SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Financial Statements

Year ended June 30, 2019

(With Independent Auditor's Report Thereon)

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Consolidated Financial Statements

Year ended June 30, 2019

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DavisFarr
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Children's Discovery Museum and Subsidiary
Escondido, California

Report on the Financial Statements

We have audited the accompanying consolidated statement of financial position of the San Diego Children's Discovery Museum and Subsidiary as of and for year ended June 30, 2019, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended and related notes to the consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the San Diego Children's Discovery Museum and Subsidiary as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described further in Note 10 to the financial statements, during the year ended June 30, 2019, San Diego Children's Discovery Museum and Subsidiary implemented Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2016-14: *Presentation of Financial Statements of Not-for-Profit Entities* which resulted in a prior period restatement of net assets. Our opinion is not modified with respect to this matter.

The financial statements for the year ended June 30, 2019 reflect certain prior period adjustments as described further in Note 10 to the financial statements. Our opinion is not modified with respect to this matter.

DavisFarr LLP

Irvine, California
September 13, 2019

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 2019

Assets	
Cash and cash equivalents	$ 130,319
Accounts receivable	14,079
Grants receivable	4,800
Pledges receivable, net (note 3)	375,276
Inventory	13,332
Prepaid expenses	15,438
Land, buildings and equipment, net (note 4)	1,955,908
Total assets	$ 2,509,152
Liabilities and Net Assets	
Accounts payable	$ 63,537
Accrued vacation payable	27,204
Accrued expenses - other	59,982
Deferred revenue	75,379
Line of credit payable (note 5)	65,484
Advances payable - LRDF (note 6)	230,000
Total liabilities	521,586
Net assets (note 10):	
Without donor restrictions	1,575,094
With donor restrictions	412,472
Total net assets	1,987,566
Total liabilities and net assets	$ 2,509,152

See accompanying notes to the consolidated financial statements

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Activities

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	$ 128,848	$ 216,772	$ 345,620
Earned revenue	671,237	-	671,237
Grants	323,775	-	323,775
Gifts-in-kind	198,638	-	198,638
Forgiveness of debt	70,000	-	70,000
Memberships	154,339	-	154,339
Fundraising events	74,030	-	74,030
Less: Direct costs of fundraising events	(27,589)	-	(27,589)
Net fundraising revenue	46,441	-	46,441
Sales	60,784	-	60,784
Less: Cost of good sold	(32,351)	-	(32,351)
Net sales revenue	28,433	-	28,433
Support provided by expiring restrictions	224,112	(224,112)	-
Total support and revenues	1,845,823	(7,340)	1,838,483
Expenses:			
Program services	1,604,157	-	1,604,157
Supporting services:			
General and administrative	103,867	-	103,867
Fundraising	270,944	-	270,944
Total supporting services expenses	374,811	-	374,811
Total expenses	1,978,968	-	1,978,968
Change in net assets	(133,145)	(7,340)	(140,485)
Net assets at beginning of year, as restated	1,708,239	419,812	2,128,051
Net assets at end of year	$ 1,575,094	$ 412,472	$ 1,987,566

See accompanying notes to the consolidated financial statements

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year ended June 30, 2019

		Supporting Services			
	Program	General and Administrative	Fundraising	Subtotal	Total
Salaries and wages	$ 811,648	$ 40,853	$ 185,703	$ 226,556	$ 1,038,204
Employee benefits	39,820	2,073	13,492	15,565	55,385
Payroll taxes	76,164	1,157	14,628	15,785	91,949
Workers' compensation insurance	17,188	870	3,919	4,789	21,977
Service fees	30,397	793	3,316	4,109	34,506
Subtotal	975,217	45,746	221,058	266,804	1,242,021
Advertising and marketing:					
In-Kind	139,445	-	-	-	139,445
Other	57,621	2,311	7,869	10,180	67,801
Bank and credit card charges	21,598	1,590	-	1,590	23,188
Computer service	19,818	3,809	4,242	8,051	27,869
Conference and training	3,287	41	539	580	3,867
Contract services	43,998	17,294	5,500	22,794	66,792
Depreciation and amortization	81,499	1,259	310	1,569	83,068
Events	20,963	-	-	-	20,963
Exhibits and maintenance	60,961	193	48	241	61,202
Fundraising	-	20	23,105	23,125	23,125
Interest	309	14,486	-	14,486	14,795
Insurance	7,653	2,409	1,846	4,255	11,908
Meetings and meals	1,753	473	1,111	1,584	3,337
Occupancy	75,361	5,010	521	5,531	80,892
Office	16,939	7,814	3,500	11,314	28,253
Outreach and special programs	41,875	-	20	20	41,895
Supplies	3,473	135	600	735	4,208
Staff development	10,621	710	499	1,209	11,830
Transportation	21,356	162	176	338	21,694
Other tax	-	405	-	405	405
Volunteer program	410	-	-	-	410
Total expenses	1,604,157	103,867	270,944	374,811	1,978,968
Less expenses included in revenue section of the statement of activities	-	-	(27,589)	-	(27,589)
Total expenses included in the expense section of the statement of activities	$ 1,604,157	$ 103,867	$ 243,355	$ 374,811	$ 1,951,379

See accompanying notes to the consolidated financial statements

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Cash Flows

Year ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	$ (140,485)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:	
Depreciation	83,068
Forgiveness of advances payable	(70,000)
(Increase) decrease in accounts receivable	78,341
(Increase) decrease in unconditional promises to give	(59,467)
(Increase) decrease in grants receivable	21,200
(Increase) decrease in inventory	(1,197)
(Increase) decrease in prepaid expenses	(22)
Increase (decrease) in accounts payable	17,303
Increase (decrease) in deferred revenue	(2,715)
Increase (decrease) in accrued vacation	(764)
Increase (decrease) in accrued expenses	7,412
Net cash used by operating activities	(67,326)
Cash flows from investing activities:	
Purchase of fixed assets	(25,388)
Net cash flows used by investing activities	(25,388)
Cash flows from financing activities:	
Proceeds from line of credit	65,484
Net cash flows provided by financing activities	65,484
Net decrease in cash and cash equivalents	(27,230)
Cash and cash equivalents at beginning of year	157,549
Cash and cash equivalents at end of year	$ 130,319
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for:	
Interest	$ 4,979

There were no signficant noncash investing and financing activities.

See accompanying notes to the consolidated financial statements

(1) Nature of Organization

San Diego Children's Discovery Museum (SDCDM) was incorporated as a non-profit corporation in January 2000. The mission of SDCDM is to inspire children to learn about our world through exploration, imagination, and experimentation. The Museum fills a community need by offering a wholesome, educational, and appealing gathering place and mobile experience for families, schools, libraries, and other groups that serve children. Programs and exhibits cultivate lifelong learning and develop diverse understandings of the world.

The Children's Discovery Museum Holdings, LLC (Holdings) was incorporated as a single-member LLC in July 2011 to hold SDCDM land, building, and improvements located at 320 North Broadway in Escondido, California.

The consolidated financial statements include the accounts of SDCDM and Holdings. SDCDM and Holdings are collectively referred to as the Museum. All significant inter-entity balances and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The consolidated financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Museum's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Museum's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The Museum considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount of the Museum's cash and cash equivalents approximates fair value due to the short maturity of these investments. The Museum maintains cash balances at two financial institutions. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per account.

(2) Summary of Significant Accounting Policies, (Continued)

(d) Accounts Receivable

Accounts receivable are primarily amounts due from local school districts and other entities for Museum related programs. Management believes that all outstanding accounts receivable are collectible.

(e) Pledges Receivable

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises. Management has determined that no allowance for doubtful accounts is deemed necessary as of June 30, 2019.

(f) Grants Receivable

Grants receivable are primarily unsecured non-interest-bearing amounts due from grantors on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full; therefore, there is no allowance for uncollectible grants receivables recorded.

(g) Fair Value Measurements

Certain assets and liabilities are reported at fair value based on a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Museum's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

> Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

(2) Summary of Significant Accounting Policies, (Continued)

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Museum's consolidated financial statements.

(h) Inventory

Inventory consists primarily of items for resale in the gift shop and is valued at the lower of cost (first-in, first-out method) and net realizable value.

(i) Property and Equipment

Property and equipment owned by the Museum are recorded at cost, or in the case of donated items, at estimated fair value at the date of the gift. Maintenance and repairs are expensed when incurred and betterments are capitalized. Property and equipment are depreciated using the straight-line method over their estimated useful lives of five to thirty-nine years. It is the policy of the Museum to capitalize assets with cost of $1,000 and greater with a useful life of more than one year.

Property and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the consolidated financial statements in the current year.

(2) Summary of Significant Accounting Policies, (Continued)

(j) Net Assets

The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Museum, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Museum must continue to use the resources in accordance with the donor's instructions.

The Museum's unspent contributions are included in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

(k) Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the consolidated statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions.

(2) Summary of Significant Accounting Policies, (Continued)

(l) Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions.

Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

(m) Gifts-in-Kind Contributions

The Museum receives contributions in a form other than cash or investments. Most are advertising, which are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed. If the Museum receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Museum's capitalization policy.

The Museum benefits from advertising services provided KPBS. Accounting standards allow recognition of contributed services only if (*a*) the services create or enhance nonfinancial assets or (*b*) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated services with an estimated fair value of $198,638 met those criteria and are included in in-kind contributions in the consolidated statement of activities.

(n) Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

(2) Summary of Significant Accounting Policies, (Continued)

(o) Expense Recognition and Allocation

The cost of providing the Museum's programs and other activities is summarized on a functional basis in the consolidated statement of activities and consolidated statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Occupancy, depreciation, amortization, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.
- Telephone and internet services, insurance, and supplies and miscellaneous expenses that cannot be directly identified are allocated on the basis of employee headcount for each program and supporting activity.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Museum.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Museum generally does not conduct its fundraising activities in conjunction with its other activities.

In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

(p) Tax Status

SDCDM is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State Revenue and Taxation Code, respectively. Holdings is a single-member LLC.

(2) Summary of Significant Accounting Policies, (Continued)

The Museum remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. In the opinion of management, there is no unrelated business income for the year ended June 30, 2019.

The Museum follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions as part of the consolidated statement of activities, when applicable. Management has determined that the Museum has no uncertain tax positions at June 30, 2019 and therefore no amounts have been accrued.

Contributions to the Museum are tax deductible to donors under Section 170 of the IRC. The Museum is not classified as a private foundation.

(3) Pledges Receivable

Pledges receivable at June 30, 2019 are expected to be collected as follows:

Less than one year	$ 129,805
One to five years	211,334
More than five years	105,000
	446,139
Less reduction for present value	(70,863)
Total	$ 375,276

Changes in pledges receivable for the year ended June 30, 2019 were as follows:

Pledges receivable at beginning of year	$ 315,809
New pledges	138,224
Payments received	(110,175)
Change in present value	31,418
Pledges receivable at year end	$ 375,276

No allowance for doubtful accounts was considered necessary at June 30, 2019 because management believes that all amounts are collectible. The present value discount was imputed for long-term pledges at rates at 6% based on the deemed credit worthiness of the donor.

(4) Property and Equipment

Property and equipment at June 30, 2019 are summarized as follows:

	2019
Building and Improvements	$ 1,187,809
Land	749,240
Exhibits	235,194
Furniture and Equipment	140,786
Vehicles	68,162
Construction in Progress	4,910
	2,386,101
Less: Accumulated depreciation and amortization	(430,193)
Net property and equipment	$ 1,955,908

Depreciation and amortization expense were $83,068 for the year ended June 30, 2019.

(5) Line of Credit

The Museum has a $150,000 unsecured revolving local bank line of credit, with an annual interest rate of prime plus 2.25%, which has an expiration date of October 18, 2019. As of June 30, 2019, the outstanding balance was $65,484. Interest expense incurred during the year ended June 30, 2019 was $5,288.

(6) Advances Payable – LRDF

The Linden Root Dickinson Foundation (LRDF) provided the Museum non-interest-bearing cash advances totaling $600,000 in prior years, which were used to fund leasehold improvements and operating expenses. Since the initial Advance Agreement, dated July 19, 2011, LRDF has provided loan forgiveness in the amount of $370,000, leaving a principal balance due of $230,000 at June 30, 2019. While, the unsecured advances of $230,000 are payable on July 19, 2021, LRDF has expressed its willingness to extend the due date as necessary. Contributed interest of $9,507 for the year ended June 30, 2019 was calculated using the AFR mid-term quarterly rates ranging from 2.70%-3.26%.

(7) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 are as follows:

Financial assets:	
Cash and cash equivalents	$ 130,319
Accounts receivable, net	14,079
Pledges receivable, net	375,276
Grants receivable	4,800
Total financial assets	524,474
Less financial assets held to meet donor-imposed restrictions:	
Purpose restricted net assets	(37,196)
Less financial assets not available within one year:	
Pledges receivable	(245,471)
Amount available for general expenditures within one year	$ 241,807

The above table reflects donor restricted as unavailable because it is the Museum's intention to use those resources for the long-term support of the Museum.

As part of the Museum's liquidity management plan the Museum maintains a revolving line of credit of $150,000 to cover short-term cash needs.

(8) Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30, 2019:

Purpose restrictions, available for spending	$ 37,196
Total purpose restricted net assets	37,196
Time restrictions:	
Pledges receivable, which are unavailable for spending until due, some of which are also purpose restricted	375,276
Total time restricted net assets	375,276
Total net assets with donor restrictions	$ 412,472

(9) Concentrations of Risk

The Museum relies on contributions and grants and is subject to the economic risks that affect donors and grantors abilities to support the Museum. As of June 30, 2019, four entities accounted for approximately 75% of total pledges and grants receivable. For the year ended June 30, 2019, four entities accounted for approximately 57% of total revenue and support.

(10) Change in Accounting Principles

The Museum implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The consolidated financial statements include a disclosure about liquidity and availability of resources

In addition to the implementation of the new accounting principle noted above, beginning net assets were reclassified to properly present all prior year pledges receivable as time restrictions. The adjustment increased temporarily restricted net assets for the Museum by $315,809 and reduced unrestricted net assets by the same amount.

The changes have the following effect on net assets at June 30, 2019:

	As Originally Presented	After Prior Period Adjustment	After Adoption of ASU 2016-14
Unrestricted net assets	$ 2,024,048	$ 1,708,239	$ -
Temporarily restricted net assets	104,003	419,812	-
Net assets without donor restrictions	-	-	1,708,239
Net assets with donor restrictions	-	-	419,812
Total net assets at beginning of year, as restated	$ 2,128,051	$ 2,128,051	$ 2,128,051

(11) Subsequent Events

Subsequent events have been evaluated by management through September 13, 2019, which is the date the consolidated financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the consolidated financial statements would be required.