

The Mattress Factory, LTD

Financial Statements

Years Ended December 31, 2019 and 2018
with Independent Auditor's Report

MaherDuessel

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THE MATTRESS FACTORY, LTD

YEARS ENDED DECEMBER 31, 2019 AND 2018

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Independent Auditor's Report

Board of Directors The Mattress Factory, LTD

We have audited the accompanying financial statements of The Mattress Factory, LTD (Museum), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 Museum as of December 31, 2019 and 2018, 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.

Maier Duessel

Pittsburgh, Pennsylvania
July 29, 2020

MATTRESS FACTORY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

| Assets | 2019 | 2018 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 573,986 | \$ 441,779 |
| Gift shop inventory | 34,029 | 30,145 |
| Promises to give | 248,606 | 319,842 |
| Prepaid expenses | 27,957 | 13,259 |
| Total current assets | 884,578 | 805,025 |
| Non-current assets: | | |
| Marketable securities | 1,159,987 | 1,033,762 |
| Promises to give - long-term portion, net of allowance of \$62,000 and \$0 | 200,160 | 191,490 |
| Art collection | 821,050 | 821,050 |
| Property, plant, and equipment | 2,991,954 | 3,268,279 |
| Total non-current assets | 5,173,151 | 5,314,581 |
| Total Assets | \$ 6,057,729 | \$ 6,119,606 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 97,895 | \$ 198,549 |
| Accrued liabilities | 71,965 | 43,197 |
| Deferred revenue | 24,200 | 14,250 |
| Current portion of long-term debt | 29,377 | 28,285 |
| Total current liabilities | 223,437 | 284,281 |
| Non-current liabilities: | | |
| Long-term debt, net of current portion | 608,999 | 638,358 |
| Total Liabilities | 832,436 | 922,639 |
| Net Assets: | | |
| Without donor restrictions | 3,067,828 | 3,224,232 |
| With donor restrictions | 2,157,465 | 1,972,735 |
| Total Net Assets | 5,225,293 | 5,196,967 |
| Total Liabilities and Net Assets | \$ 6,057,729 | \$ 6,119,606 |

See accompanying notes to financial statements.

MATTRESS FACTORY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Public Support and Revenue: | | | |
| Public support: | | | |
| Foundation grants | \$ 300,802 | \$ 285,999 | \$ 586,801 |
| Corporate grants | - | - | - |
| Federal grants | - | 25,000 | 25,000 |
| State grants | - | 18,712 | 18,712 |
| Local grants | 82,000 | 152,000 | 234,000 |
| Special events | 328,128 | - | 328,128 |
| Donated services and materials | 73,828 | - | 73,828 |
| Contributions | 63,000 | 42,500 | 105,500 |
| Total public support | <u>847,758</u> | <u>524,211</u> | <u>1,371,969</u> |
| Revenue: | | | |
| Admission | 805,579 | - | 805,579 |
| Private event rentals | 61,915 | - | 61,915 |
| Museum gift shop | 100,860 | - | 100,860 |
| Memberships | 36,419 | - | 36,419 |
| Café concessions | 46,340 | - | 46,340 |
| Education programs | 16,128 | - | 16,128 |
| Miscellaneous income | 64,427 | - | 64,427 |
| Total revenue | <u>1,131,668</u> | <u>-</u> | <u>1,131,668</u> |
| Net assets released from restrictions | <u>401,983</u> | <u>(401,983)</u> | <u>-</u> |
| Total public support and revenue | <u>2,381,409</u> | <u>122,228</u> | <u>2,503,637</u> |
| Expenses: | | | |
| Program services | 1,743,634 | - | 1,743,634 |
| General and administrative | 567,713 | - | 567,713 |
| Fundraising and development | 259,001 | - | 259,001 |
| Total expenses | <u>2,570,348</u> | <u>-</u> | <u>2,570,348</u> |
| Net Change in Net Assets from Operations | <u>(188,939)</u> | <u>122,228</u> | <u>(66,711)</u> |
| Non-Operating Items: | | | |
| Investment income (loss) | - | 206,448 | 206,448 |
| Allowance for uncollectible pledges | - | (62,000) | (62,000) |
| Loss on disposal of construction in progress | (49,411) | - | (49,411) |
| Releases from restrictions - investment activity | 81,946 | (81,946) | - |
| Net Change in Non-Operating Items | <u>32,535</u> | <u>62,502</u> | <u>95,037</u> |
| Change in Net Assets | <u>(156,404)</u> | <u>184,730</u> | <u>28,326</u> |
| Net Assets: | | | |
| Beginning of year | <u>3,224,232</u> | <u>1,972,735</u> | <u>5,196,967</u> |
| End of year | <u>\$ 3,067,828</u> | <u>\$ 2,157,465</u> | <u>\$ 5,225,293</u> |

See accompanying notes to financial statements.

MATTRESS FACTORY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Public Support and Revenue: | | | |
| Public support: | | | |
| Foundation grants | \$ 82,379 | \$ 374,529 | \$ 456,908 |
| Corporate grants | 5,000 | 16,975 | 21,975 |
| Federal grants | - | 65,000 | 65,000 |
| State grants, net of write down of grant of \$25,000 | - | 399,390 | 399,390 |
| Local grants | - | - | - |
| Special events | 324,158 | - | 324,158 |
| Donated services and materials | 39,204 | - | 39,204 |
| Contributions | 137,308 | 27,673 | 164,981 |
| Total public support | <u>588,049</u> | <u>883,567</u> | <u>1,471,616</u> |
| Revenue: | | | |
| Admission | 691,629 | - | 691,629 |
| Private event rentals | 63,900 | - | 63,900 |
| Museum gift shop | 122,336 | - | 122,336 |
| Memberships | 69,688 | - | 69,688 |
| Café concessions | 49,695 | - | 49,695 |
| Education programs | 17,181 | - | 17,181 |
| Miscellaneous income | 12,871 | - | 12,871 |
| Total revenue | <u>1,027,300</u> | <u>-</u> | <u>1,027,300</u> |
| Net assets released from restrictions | 1,124,626 | (1,124,626) | - |
| Total public support and revenue | <u>2,739,975</u> | <u>(241,059)</u> | <u>2,498,916</u> |
| Expenses: | | | |
| Program services | 1,638,149 | - | 1,638,149 |
| General and administrative | 778,283 | - | 778,283 |
| Fundraising and development | 291,373 | - | 291,373 |
| Total expenses | <u>2,707,805</u> | <u>-</u> | <u>2,707,805</u> |
| Net Change in Net Assets from Operations | <u>32,170</u> | <u>(241,059)</u> | <u>(208,889)</u> |
| Non-Operating Items: | | | |
| Investment income (loss) | - | (57,324) | (57,324) |
| Allowance for uncollectible pledges | - | - | - |
| Loss on disposal of construction in progress | - | - | - |
| Releases from restrictions - investment activity | 49,456 | (49,456) | - |
| Net Change in Non-Operating Items | <u>49,456</u> | <u>(106,780)</u> | <u>(57,324)</u> |
| Change in Net Assets | <u>81,626</u> | <u>(347,839)</u> | <u>(266,213)</u> |
| Net Assets: | | | |
| Beginning of year, as restated | <u>3,142,606</u> | <u>2,320,574</u> | <u>5,463,180</u> |
| End of year | <u>\$ 3,224,232</u> | <u>\$ 1,972,735</u> | <u>\$ 5,196,967</u> |

See accompanying notes to financial statements.

MATTRESS FACTORY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

| | <u>Program Services</u> | <u>General and Administration</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------|-----------------------------|---------------------------------------|--------------------|---------------------|
| Wages | \$ 673,277 | \$ 458,876 | \$ 45,559 | \$ 1,177,712 |
| Professional fees | 219,080 | 15,034 | 87,131 | 321,245 |
| Benefits | 48,764 | 46,892 | - | 95,656 |
| Artistic | 146,425 | - | - | 146,425 |
| Depreciation | 224,699 | 23,006 | - | 247,705 |
| Office expenses | 69,084 | 2,896 | 43,971 | 115,951 |
| Visitor services | 94,958 | - | 73,125 | 168,083 |
| Occupancy | 98,560 | 10,050 | 128 | 108,738 |
| Insurance | 28,451 | 2,913 | - | 31,364 |
| Other | 36,937 | 1,264 | 7,842 | 46,043 |
| Repairs and maintenance | 29,126 | 2,817 | 55 | 31,998 |
| Interest | 23,887 | 2,446 | - | 26,333 |
| Education | 24,185 | - | - | 24,185 |
| Travel | 14,435 | 314 | 1,190 | 15,939 |
| Equipment | 11,766 | 1,205 | - | 12,971 |
| Bad debts | - | - | - | - |
| Total | <u>\$ 1,743,634</u> | <u>\$ 567,713</u> | <u>\$ 259,001</u> | <u>\$ 2,570,348</u> |

See accompanying notes to financial statements.

MATTRESS FACTORY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

| | Program Services | General and Administration | Fundraising | Total |
|-------------------------|---------------------|-------------------------------|-------------------|---------------------|
| Wages | \$ 617,834 | \$ 447,525 | \$ 56,320 | \$ 1,121,679 |
| Professional fees | 158,036 | 242,643 | 116,191 | 516,870 |
| Benefits | 54,242 | 44,053 | 1,352 | 99,647 |
| Artistic | 179,874 | - | - | 179,874 |
| Depreciation | 150,793 | 15,984 | 5,282 | 172,059 |
| Office expenses | 96,508 | 4,858 | 46,755 | 148,121 |
| Visitor services | 89,980 | - | 39,204 | 129,184 |
| Occupancy | 108,270 | 8,329 | 2,752 | 119,351 |
| Insurance | 37,383 | 3,371 | 1,114 | 41,868 |
| Other | 33,563 | 606 | 13,251 | 47,420 |
| Repairs and maintenance | 33,150 | 2,665 | 1,570 | 37,385 |
| Interest | 24,049 | 2,549 | 842 | 27,440 |
| Education | 25,800 | - | - | 25,800 |
| Travel | 18,170 | 670 | 6,372 | 25,212 |
| Equipment | 10,497 | 1,113 | 368 | 11,978 |
| Bad debts | - | 3,917 | - | 3,917 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 1,638,149</u> | <u>\$ 778,283</u> | <u>\$ 291,373</u> | <u>\$ 2,707,805</u> |

See accompanying notes to financial statements.

MATTRESS FACTORY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 28,326 | \$ (266,213) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 247,705 | 172,059 |
| Realized and unrealized (gain) loss on investment | (173,066) | 101,473 |
| Loss on suspension of capital campaign pledges | 62,000 | - |
| Loss on disposal of construction in progress | 49,411 | - |
| Change in: | | |
| Gift shop inventory | (3,884) | 1,279 |
| Promises to give | (35,282) | 116,547 |
| Prepaid expenses | (14,698) | 11,333 |
| Accounts payable | (100,654) | 92,278 |
| Accrued liabilities | 28,768 | (344) |
| Deferred revenue | 9,950 | (3,550) |
| Total adjustments | <u>70,250</u> | <u>491,075</u> |
| Net cash provided by (used in) operating activities | <u>98,576</u> | <u>224,862</u> |
| Cash Flows From Investing Activities: | | |
| Purchase of fixed assets | (20,791) | (239,086) |
| Purchase of investments | (243,275) | (79,997) |
| Sales of investments | 290,116 | 125,142 |
| Net cash provided by (used in) investing activities | <u>26,050</u> | <u>(193,941)</u> |
| Cash Flows From Financing Activities: | | |
| Payments on long-term debt | (28,267) | (27,161) |
| Collection of grants and contributions restricted for capital | 35,848 | 105,243 |
| Net cash provided by (used in) financing activities | <u>7,581</u> | <u>78,082</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 132,207 | 109,003 |
| Cash and Cash Equivalents: | | |
| Beginning of year | 441,779 | 332,776 |
| End of year | <u>\$ 573,986</u> | <u>\$ 441,779</u> |
| Supplemental Information: | | |
| Interest paid | <u>\$ 26,333</u> | <u>\$ 27,440</u> |

See accompanying notes to financial statements.

THE MATTRESS FACTORY, LTD

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Organization

The Mattress Factory, LTD (Museum) is an alternative museum, located in the North Side area of Pittsburgh, Pennsylvania, whose main purpose is the presentation of installation and performance art. The Museum provides a working studio and extensive resources for artists and art forms; the artist creates temporary or permanent artwork in the same studio where it will be on display.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues and support are recorded when earned and expenses are recognized when the liabilities are incurred.

Net Asset Classes

The Museum's resources are classified for accounting and reporting purposes into two classes of net assets (without donor restrictions and with donor restrictions) established according to their nature and purpose. Separate accounts are maintained for individual funds; however, for financial reporting purposes, funds that have similar characteristics have been combined into net asset classes.

The assets, liabilities, and net assets of the Museum are reported in net asset classes as follows:

Without Donor Restrictions - Used to accumulate all net assets that are not subject to donor-imposed restrictions or stipulations as to purpose or use. For the years ended December 31, 2019 and 2018, the net asset balance without donor restrictions was \$3,067,828 and \$3,224,232, respectively.

With Donor Restrictions - Represents a portion of the net assets of the Museum resulting from contributions and other inflows of assets whose use by the Museum is limited by donor-imposed stipulations that can be fulfilled and removed by actions of the Museum pursuant to those stipulations or those that must be maintained permanently by the Museum.

THE MATTRESS FACTORY, LTD

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Museum considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. At December 31, 2019 and 2018, the Museum had cash and cash equivalents with book balances of \$573,986 and \$441,779, respectively, and bank balances of \$579,553 and \$413,269, of which \$164,177 and \$20,874 is not covered by FDIC insurance, respectively.

Revenue, Revenue Recognition, and Receivables

The Museum recognizes revenue from admissions, gift shop sales, private event rentals, café concessions, and education programs at the time of sale or services provided.

Contributions, including memberships, 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 substantially been met. As of December 31, 2019, the Museum had a conditional cost reimbursable government grant in the amount of \$750,000. There were no conditional grants as of December 31, 2018.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recognized 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 discount is included in contribution revenue in the statement of activities. At December 31, 2019 and 2018, there were no material discounts to be recognized.

The allowance for uncollectable promises to give as of December 31, 2019 and 2018 was \$62,000 and \$0, respectively. The Museum determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, review of subsequent collections, and specific circumstances.

THE MATTRESS FACTORY, LTD

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Gift Shop Inventory

Inventory is recorded at the lower of cost or net realizable value determined by the first-in, first-out method.

Marketable Securities: Investments in the Endowment Funds

Investments consist of fixed income mutual funds and exchange traded funds, equity mutual funds and exchange traded funds, and money market funds. These investments are valued at their fair values as further discussed in Notes 4 and 5.

The Museum's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that significant changes in risks in the near-term may materially affect the amounts reported in the financial statements.

Property and Equipment

Purchased property and equipment are recorded at cost if the amount is \$5,000 or greater. Donated equipment is recorded at fair value as of the date of the donation. Depreciation is computed using the straight-line method over the remaining useful lives of the respective assets. Expenditures for major renewals and improvements that extend the useful lives of the equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense as of December 31, 2019 and 2018 was \$247,705 and \$172,059, respectively.

Donated Materials and Services

The Museum receives donated services from a variety of unpaid volunteers assisting them in the delivery of program services. However, these efforts do not meet the criteria for recognition in the financial statements under accounting principles generally accepted in the United States of America, because such services either do not require specialized skills or would not typically be purchased had they not been provided by donation. The value of these services is not readily determinable.

If any goods are donated or contributed, the items are also recorded at their fair value based upon prevailing market prices. In 2019 and 2018, the Museum received donated

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

goods and services for the garden party totaling approximately \$74,000 and \$39,000, respectively.

Art Collection

Collection items acquired are recorded at cost if purchased and at fair value at the date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for, and preserved.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs, such as depreciation and amortization, have been allocated among the programs and supporting services benefited based on square footage of facilities utilized.

Use of Estimates in the Preparation of Financial Statements

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 at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Museum is a not-for-profit organization that is exempt from income taxes under IRS Section 501(c)(3) and is further classified as an organization that is not a private foundation under section 170(b)(1)(A)(vi). The Museum annually files a Form 990. In addition, the Museum is subject to income tax on net income that is derived from business activities that are unrelated to the Museum's exempt purpose. The Museum has determined that they are not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T).

Adopted Accounting Standards Updates

The provisions of these Standards Updates have been adopted and incorporated into these financial statements.

THE MATTRESS FACTORY, LTD

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606).”* The amendment provides guidance for revenue recognition related to contracts involving the transfer of promised goods or services to customers and the related disclosures. The adoption of this ASU did not have a material impact on these financial statements.

ASU 2018-08, *“Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958).”* The amendment provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. The Museum implemented the provisions of this ASU in these financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with this implementation.

Pending Accounting Standards Update

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of these updates on the financial statements:

ASU 2016-02, *“Leases (Topic 842),”* is effective, as delayed, for the financial statements for the year beginning after December 15, 2021. This amendment and related amendments will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2019-03, *“Not-for-Profit Entities (Topic 958): Updating the Definition of Collections,”* is effective for reporting periods beginning after December 15, 2019. The amendment modifies the definition of the term collections and requires that a collection-holding entity disclose its policy for the use of proceeds when collection items are removed from a collection. If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care.

ASU 2018-13, *“Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820),”* is effective for the financial statements for the year beginning after December 15,

THE MATTRESS FACTORY, LTD

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

2019. The amendment removes and modifies certain fair value hierarchy leveling disclosures.

Reclassifications

Certain reclassifications have been made to the accompanying financial statements for the year ended December 31, 2018 to conform to the current year's presentation.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. Promises to Give

Promises to give at December 31, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Receivable in less than one year | \$ 248,606 | \$ 319,842 |
| Receivable in one to five years net of allowance of \$62,000 and \$0, respectively | <u>200,160</u> | <u>191,490</u> |
| Total unconditional promises to give | <u>\$ 448,766</u> | <u>\$ 511,332</u> |

Due to the short-term nature of the expected collections, the net realizable value is considered a reasonable estimate of the fair value. Unconditional promises to give that are expected to be collected in future years have not been discounted as the discount is deemed to be immaterial to the financial statements.

Fair value of assets measured on a recurring basis as of December 31, 2019 is as follows: Level 1 pledges receivable – current \$248,606 and Level 3 pledges receivable – noncurrent \$200,160. Fair value of assets measured on a recurring basis as of December 31, 2018 is as follows: Level 1 pledges receivable – current \$319,842 and Level 3 pledges receivable – noncurrent \$191,490.

Pledges due within one year are considered to be Level 1 because of their short maturity of these instruments.

THE MATTRESS FACTORY, LTD

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Since the Museum's noncurrent pledges receivable have no significant observable inputs, they are classified as Level 3.

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Balance as of January 1 | \$ 191,490 | \$ 254,675 |
| Additions of long-term pledges | - | 33,145 |
| Allowance for uncollectible pledges | (62,000) | |
| Increases (decreases) due to change in scheduled payments | 70,670 | (22,930) |
| Pledges receivable, which became due within one year | - | (73,400) |
| Balance of December 31 | <u>\$ 200,160</u> | <u>\$ 191,490</u> |

4. Investments

The fair value of the investments as of December 31, 2019 and 2018 is \$1,159,987 and \$1,033,762, respectively.

The total returns on investments for the years ended December 31, 2019 and 2018 are summarized as follows:

| | Without Donor Restrictions | With Donor Restrictions | December 31, 2019 |
|--|-------------------------------|----------------------------|----------------------|
| Interest on cash and cash equivalents | \$ - | \$ - | \$ - |
| Interest on dividend income | - | 33,382 | 33,382 |
| Net realized gain (loss) | - | - | - |
| Unrealized appreciation (depreciation) | - | 173,066 | 173,066 |
| Investment gain (loss) recognized | <u>\$ -</u> | <u>\$ 206,448</u> | <u>\$ 206,448</u> |

THE MATTRESS FACTORY, LTD

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Without Donor Restrictions | With Donor Restrictions | December 31, 2018 |
|--|-------------------------------|----------------------------|----------------------|
| Interest on cash and cash equivalents | \$ - | \$ 1 | \$ 1 |
| Interest on dividend income | - | 44,148 | 44,148 |
| Net realized gain (loss) | - | 10,168 | 10,168 |
| Unrealized appreciation (depreciation) | - | (111,641) | (111,641) |
| Investment gain (loss) recognized | \$ - | \$ (57,324) | \$ (57,324) |

The investment draw elected annually by the Board of Directors to use for unrestricted operating purposes of \$81,946 for 2019 and \$79,202 for 2018 is included in releases from restriction. Endowment activity is discussed in more detail in Note 5.

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. This framework provides a fair value hierarchy that prioritizes the inputs and valuation techniques used to measure fair value and requires enhanced disclosures about assets and liabilities carried at fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described below:

Fair values for Level 1 investments are determined by observable inputs such as quoted prices in the active market for identical investments. Fair values for Level 2 investments are determined by inputs, other than quoted market prices in active markets that are observable either directly or indirectly, (quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.). Fair values for Level 3 investments are determined by significant unobservable inputs, including the fund's own assumptions in determining the fair value of investments

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Fair values of assets measured on a recurring basis as of December 31, 2019 and 2018 are as follows:

| Description | Fair Value Measurements at Reporting Date Using | | | |
|--|---|--|---|---|
| | December 31, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market | \$ 33,343 | \$ 33,343 | \$ - | \$ - |
| Fixed income - mutual funds and exchange traded funds | 329,074 | 329,074 | - | - |
| Equities - mutual funds and exchange traded funds | 797,570 | 797,570 | - | - |
| Totals | <u>\$ 1,159,987</u> | <u>\$ 1,159,987</u> | <u>\$ -</u> | <u>\$ -</u> |

| Description | Fair Value Measurements at Reporting Date Using | | | |
|--|---|--|---|---|
| | December 31, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market | \$ 51,801 | \$ 51,801 | \$ - | \$ - |
| Fixed income - mutual funds and exchange traded funds | 328,697 | 328,697 | - | - |
| Equities - mutual funds and exchange traded funds | 653,264 | 653,264 | - | - |
| Totals | <u>\$ 1,033,762</u> | <u>\$ 1,033,762</u> | <u>\$ -</u> | <u>\$ -</u> |

5. Endowment Disclosures

The endowment was established to support the mission of the Museum. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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Interpretation of Relevant Law

The Board of Directors of the Museum has interpreted Pennsylvania State Act 141 of 1998 (Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, and (b) the original value of subsequent gifts to the endowment.

For purposes of this Note, the endowment is considered to be the investments.

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Changes in endowment assets for the fiscal years ended December 31, 2019 and 2018 by asset class are as follows:

| | Without Donor Restrictions | With Donor Restrictions | December 31, 2019 |
|---|-------------------------------|----------------------------|----------------------|
| Endowment Assets, Beginning of Year | \$ - | \$ 1,033,762 | \$ 1,033,762 |
| Investment return: | | | |
| Investment income | - | 40,073 | 40,073 |
| Net appreciation (realized and unrealized) | - | 173,066 | 173,066 |
| Total investment return | - | 213,139 | 213,139 |
| Distribution of income | 81,946 | (81,946) | - |
| Appropriation of endowment assets for expenditure | (81,946) | - | (81,946) |
| Other changes: | | | |
| Other | - | 1,723 | 1,723 |
| Fees and other withdrawals | - | (6,691) | (6,691) |
| Endowment Assets, End of Year | \$ - | \$ 1,159,987 | \$ 1,159,987 |

| | Without Donor Restrictions | With Donor Restrictions | December 31, 2018 |
|---|-------------------------------|----------------------------|----------------------|
| Endowment Assets, Beginning of Year | \$ - | \$ 1,180,380 | \$ 1,180,380 |
| Investment return: | | | |
| Investment income | - | 51,481 | 51,481 |
| Net appreciation (realized and unrealized) | - | (101,473) | (101,473) |
| Total investment return | - | (49,992) | (49,992) |
| Distribution of income | 79,202 | (79,202) | - |
| Appropriation of endowment assets for expenditure | (79,202) | - | (79,202) |
| Other changes: | | | |
| Other | - | (10,092) | (10,092) |
| Fees and other withdrawals | - | (7,332) | (7,332) |
| Endowment Assets, End of Year | \$ - | \$ 1,033,762 | \$ 1,033,762 |

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At times, the fair value of the assets associated with donor-restricted endowment funds may fall below the level that the donors require the Museum to retain as a fund of perpetual duration. At December 31, 2019 and 2018, respectively, the fair value of the investments with donor restrictions, held in perpetuity, was approximately \$129,000 and \$255,000 less than the net assets with donor restrictions balances related to the endowment of \$1,288,558 as of December 31, 2019 and 2018. This deficiency resulted from the unfavorable market fluctuations coupled with the drawdowns taken that have occurred over the last several years. The Museum fully expects that over time undistributed investment gains will close the deficit.

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s). The Museum has adopted policies and guidelines for endowment and restricted funds.

To satisfy its long-term rate-of-return objectives, the Museum relies on returns in excess of 5% of the rate of inflation.

The Museum has a policy of appropriating for distribution each year between 3% and 7% of the three-year average fair market value of the with donor-restriction, held in perpetuity investments. Any amounts earned in excess of amounts transferred are reflected as with donor restrictions, since they could be transferred in any year in which that year's earnings are less than the maximum amount transferable.

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6. Property and Equipment

Property and equipment, which is stated at cost, consisted of the following classes of assets at December 31, 2019 and 2018:

| | 2019 | 2018 |
|------------------------------------|----------------------------|----------------------------|
| Land | \$ 61,716 | \$ 39,000 |
| Construction in progress | 46,593 | 86,685 |
| Buildings and improvements | 5,541,847 | 5,529,330 |
| Furniture, fixtures, and equipment | 541,668 | 509,671 |
| Other | 1,200 | 1,200 |
| | <u>6,193,024</u> | <u>6,165,886</u> |
| Less accumulated depreciation | <u>3,201,070</u> | <u>2,897,607</u> |
| | <u><u>\$ 2,991,954</u></u> | <u><u>\$ 3,268,279</u></u> |

7. Long-Term Liabilities

Long-term liabilities consist of long-term debt summarized below:

| | 2019 | 2018 |
|---|--------------------------|--------------------------|
| Note payable to a financial institution to refinance the existing long-term debt and line of credit in October 2015, bearing initial interest at a fixed rate of 3.97% for the first 60 principal and interest payments of \$4,550 commencing on November 1, 2015. The note matures October 1, 2030. The note is collateralized by substantially all of the Museum's assets, excluding artwork. This loan has a covenant that the Museum will maintain at least \$1,500,000 in net assets without donor restrictions. As of December 31, 2019, the net assets without donor restrictions balance is in compliance with this covenant. | \$ 638,376 | \$ 666,643 |
| Current maturities | <u>(29,377)</u> | <u>(28,285)</u> |
| Long-term debt, net of current portion | <u><u>\$ 608,999</u></u> | <u><u>\$ 638,358</u></u> |

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The approximate maturities of the long-term debt are as follows:

| | | |
|------------|----|-----------------------|
| 2020 | \$ | 29,377 |
| 2021 | | 30,654 |
| 2022 | | 31,911 |
| 2023 | | 33,219 |
| 2024 | | 34,523 |
| Thereafter | | <u>478,692</u> |
| | \$ | <u><u>638,376</u></u> |

8. Line of Credit

The Museum has a line of credit agreement with a commercial bank with a borrowing limit of \$750,000, secured by substantially all assets excluding real property and artwork. The agreement, which is reviewed annually, provides for interest at the bank's prime lending rate plus 1% (5.75% and 6.50% at December 31, 2019 and 2018, respectively). The outstanding balance at December 31, 2019 and 2018 was \$0.

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9. Net Assets

Net assets with donor restrictions are available for the following specific purposes at December 31:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------------|----------------------------|
| Future operating | \$ 108,000 | \$ 116,000 |
| Endowment income - future operating | 157,453 | 157,453 |
| Capital Campaign | 372,068 | 434,068 |
| Education program | 92,500 | 212,500 |
| Computer and software | 81,245 | 13,952 |
| Art installation and other property purposes | 12,500 | 5,000 |
| Exhibitions | 93,712 | - |
| Corridor project | 80,000 | - |
| | <u>997,478</u> | <u>938,973</u> |
| Endowment held in perpetuity | <u>1,159,987</u> | <u>1,033,762</u> |
| Total net assets with donor restrictions | <u><u>\$ 2,157,465</u></u> | <u><u>\$ 1,972,735</u></u> |

During the year ended December 31, 2019, net assets of \$401,983 were released from donor restrictions by incurring expenses satisfying the restricted purpose.

During the year ended December 31, 2018, net assets of \$1,124,626 were released from donor restrictions by incurring expenses satisfying the restricted purpose.

Net assets with donor restrictions, relating to the Museum's endowment are being held into perpetuity and amounted to \$1,159,987 and \$1,033,762 at December 31, 2019 and 2018, respectively. Income from the endowment may be used for general operations.

10. Retirement Benefit

The Museum sponsors a deferred compensation plan qualified under Section 403(b) of the Internal Revenue Code, which covers substantially all employees. If they so elect, employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Museum does not match employee contributions.

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11. Operating Leases

The Museum leases office equipment that expires in 2022. Lease expense for the years ended December 31, 2019 and 2018 totaled \$12,971 and \$20,081, respectively. The future minimum rental payments for non-cancelable operating leases as of December 31, 2019 are as follows:

| | | |
|------|----|---------------|
| 2020 | \$ | 9,552 |
| 2021 | | 9,552 |
| 2022 | | <u>4,776</u> |
| | \$ | <u>23,880</u> |

12. Concentrations

Concentration of Risk Factors

A significant portion of the Museum's grants and contributions is from organizations and individuals within the Western Pennsylvania area. In addition, its employees, volunteers, clients, and vendors primarily reside in this area and, therefore, economic and demographic influences on this area impact the Museum's operations. Grants receivable of \$224,500 were recorded from three organizations and were approximately 45% of the total promises to give as of December 31, 2019. Grants receivable of \$200,000 were recorded from three organizations and were approximately 39% of the total promises to give as of December 31, 2018.

13. Liquidity and Availability

The Museum prepares detailed budgets, reviews cash flow analysis on a monthly budget is active in controlling costs to ensure the entity remains liquid. In addition, the Museum has available a \$750,000 line of credit to assist with cash flow needs as necessary.

The following reflects the Museum's financial assets (cash and cash equivalents, and promises to give to be received in one year) as of December 31 expected to be available within one year to meet the cash needs for general expenditures:

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| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Financial assets, at year-end: | \$ 822,592 | \$ 761,621 |
| Donor Imposed restrictions: | | |
| Restricted by donor - with purpose restrictions | <u>(531,865)</u> | <u>(467,030)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 290,727</u> | <u>\$ 294,591</u> |

14. Subsequent Events

In early 2020, an outbreak of a novel strain of coronavirus was identified and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity, and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. As ordered by the Governor of the Commonwealth of Pennsylvania, the Museum had to close its doors to the public as of March 17, 2020 and that closure has continued into summer 2020. In addition, during the first quarter of 2020, the Board voted to suspend capital campaign activities. The extent of the negative impact of the coronavirus on the Museum's operational and financial performance is currently uncertain and cannot be predicted and will depend on certain developments, including, among others, the duration and spread of the outbreak, its impact on the Museum's funders, employees, and vendors, and governmental, regulatory, and other responses to the coronavirus.

The Museum secured the following financing commitments as a result of the pandemic:

- A \$244,700 Small Business Administration (SBA) loan through the Federal Government's Paycheck Protection Program (PPP) that resulted from the COVID-19 pandemic. It is anticipated that the majority of this loan will be forgiven as details for loan forgiveness emerge. The interest rate for any unforgiven portion is 1% and payable over a 24-month period.
- A \$150,000 Economic Injury Disaster Loan (EIDL) through the SBA. The interest rate is 2.75% and a term of up to 30 years.