General Expenditure Within One Year Due to:	
Donor - Imposed Restrictions:	
Restricted by Donor with Purpose Restriction	(32,968)
Time Restricted for Future Periods	(100,000)
	<u>(132,968)</u>
Financial Assets available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,505,042</u>

The Museum's goal is to maintain liquid financial assets to pay obligations as they become due.

At December 31, 2021, the Museum had \$1,747,949 of financial assets available to meet cash needs for general expenditures within one year.

Note 4 - Restrictions of Net Assets -

Net assets with donor-imposed restrictions for purpose are used to account for the receipt and disbursement of specific activities (projects) defined by the donor. The following are the funds and amounts classified as net assets with donor-imposed restrictions for purpose as of December 31, 2022 and 2021:

	2022	2021
Access for All - Field Trip	\$ 29,698	\$ 29,698
Access for All - Reduced Admission	3,270	47,034
Van Outfitting	-	30,100
Promise to Give Receivable	100,000	200,000
Building Lease Receivable	4,488,867	4,540,468
	\$ 4,621,835	\$ 4,847,300

Note 5 - Net Assets Released from Restrictions -

Net assets were released from restrictions for the years ended December 31, 2022 and 2021 for incurring expenses satisfying the restricted purpose.

	2022	2021
Access for All - Reduced Admission	\$ 41,514	\$ 15,533
Van Outfitting	30,100	-
For All Access - AARP	2,250	-
Pledge Payments	100,000	-
Building Lease Receivable	51,601	51,601
	\$ 225,465	\$ 67,134

Note 6 - Cooperative Endeavor Agreement and Building Lease Receivable -

In December 2010 Knock Knock Children’s Museum, Inc. entered into a Cooperative Endeavor Agreement with The Recreation and Park Commission for the Parish of East Baton Rouge (“BREC”). This agreement was amended December 2017. The agreement specifies that the Museum is a separately incorporated 501(c)(3) organization and is responsible to manage, fund, and administer the facility and programming of the museum for the use and benefit of the citizens of East Baton Rouge Parish and the surrounding region. BREC and the Museum agree to preserve, develop, and maintain the Museum site exclusively for purposes of operating the Museum. Both entities were responsible for the planning, development, design, and construction of the Museum facility. The agreement also states that all improvements to the museum, with the exception of improvements to museum exhibits, are the property of BREC. This agreement states that not more than \$3,000,000 of the cost to construct the facility will be paid by BREC, and the remaining costs will be paid by the Museum. As of December 31, 2021, the Museum paid \$3,941,865 in building costs that have been recorded on the Statement of Financial Position and are being depreciated as discussed in Note 7 to these financial statements. The Museum agreed to establish and contribute to a Knock Knock Children’s Museum Site Maintenance Fund, and amount equal to \$15,000 annually until the fund reaches a total of \$100,000. This fund shall be used solely for structural, mechanical, and other

maintenance or repair needs. The fund contributions are suspended once the fund reaches \$100,000 and shall resume upon reduction of the balance below the maximum amount. This fund amount is included as Restricted Cash Maintenance Fund on the Statements of Financial Position as of December 31, 2022 and 2021.

Further, the agreement states that a majority of the Board of Directors for the Museum shall be legal residents of East Baton Rouge Parish and that the BREC Commission shall be entitled to appoint one voting member to the Museum’s governing Board of Directors. This agreement shall be terminated and dissolved immediately at any time the Museum no longer has Federal IRS Tax exempt status, and all assets of the Museum would become property of BREC.

The term of the agreement is for ninety nine (99) years, beginning on the 6th day of December 2010 and ending on the 6th day of December 2109. BREC grants to the Museum one (1) option to renew for an additional ninety nine years commencing on the first day following the expiration of the original term or the same terms, conditions contained herein unless mutually agreed to otherwise in writing.

During 2017, in connection with the Cooperative Endeavor Agreement and completion of the construction of the building, the Museum received the right to use building and land for the 99 year lease of the Museum. The right to use is rent free for the lease term and therefore recorded a building lease contribution receivable totaling \$4,746,872. This amount represents the net estimated fair value of the leasehold interest that was donated. The leasehold interest was based upon an appraised value of \$8,688,737 reduced by the amount of building costs paid for by the Museum of \$3,941,865. The receivable is being amortized over the remaining life of the Cooperative Endeavor Agreement which expires in December 2109. As of December 31, 2022 and 2021, the building lease receivable consisted of the following:

	<u>2022</u>	<u>2021</u>
Building Lease Receivable, Current	\$ 51,601	\$ 51,601
Building Lease Receivable, Long-Term	<u>4,437,266</u>	<u>4,488,867</u>
	<u>\$ 4,488,867</u>	<u>\$ 4,540,468</u>

Amortization (building rent expense) during the years ended December 31, 2022 and 2021 was \$51,601. Amounts to be recorded in future years total \$51,601 annually through the expiration date of December 2109.

Note 7 - Property and Equipment -

A summary of property and equipment, accumulated depreciation, and related service lives for the years ended December 31, 2022 and 2021 are as follows:

	Estimated Service Life	<u>2022</u>	<u>2021</u>
Machinery and Equipment	5 - 15 Years	\$ 196,262	\$ 193,788
Building	7 - 15 Years	3,943,111	3,941,865
Learning Zones	7 - 15 Years	2,416,505	2,416,505
Software	5 - 7 Years	<u>76,233</u>	<u>76,233</u>
		6,632,111	6,628,391
Less: Accumulated Depreciation		<u>(3,258,433)</u>	<u>(2,655,747)</u>
		<u>\$ 3,373,678</u>	<u>\$ 3,972,644</u>

Note 8 - Long Term Debt -

At December 31, 2022 and 2021, the long-term debt of the Museum is comprised of the following:

	<u>2022</u>	<u>2021</u>
*Note payable under the PPP program of the CARES Act in the amount of \$288,807 dated February 5, 2021 with 18 monthly principal and interest payments beginning June 5, 2022, unless loan is forgiven as discussed further below.	\$ -	\$ 288,807
Less: Current Portion	<u>-</u>	<u>(288,807)</u>
Long-Term Portion	<u>\$ -</u>	<u>\$ -</u>

* See Note 9 regarding PPP Loan Forgiveness obtained.

Note 9 - PPP Loan Forgiveness -

In April 2020, the Museum qualified for and received loan proceeds in the principal amount of \$288,800 pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The PPP loan was unsecured and guaranteed by the SBA. The principal amount of the PPP loan was subject to forgiveness under the PPP upon the Museum's request to the extent that the PPP loan proceeds were used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments. The Museum applied for forgiveness of the PPP loan with respect to these covered expenses, and in October 2021 the Museum received the PPP loan forgiveness from the SBA. Therefore, as of December 31, 2021, and in accordance with generally accepted accounting principles, the Museum has recognized PPP loan forgiveness income of \$288,800 as it considered that the measurable performance or other barrier and right of return of the PPP loan no longer existed and that the loan obligation is legally released.

In February 2021, the Museum qualified for and received additional loan proceeds in the principal amount of \$288,807 pursuant to the Paycheck Protection Program (PPP) as part of the Consolidated Appropriations Act, 2021, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act). The principal amount of the PPP loan was subject to forgiveness under the PPP upon the Museum's request to the extent that the PPP loan proceeds were used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments. The Museum applied for forgiveness of the PPP loan with respect to these covered expenses, and in March 2022 the Museum received the PPP Loan forgiveness from the SBA. Therefore, as of December 31, 2022, and in accordance with generally accepted accounting principles, the Museum has recognized PPP loan forgiveness income of \$288,807 as it considered that the measurable performance or other barrier and right of return of the PPP loan no longer existed and the that loan obligation is legally released.

Note 10 - Employee Retention Credits -

In addition to PPP funds, the Economic Aid Act also allowed for Entities who received original PPP funds under the CARES Act to also retroactively claim employee retention credits if certain eligibility requirements are met. The credits allowed in 2020 equal 50% of wages up to \$10,000 or a maximum credit per employee of \$5,000. The Organization met the eligibility requirements for 2020 and accrued a receivable for the credits as of December 31, 2021, totaling \$120,822. This amount is included in receivables and other revenue within these financial statements in 2021.

The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Relief Act), enacted December 27, 2020, amended and extended the employee retention credit under section 2301 of the CARES Act to the first and second calendar quarters of 2021. The provisions of the Relief Act were subsequently extended to include the third calendar quarter of 2021. The 2021 credits equal 70% of wages up to \$10,000 or a maximum credit per employee of \$7,000 per applicable quarter. The Organization met the eligibility requirements for the first quarter and has accrued a receivable totaling \$290,907 as of December 31, 2021. This amount is included in receivables and other revenue within these financial statements in 2021. The entire receivable balance was collected at December 31, 2022.

Note 11 - Commitments and Contingencies -

The Paycheck Protection Program (PPP) loans are subject to audit for six years from the date of forgiveness. Department of Treasury guidance states that loans over \$2 million will be fully audited and loans under \$2 million are subject to random audits. If audited, the SBA could redetermine the amount of forgiveness. The Company received two PPP loan which were forgiven in 2021 and 2022 totaling \$577,607.

Note 12 - Compensation, Benefits and Other Payments to Agency Head -

Executive Director, Christina Melton, didn't receive any compensation that was paid from public funds.

SUPPLEMENTARY INFORMATION

Independent Auditor's Report On Internal Control
Over Financial Reporting And On Compliance And Other Matters
Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

To the Board of Directors
Knock Knock Children's Museum, Inc.
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knock Knock Children's Museum, Inc. (the "Museum"), a nonprofit organization, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Museum's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2022-01.

Knock Knock Children's Museum, Inc.'s Response to Finding

Government Auditing Standards required the auditor to perform limited procedures on the Museum's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs in which the finding is reported. The Museum's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Museum's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, under the provisions of Louisiana Revised Statute 24:513, this report is distributed by the legislative auditor as a public document and its distribution is not limited.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Baton Rouge, Louisiana
November 10, 2023

KNOCK KNOCK CHILDREN’S MUSEUM, INC.

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2022

A. Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued; unmodified

Internal control over financial reporting:

Material weaknesses identified:

_____ Yes X No

Significant deficiencies identified?

_____ Yes X None Reported

Noncompliance material to financial statements noted:

_____ Yes X No

B. Internal Control Over Financial Reporting

None

C. Compliance and Other Matters

Finding 2022-01 Timely Filing of Audit Report

Criteria: Louisiana Revised Statute 24:513 requires that an annual financial report or other type report be submitted to the Louisiana Legislative Auditor (LLA) within six months of the close of the fiscal/calendar year.

Cause: The Museum’s management was unaware it had a reporting requirement since this was the first year a state grant was received. The audit was not scheduled to start until after June 30, 2023 therefore the reporting requirement wasn’t known by the statutory deadline.

Effect: The Museum did not meet the deadline as required by the LLA.

Recommendation: HTB and the Museum will make every effort to meet the deadline in the future.

Management’s Response: HTB and the Museum will continue to make every effort to comply with this deadline. Management will review grant reporting requirements with HTB before audit fieldwork start date which will give HTB time to complete the audit by the statutory deadline.