

# San Diego Children's Discovery Museum and Subsidiary

Consolidated Financial Statements  
Years Ended June 30, 2017 and 2016



# **SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY**

## **Consolidated Financial Statements**

June 30, 2017 and 2016

---

### **Table of Contents**

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of San Diego Children's Discovery Museum (a nonprofit organization) and Subsidiary (collectively, the Museum), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 financial position of San Diego Children's Discovery Museum and Subsidiary as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Aldrich CPAs + Advisors LLP*

Carlsbad, California  
September 19, 2017

**SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY****Consolidated Statements of Financial Position**

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 64,115	\$ 64,142
Accounts receivable	17,923	17,243
Pledges receivable	114,902	167,545
Grants receivable	70,300	23,000
Inventory	14,668	11,298
Prepaid expenses	6,641	8,016
Property and equipment, net of accumulated depreciation	<u>2,030,888</u>	<u>2,059,382</u>
Total Assets	<u>\$ 2,319,437</u>	<u>\$ 2,350,626</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 12,774	\$ 5,740
Unearned revenue	82,808	70,684
Payroll taxes payable	-	9,847
Accrued vacation	16,878	10,929
Accrued expenses - other	30,052	19,742
Bank line of credit	-	55,481
Advances payable - LRDF	<u>300,000</u>	<u>500,000</u>
Total Liabilities	442,512	672,423
Net Assets:		
Unrestricted	1,738,375	1,603,337
Temporarily restricted	<u>138,550</u>	<u>74,866</u>
Total Net Assets	<u>1,876,925</u>	<u>1,678,203</u>
Total Liabilities and Net Assets	<u>\$ 2,319,437</u>	<u>\$ 2,350,626</u>

See accompanying notes to consolidated financial statements.

**SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY****Consolidated Statement of Activities**

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contributions - general	\$ 595,251	\$ 5,561	\$ 600,812
Earned revenue	499,200	-	499,200
Grants	119,772	127,478	247,250
Contributions - gifts in kind	181,929	-	181,929
Contributions - capital campaign	168,867	-	168,867
Membership dues	154,969	-	154,969
Fundraising events	141,096	-	141,096
Net assets released from restrictions, satisfaction of program restrictions	69,355	(69,355)	-
Total Revenue and Support	<u>1,930,439</u>	<u>63,684</u>	<u>1,994,123</u>
Expenses:			
Program services	1,376,174	-	1,376,174
Supporting services:			
Management and general	147,709	-	147,709
Fundraising	271,518	-	271,518
Total Expenses	<u>1,795,401</u>	<u>-</u>	<u>1,795,401</u>
Change in Net Assets	135,038	63,684	198,722
Net Assets, beginning	<u>1,603,337</u>	<u>74,866</u>	<u>1,678,203</u>
Net Assets, ending	<u>\$ 1,738,375</u>	<u>\$ 138,550</u>	<u>\$ 1,876,925</u>

See accompanying notes to consolidated financial statements.

**SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY****Consolidated Statement of Activities**

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contributions - capital campaign	\$ 733,124	\$ -	\$ 733,124
Contributions - land and building	628,002	-	628,002
Contributions - general	562,364	-	562,364
Earned revenue	354,952	-	354,952
Grants	157,475	-	157,475
Fundraising events	131,719	-	131,719
Membership dues	124,832	-	124,832
Contributions - gifts in kind	28,690	-	28,690
Net assets released from restrictions, satisfaction of program restrictions	198,896	(198,896)	-
Total Revenue and Support	2,920,054	(198,896)	2,721,158
Expenses:			
Program services	1,153,971	-	1,153,971
Supporting services:			
Management and general	121,689	-	121,689
Fundraising	260,199	-	260,199
Total Expenses	1,535,859	-	1,535,859
Change in Net Assets	1,384,195	(198,896)	1,185,299
Net Assets, beginning	219,142	273,762	492,904
Net Assets, ending	\$ 1,603,337	\$ 74,866	\$ 1,678,203

See accompanying notes to consolidated financial statements.

**SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY**

**Consolidated Statement of Functional Expenses**

Year Ended June 30, 2017

	Supporting Services			2017 Total	2016 Total
	Program Services	Management and General	Fundraising		
Compensation and Related Expenses:					
Compensation	\$ 652,932	\$ 60,430	\$ 148,551	\$ 861,913	\$ 695,275
Payroll tax expense	65,037	5,074	11,765	81,876	65,839
Employee benefits	29,104	1,852	5,821	36,777	34,563
Workers' compensation insurance	16,695	2,140	4,337	23,172	14,076
Service fees	4,336	1,525	568	6,429	1,911
Total	768,104	71,021	171,042	1,010,167	811,664
Advertising and marketing:					
In-kind	168,600	-	-	168,600	-
Other	65,454	266	4,725	70,445	50,610
Bad debt	200	90	1,890	2,180	-
Bank and credit card charges	19,828	372	450	20,650	17,000
Computer service	22,259	8,717	6,447	37,423	23,710
Conference and training	7,383	213	347	7,943	7,455
Contract services	29,040	19,530	3,630	52,200	85,023
Cost of goods sold	27,445	-	-	27,445	31,506
Depreciation	80,566	2,518	839	83,923	81,568
Events	-	-	41,240	41,240	41,244
Exhibits and maintenance	37,351	120	-	37,471	21,235
Fundraising	1,057	-	26,388	27,445	24,797
Interest	-	11,403	-	11,403	11,711
Insurance	12,175	3,179	2,940	18,294	16,591
Meetings and meals	1,438	715	3,499	5,652	4,077
Occupancy	55,659	12,707	2,773	71,139	184,479
Office	22,293	8,321	4,174	34,788	32,272
Outreach and special programs	25,893	21	881	26,795	31,342
Supplies	19,278	2,631	220	22,129	14,795
Staff development	4,372	940	33	5,345	4,532
Taxes:					
Property tax	-	4,915	-	4,915	30,927
Other	-	30	-	30	3,339
Transportation	7,297	-	-	7,297	5,154
Volunteer program	482	-	-	482	828
Total Expenses	\$ 1,376,174	\$ 147,709	\$ 271,518	\$ 1,795,401	\$ 1,535,859

**SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY**

**Consolidated Statement of Functional Expenses**

Year Ended June 30, 2016

	Supporting Services			
	Program Services	Management and General	Fundraising	Total
Compensation and Related Expenses:				
Compensation	\$ 519,228	\$ 34,443	\$ 141,604	\$ 695,275
Payroll tax expense	50,322	2,837	12,680	65,839
Employee benefits	26,873	300	7,390	34,563
Workers' compensation insurance	9,994	1,267	2,815	14,076
Service fees	-	1,911	-	1,911
Total	<u>606,417</u>	<u>40,758</u>	<u>164,489</u>	<u>811,664</u>
Advertising and marketing	42,927	2,561	5,122	50,610
Bank and credit card charges	15,971	994	35	17,000
Computer service	11,398	9,720	2,592	23,710
Conference and training	5,568	9	1,878	7,455
Contract services	65,619	11,202	8,202	85,023
Cost of goods sold	31,506	-	-	31,506
Depreciation	78,181	2,614	773	81,568
Events	-	-	41,244	41,244
Exhibits and maintenance	21,203	32	-	21,235
Fundraising	1,263	-	23,534	24,797
Interest	-	11,711	-	11,711
Insurance	10,643	3,345	2,603	16,591
Meetings and meals	988	344	2,745	4,077
Occupancy	168,990	14,357	1,132	184,479
Office	24,196	4,835	3,241	32,272
Outreach and special programs	28,777	159	2,406	31,342
Supplies	11,141	3,612	42	14,795
Staff development	3,179	1,232	121	4,532
Taxes:				
Property tax	20,100	10,827	-	30,927
Other	-	3,339	-	3,339
Transportation	5,154	-	-	5,154
Volunteer program	750	38	40	828
Total Expenses	<u>\$ 1,153,971</u>	<u>\$ 121,689</u>	<u>\$ 260,199</u>	<u>\$ 1,535,859</u>



**SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY****Consolidated Statements of Cash Flows**

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 198,722	\$ 1,185,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	83,923	81,568
Forgiveness of advances payable	(200,000)	-
Donated property and equipment - land and building	-	(628,002)
Changes in operating assets and liabilities:		
Accounts receivable	(680)	(15,093)
Pledges receivable	52,643	(71,445)
Pledge receivable - building lease	-	110,597
Grants receivable	(47,300)	12,590
Inventory	(3,370)	(543)
Prepaid expenses	1,375	1,327
Deposits	-	13,998
Accounts payable	7,034	1,470
Unearned revenue	12,124	17,964
Payroll taxes payable	(9,847)	3,293
Accrued vacation	5,949	(2,292)
Accrued expenses - LRDF	-	(95,543)
Accrued expenses - other	10,310	4,264
	<u>110,883</u>	<u>619,452</u>
Net Cash Provided by Operating Activities	110,883	619,452
Cash Flows From Investing Activities:		
Purchases of property and equipment	(55,429)	(65,011)
Purchases of land and building	-	(650,000)
	<u>(55,429)</u>	<u>(715,011)</u>
Net Cash Used by Investing Activities	(55,429)	(715,011)
Cash Flows Used by Financing Activities:		
Change on line of credit	(55,481)	(14,519)
	<u>(55,481)</u>	<u>(14,519)</u>
Net Decrease in Cash and Cash Equivalents	(27)	(110,078)
Cash and cash equivalents, beginning	<u>64,142</u>	<u>174,220</u>
Cash and cash equivalents, ending	\$ <u><u>64,115</u></u>	\$ <u><u>64,142</u></u>
Supplemental Cash Flow Information:		
Cash paid for interest	\$ <u><u>3,587</u></u>	\$ <u><u>3,528</u></u>

See accompanying notes to consolidated financial statements.

# **SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY**

## **Notes to Consolidated Financial Statements**

Years Ended June 30, 2017 and 2016

---

### **Note 1 – Organization and Summary of Significant Accounting Policies**

#### Nature of Activities

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 for families, schools, 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 which holds SDCDM land, building, and improvements located at 320 North Broadway in Escondido, California.

#### Basis of Consolidation

The consolidated financial statements include the accounts of SDCDM and Holdings. SDCDM and Holdings are collectively referred to as the Museum. The effective date of consolidation was January 14, 2016. All significant inter-entity balances and transactions have been eliminated in consolidation.

#### Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to the two classes of net assets: unrestricted net assets and temporarily restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Museum may spend the funds.

The Museum had no permanently restricted net assets as of June 30, 2017 and 2016.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### 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.

#### Receivables

Pledges and grants receivable consist of unconditional promises to give. All pledges and grants receivable are recorded in the year promised at the present value of expected cash flows. Pledges receivable are from individuals, corporations, foundations, and governmental agencies. Accounts receivable arise in the normal course of business.

Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and once these receivables are determined to be uncollectible, they are written-off through a charge against an existing allowance account or against earnings. Management has determined that no allowance for doubtful accounts is deemed necessary at June 30, 2017 and 2016.

#### 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) or market.

## **SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY**

### **Notes to Consolidated Financial Statements**

Years Ended June 30, 2017 and 2016

---

#### **Note 1 – Organization and Summary of Significant Accounting Policies, continued**

##### Property and Equipment

Property and equipment owned by the Museum is stated at cost or at estimated fair value at date of gift, if donated, less accumulated depreciation and consists of land, building, office furniture, equipment, exhibits, and improvements. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Acquisitions of property and equipment plus all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful life of the asset are capitalized if above \$1,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of five to 39 years.

##### Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Museum with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the consolidated financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed.

Membership revenue is recognized over the membership period.

##### Advertising

The Museum follows the policy of charging the costs of advertising to expense as incurred. During the year ended June 30, 2017, SDCDM received a gift in-kind contribution of advertising valued at \$168,800 which is reflected in the statement of activities and statement of functional expenses.

##### Income Tax Status

SDCDM is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Holdings is a single-member LLC. 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 years ended June 30, 2017 and 2016.

The Museum follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Museum recognizes accrued interest and penalties associated with 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, 2017 and 2016 and therefore no amounts have been accrued.

##### Fair Value Measurements

The Museum defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Museum applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurements maximize the use of objective pricing techniques and minimize the use of subjective pricing techniques.

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of June 30, 2017 and 2016, due to the relative short maturities of these instruments.

# SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

---

### Note 1 – Organization and Summary of Significant Accounting Policies, continued

#### Concentrations

From time to time, the Museum has financial instruments, namely cash and cash equivalents, which potentially subject it to a concentration of credit risk. The Museum places its cash with high credit-quality financial institutions.

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, 2017, two entities accounted for approximately 65% of total pledges receivable and as of June 30, 2016, one entity accounted for approximately 68% of total pledges receivable. For the year ended June 30, 2017, two entities accounted for approximately 36% of total support and revenue and for the year ended June 30, 2016, four entities accounted for 56% of total support and revenue.

#### Subsequent Events

The Museum has evaluated subsequent events through September 19, 2017, which is the date the consolidated financial statements were available to be issued.

### Note 2 – Concentration of Credit Risk

The Museum maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per financial institution. The Museum maintains cash balances at several banks which, at times, may exceed the federal insurable limit. As of June 30, 2017 and 2016, no losses have occurred in the bank deposit accounts and management does not believe that the Museum is exposed to any significant credit risk on cash.

### Note 3 – Pledges and Grants Receivable

Pledges and grants receivable consist of the following:

	<u>2017</u>		<u>2016</u>
Due in one year or less	\$ 147,887	\$	109,830
Due after one year through five years	<u>37,315</u>		<u>80,715</u>
	<u>\$ 185,202</u>	\$	<u>190,545</u>

No allowance was considered necessary at June 30, 2017 and 2016 because management believes that all amounts are collectible. No discount was imputed because management determined the amounts to be insignificant.

## SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

### Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

#### Note 4 – Property and Equipment

Property and equipment consists of the following:

	2017		2016
Building and improvements	\$ 1,118,360	\$	1,118,360
Land	749,240		749,240
Exhibits	231,278		211,140
Furniture and equipment	106,386		105,428
Vehicles	68,162		33,829
	<u>2,273,426</u>		<u>2,217,997</u>
Less accumulated depreciation	(242,538)		(158,615)
Property and equipment, net	<u>\$ 2,030,888</u>	\$	<u>2,059,382</u>

#### Note 5 – Restrictions on Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017		2016
Rent	\$ -	\$	4,184
Exhibits and Building	21,010		28,610
Programs	103,731		36,072
Management	13,809		6,000
	<u>\$ 138,550</u>	\$	<u>74,866</u>

Temporarily restricted net assets were released from restrictions during the years ended June 30, 2017 and 2016 and in satisfaction of the following purposes:

	2017		2016
Rent	\$ -	\$	110,597
Exhibits and Building	23,278		42,465
Programs	36,599		45,820
Management	9,478		14
	<u>\$ 69,355</u>	\$	<u>198,896</u>

#### Note 6 – Line of Credit

The Museum has a \$100,000 unsecured revolving line of credit with Banner Bank with an annual interest rate of prime plus 2.5%. There was no outstanding balance as of June 30, 2017. The outstanding balance as of June 30, 2016 was \$55,481. Interest expense on the line of credit for the years ended June 30, 2017 and 2016 was \$3,587 and \$3,528, respectively. The line of credit automatically renews annually and matures on February 28, 2019.

## **SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY**

### **Notes to Consolidated Financial Statements**

Years Ended June 30, 2017 and 2016

---

#### **Note 7 – Advances Payable - LRDF**

The Linden Root Dickinson Foundation (LRDF) provided the Museum non-interest bearing cash advances totaling \$600,000 which were used to fund leasehold improvements and operating expenses. Since the Advance Agreement, dated July 19, 2011, LRDF has provided loan forgiveness in the amount of \$300,000, leaving a principal balance due of \$300,000 at June 30, 2017 and \$500,000 at June 30, 2016, respectively. The unsecured advances of \$300,000 are payable on July 19, 2019.

Contributed interest of \$7,816 and \$8,183 for the years ended June 30, 2017 and 2016, was calculated using the AFR mid-term quarterly rates ranging from 1.18%-2.10%.

#### **Note 8 – Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### **Note 9 – Reclassification**

Certain items in the 2016 consolidated statement of functional expenses have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.