



**ESCONDIDO CHILDREN'S MUSEUM, INC. DBA
SAN DIEGO CHILDREN'S DISCOVERY MUSEUM**

Financial Statements

Years Ended June 30, 2015 and 2014



ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM
Financial Statements
Years Ended June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum
Escondido, California

Report on the Financial Statements

We have audited the accompanying financial statements of Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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.

Auditors' 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 audit 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 Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum as of June 30, 2015 and 2014, 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.

AKT LLP

Carlsbad, California
September 22, 2015

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AKT LLP

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Statements of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 174,220	\$ 152,266
Pledges receivable	98,250	208,887
Pledge receivable - building lease	110,597	202,381
Grants receivable	35,590	21,100
Inventory	10,755	5,945
Prepaid expenses	9,343	8,725
Property and equipment, net of accumulated depreciation	797,937	694,780
Deposits	<u>13,998</u>	<u>13,998</u>
Total Assets	<u>\$ 1,250,690</u>	<u>\$ 1,308,082</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 4,270	\$ 5,222
Unearned revenue	500	-
Payroll taxes payable	6,554	3,691
Accrued vacation	13,221	15,768
Accrued expenses - LRDF	95,543	75,443
Accrued expenses - other	15,478	16,262
Bank line of credit	70,000	86,000
Advances payable - LRDF	<u>500,000</u>	<u>600,000</u>
Total Liabilities	705,566	802,386
Net Assets:		
Unrestricted	271,362	147,310
Temporarily restricted	<u>273,762</u>	<u>358,386</u>
Total Net Assets	<u>545,124</u>	<u>505,696</u>
Total Liabilities and Net Assets	<u>\$ 1,250,690</u>	<u>\$ 1,308,082</u>

See accompanying notes to financial statements.

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Statement of Activities
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contributions - capital campaign	\$ 400,500	\$ 103,993	\$ 504,493
Contributions - general	195,020	14,500	209,520
Earned revenues	196,103	2,400	198,503
Grants	15,608	88,892	104,500
Membership dues	97,640	-	97,640
Fundraising events	95,688	-	95,688
Contributions - gifts in kind	53,022	-	53,022
Net assets released from restrictions, satisfaction of program restrictions	294,409	(294,409)	-
Total Revenue and Support	<u>1,347,990</u>	<u>(84,624)</u>	<u>1,263,366</u>
Expenses:			
Program services	837,418	-	837,418
Supporting services:			
Management and general	136,393	-	136,393
Fundraising	250,127	-	250,127
Total Expenses	<u>1,223,938</u>	<u>-</u>	<u>1,223,938</u>
Change in Net Assets	124,052	(84,624)	39,428
Net Assets, beginning	<u>147,310</u>	<u>358,386</u>	<u>505,696</u>
Net Assets, ending	<u>\$ 271,362</u>	<u>\$ 273,762</u>	<u>\$ 545,124</u>

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Statement of Activities
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contributions - capital campaign	\$ 422,600	\$ 117,000	\$ 539,600
Contributions - general	113,217	19,006	132,223
Earned revenues	125,887	20,084	145,971
Grants	84,310	148,850	233,160
Membership dues	48,632	-	48,632
Fundraising events	50,057	-	50,057
Contributions - gifts in kind	18,862	-	18,862
Net assets released from restrictions, satisfaction of program restrictions	<u>308,515</u>	<u>(308,515)</u>	<u>-</u>
Total Revenue and Support	1,172,080	(3,575)	1,168,505
Expenses:			
Program services	698,031	-	698,031
Supporting services:			
Management and general	153,069	-	153,069
Fundraising	<u>154,863</u>	<u>-</u>	<u>154,863</u>
Total Expenses	<u>1,005,963</u>	<u>-</u>	<u>1,005,963</u>
Change in Net Assets	166,117	(3,575)	162,542
Net Assets, beginning	<u>(18,807)</u>	<u>361,961</u>	<u>343,154</u>
Net Assets, ending	<u>\$ 147,310</u>	<u>\$ 358,386</u>	<u>\$ 505,696</u>

See accompanying notes to financial statements.

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Statement of Functional Expenses

Year Ended June 30, 2015

	<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and Related Expenses:				
Compensation	\$ 332,776	\$ 43,013	\$ 106,402	\$ 482,191
Payroll tax expense	32,825	3,257	9,438	45,520
Employee benefits	18,823	529	4,569	23,921
Workers' compensation insurance	6,065	769	1,708	8,542
Service fees	-	1,602	-	1,602
Total	<u>390,489</u>	<u>49,170</u>	<u>122,117</u>	<u>561,776</u>
Advertising and marketing	14,470	3,011	2,852	20,333
Bank and credit card charges	8,956	-	11	8,967
Computer service	48,041	15,841	1,918	65,800
Conference and training	3,334	256	215	3,805
Contract services	64,819	9,335	10,132	84,286
Cost of goods sold	19,575	-	-	19,575
Depreciation	53,580	1,960	490	56,030
Events	-	200	54,195	54,395
Exhibits and maintenance	12,475	-	39	12,514
Fundraising	727	-	47,715	48,442
Interest	-	13,729	-	13,729
Insurance	9,658	1,488	2,204	13,350
Meetings and meals	2,233	432	3,463	6,128
Occupancy	137,676	22,150	574	160,400
Office	11,947	11,240	3,148	26,335
Outreach and special programs	26,329	-	-	26,329
Supplies	6,908	4,039	225	11,172
Staff development	670	1,023	770	2,463
Taxes:				
Property tax	20,100	-	-	20,100
Other	-	2,519	-	2,519
Transportation	4,352	-	-	4,352
Volunteer program	1,079	-	59	1,138
Total Expenses	<u>\$ 837,418</u>	<u>\$ 136,393</u>	<u>\$ 250,127</u>	<u>\$ 1,223,938</u>

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Statement of Functional Expenses

Year Ended June 30, 2014

	<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and Related Expenses:				
Compensation	\$ 254,158	\$ 78,267	\$ 58,191	\$ 390,616
Payroll tax expense	26,699	5,400	4,977	37,076
Employee benefits	13,988	1,735	1,718	17,441
Workers' compensation insurance	4,967	878	1,469	7,314
Service fees	-	1,632	-	1,632
Total	<u>299,812</u>	<u>87,912</u>	<u>66,355</u>	<u>454,079</u>
Advertising and marketing	10,166	768	6,101	17,035
Bank and credit card charges	6,023	-	76	6,099
Computer service	19,517	2,275	2,850	24,642
Conference and training	7,339	196	743	8,278
Contract services	66,446	8,303	18,159	92,908
Cost of goods sold	10,806	-	-	10,806
Depreciation	34,649	1,806	451	36,906
Events	-	-	11,545	11,545
Exhibits and maintenance	38,945	34	-	38,979
Fundraising	2,809	7,948	40,507	51,264
Interest	-	12,612	-	12,612
Insurance	7,778	2,981	2,204	12,963
Meetings and meals	310	215	1,973	2,498
Occupancy	140,321	12,779	490	153,590
Office	7,105	7,420	1,868	16,393
Outreach and special programs	14,593	(600)	22	14,015
Supplies	7,445	5,365	221	13,031
Staff development	266	1,580	1,298	3,144
Taxes:				
Property tax	20,100	-	-	20,100
Other	-	1,435	-	1,435
Transportation	2,237	-	-	2,237
Volunteer program	1,364	40	-	1,404
Total Expenses	<u>\$ 698,031</u>	<u>\$ 153,069</u>	<u>\$ 154,863</u>	<u>\$ 1,005,963</u>

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Change in net assets	\$ 39,428	\$ 162,542
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	56,030	36,906
Forgiveness of advances payable	(100,000)	(150,000)
Changes in operating assets and liabilities:		
Pledges receivable	110,637	(203,751)
Pledge receivable - building lease	91,784	89,075
Grants receivable	(14,490)	(3,808)
Inventory	(4,810)	(1,370)
Prepaid expenses	(618)	(4,262)
Deposits	-	100
Accounts payable	(952)	(76)
Unearned revenue	500	-
Payroll taxes payable	2,863	507
Accrued vacation	(2,547)	3,043
Accrued expenses - LRDF	20,100	20,101
Accrued expenses - other	(784)	4,191
Net Cash Provided (Used) by Operating Activities	197,141	(46,802)
Cash Flows Used by Investing Activities:		
Purchases of property and equipment	(159,187)	(106,756)
Cash Flows from Financing Activities:		
Proceeds from advances	-	100,000
Change on line of credit	(16,000)	86,000
Net Cash Provided (Used) by Financing Activities	(16,000)	186,000
Net Increase in Cash and Cash Equivalents	21,954	32,442
Cash and cash equivalents, beginning	152,266	119,824
Cash and cash equivalents, ending	\$ 174,220	\$ 152,266
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 3,578	\$ 1,276

See accompanying notes to financial statements.

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

The Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum (Museum) was incorporated as a non-profit corporation in January 2000. The mission of the Museum 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.

Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently 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.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Use of Estimates

The preparation of 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.

Pledges and Grants Receivable

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.

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, 2015 and 2014.

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.

Property and Equipment

Property and equipment owned by the Museum is stated at cost less accumulated depreciation and consists of office furniture, equipment, exhibits, and leasehold improvements. Equipment and improvements are recorded at cost or at estimated fair value at date of gift, if donated. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. All 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. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of five to 39 years.

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

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

Contributions

The Museum receives contributions in a form other than cash or investments. Contributions of noncash assets are recorded at their fair values in the period received. If donors stipulate restrictions in the usage of donated goods and services, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of goods and services are recorded as unrestricted support.

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 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.

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 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.

Advertising

The Museum follows the policy of charging the costs of advertising to expense as incurred.

Income Tax Status

The Museum 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. However, 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, 2015 and 2014.

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 statement of activities, when applicable. Management has determined that the Museum has no uncertain tax positions at June 30, 2015 and 2014 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 measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. In addition, the Museum reports certain investments using the net asset value per share as determined by investment managers, allowing the net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

ESCONDIDO CHILDREN'S MUSEUM, INC.
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Notes to Financial Statements

Years Ended June 30, 2015 and 2014

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

Fair Value Measurements, continued

The three levels are defined as follows:

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

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of June 30, 2015 and 2014, due to the relative short maturities of these instruments.

Concentrations

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. For the year ended June 30, 2015, three entities accounted for approximately 56% of total pledges receivable and for the year ended June 30, 2014, four entities accounted for approximately 79% of total pledges receivable, respectively. For the year ended June 30, 2015, two entities accounted for approximately 48% of total support and revenue and for the year ended June 30, 2014, two entities accounted for 31% of total support and revenue, respectively.

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.

Subsequent Events

The Museum has evaluated subsequent events through September 22, 2015, which is the date the financial statements were available to be issued.

Note 2 – Property and Equipment

Property and equipment consists of the following:

	<u>2015</u>		<u>2014</u>
Building and improvements	\$ 620,897	\$	582,089
Furniture and equipment	99,187		90,029
Exhibits	185,505		108,113
Vehicles	33,829		-
	<u>939,418</u>		<u>780,231</u>
Less accumulated depreciation	<u>(141,481)</u>		<u>(85,451)</u>
	<u>\$ 797,937</u>	\$	<u>694,780</u>

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 3 – Restrictions on Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>		<u>2014</u>
Rent	\$ 110,597	\$	202,381
Exhibits and Building	107,395		120,596
Programs	55,756		32,255
Management	<u>14</u>		<u>3,154</u>
	<u>\$ 273,762</u>	\$	<u>358,386</u>

Temporarily restricted net assets were released from restrictions during the years ended June 30, 2015 and 2014 and in satisfaction of the following purposes:

	<u>2015</u>		<u>2014</u>
Rent	\$ 91,784	\$	89,075
Exhibits and Building	121,729		120,254
Programs	52,757		46,526
Management	<u>28,139</u>		<u>52,660</u>
	<u>\$ 294,409</u>	\$	<u>308,515</u>

Note 4 – Line of Credit

The Museum has a \$100,000 line of credit with AmericanWest Bank with an annual interest rate of prime plus 2.5%. The outstanding balance as of June 30, 2015 and 2014 is \$70,000 and \$86,000, respectively. Interest expense on the line of credit for the years ended June 30, 2015 and 2014 was \$3,578 and \$1,276, respectively.

The line of credit was renewed on December 10, 2013 and automatically renews annually.

Note 5 – Accrued Expenses - LRDF

Accrued expenses payable to the Linden Root Dickinson Foundation (LRDF) consist of the following:

	<u>2015</u>		<u>2014</u>
Building Rent and Deposit	\$ 14,000	\$	14,000
Real Estate Taxes	80,543		60,443
Building Purchase Option	<u>1,000</u>		<u>1,000</u>
	<u>\$ 95,543</u>	\$	<u>75,443</u>

Note 6 – Advances Payable - LRDF

As of June 30, 2015, LRDF had provided the Museum non-interest bearing cash advances totaling \$600,000 which were used to fund leasehold improvements and operating expenses. In an agreement dated May 29, 2015, LRDF provided loan forgiveness in the amount of \$100,000, leaving a principal balance due of \$500,000 at June 30, 2015. The Advance Agreement was dated July 19, 2011.

ESCONDIDO CHILDREN'S MUSEUM, INC.
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Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 6 – Advances Payable – LRDF, continued

There have been five amendments to the Advance Agreement as additional advances were made to the Museum:

- First Amendment – Dated March 1, 2012
- Second Amendment – Dated September 26, 2012
- Third Amendment – Dated June 11, 2013
- Fourth Amendment – Dated September 24, 2013
- Fifth Amendment – Dated June, 15, 2015

The advances are payable as follows:

- \$500,000 on July 19, 2017

Contributed interest of \$10,151 and \$11,336 for the years ended June 30, 2015 and 2014, was calculated using the AFR mid-term quarterly rates.

Note 7 – Pledges Receivable

Pledges receivable consist of the following:

	<u>2015</u>		<u>2014</u>
Due in one year or less	\$ 88,250	\$	118,887
Due after one year through five years	<u>10,000</u>		<u>90,000</u>
	<u>\$ 98,250</u>	\$	<u>208,887</u>

No allowance was considered necessary at June 30, 2015 and 2014 because management believes that all amounts are collectible. No discount was imputed because management determined the amounts to be insignificant.

The Museum is the recipient of a conditional promise to give in the amount of \$100,000. Conditions of the pledge state that the Museum must raise \$550,000 and exercise its purchase option to acquire the Museum land and building by December 31, 2015. If the conditions are not met, the entire pledge will expire, unless the donor otherwise agrees in writing. Conditional promises to give are only recognized when the conditions upon which they depend are substantially met and the promises become unconditional. As such, no revenue has been recorded for this pledge for the year ended June 30, 2015.

Note 8 – Pledge Receivable – Building Lease

The Museum entered into a lease agreement with Children's Discovery Museum Holdings, LLC on July 19, 2011, for the premises located at 320 North Broadway in Escondido, California. The Children's Discovery Museum Holdings, LLC is a wholly owned subsidiary of LRDF. The terms of the lease are for Basic rent of \$1.00 per year. The reduced rent is a charitable grant in support of the educational and charitable programs of the Museum. The fair market value of the rent for the premises is \$8,050 per month. The net present value of the in-kind rent donation of \$377,901 was recorded in the year ended June 30, 2012 using a discount rate of 3%. In-kind rent expense of \$91,784 and \$89,094 and in-kind interest income of \$4,816 and \$7,526 was recorded during the years ended June 30, 2015 and 2014, respectively.

ESCONDIDO CHILDREN'S MUSEUM, INC.
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Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 8 – Pledge Receivable – Building Lease, continued

The pledge receivable from the building lease consists of the following:

	<u>2015</u>		<u>2014</u>
Due in one year or less	\$ 96,600	\$	96,600
Due after one year through five years	<u>16,100</u>		<u>112,700</u>
	112,700		209,300
Less Discount to Present Value - 3%	<u>(2,103)</u>		<u>(6,919)</u>
	<u>\$ 110,597</u>	\$	<u>202,381</u>

The lease agreement includes an Option to Purchase Agreement for acquisition of the premises. The Option Agreement term commenced on July 19, 2011 and expires on August 31, 2016. Under the Agreement, the purchase price for the property would include a \$1,000,000 credit in favor of the Museum. The purchase option is subject to certain conditions being met in 2015 and 2016 by the Museum; therefore, no amounts have been recorded in these financial statements related to the Option Agreement.

Note 9 – 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, exceed the federal insurable limit. As of June 30, 2015 and 2014, 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 10 – 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 have been allocated among the programs and supporting services benefited.