



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

Consolidated Financial Statements

Years Ended June 30, 2016 and 2015 (Restated)



ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY
Consolidated Financial Statements
Years Ended June 30, 2016 and 2015 (Restated)

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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 and Subsidiary
Escondido, California

We have audited the accompanying consolidated financial statements of Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum and Subsidiary (a nonprofit organization) (the Museum), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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 audit 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 Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum and Subsidiary as of June 30, 2016 and 2015, 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.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum and Subsidiary as of June 30, 2015 have been restated. As discussed in Note 12 to the consolidated financial statements, Escondido Children's Museum, Inc. dba San Diego Children's Discovery Museum and Subsidiary has adjusted the 2015 consolidated financial statements to conform to classifications within liabilities, revenue, and net assets used in 2016.

AKT LLP

Carlsbad, California
January 3, 2017

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AKT LLP

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY
Consolidated Statements of Financial Position
June 30, 2016 and 2015 (Restated)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 73,653	\$ 174,220
Accounts receivable	7,732	2,150
Pledges receivable	167,545	96,100
Pledge receivable - building lease	-	110,597
Grants receivable	23,000	35,590
Inventory	11,298	10,755
Prepaid expenses	8,016	9,343
Property and equipment, net	2,059,382	797,937
Deposits	-	13,998
	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,350,626</u>	<u>\$ 1,250,690</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 5,740	\$ 4,270
Unearned revenue	70,684	52,720
Payroll taxes payable	9,847	6,554
Accrued vacation	10,929	13,221
Accrued expenses - LRDF	-	95,543
Accrued expenses - other	19,742	15,478
Bank line of credit	55,481	70,000
Advances payable - LRDF	500,000	500,000
	<u> </u>	<u> </u>
Total Liabilities	672,423	757,786
Net Assets:		
Unrestricted	1,603,337	219,142
Temporarily restricted	74,866	273,762
	<u> </u>	<u> </u>
Total Net Assets	<u>1,678,203</u>	<u>492,904</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 2,350,626</u>	<u>\$ 1,250,690</u>

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba 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 revenues	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	<u>2,920,054</u>	<u>(198,896)</u>	<u>2,721,158</u>
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	<u>1,535,859</u>	<u>-</u>	<u>1,535,859</u>
Change in Net Assets	1,384,195	(198,896)	1,185,299
Net Assets, beginning	<u>219,142</u>	<u>273,762</u>	<u>492,904</u>
Net Assets, ending	<u>\$ 1,603,337</u>	<u>\$ 74,866</u>	<u>\$ 1,678,203</u>

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

Consolidated Statement of Activities

Year Ended June 30, 2015 (Restated)

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contributions - capital campaign	\$ 400,500	\$ 103,993	\$ 504,493
Contributions - general	195,020	14,500	209,520
Earned revenues	165,852	2,400	168,252
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	1,317,739	(84,624)	1,233,115
Expenses:			
Program services	837,418	-	837,418
Supporting services:			
Management and general	136,393	-	136,393
Fundraising	250,127	-	250,127
Total Expenses	1,223,938	-	1,223,938
Change in Net Assets	93,801	(84,624)	9,177
Net Assets, beginning (as previously stated)	147,310	358,386	505,696
Prior Period Adjustment	(21,969)	-	(21,969)
Net Assets, beginning (as restated)	125,341	358,386	483,727
Net Assets, ending	\$ 219,142	\$ 273,762	\$ 492,904

See accompanying notes to consolidated financial statements.

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY
Consolidated Statement of Functional Expenses
Year Ended June 30, 2016

	<u>Supporting Services</u>			2016 Total	2015 Total
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>		
Compensation and Related Expenses:					
Compensation	\$ 519,228	\$ 34,443	\$ 141,604	\$ 695,275	\$ 482,191
Payroll tax expense	50,322	2,837	12,680	65,839	45,520
Employee benefits	26,873	300	7,390	34,563	23,921
Workers' compensation insurance	9,994	1,267	2,815	14,076	8,542
Service fees	-	1,911	-	1,911	1,602
Total	<u>606,417</u>	<u>40,758</u>	<u>164,489</u>	<u>811,664</u>	<u>561,776</u>
Advertising and marketing	34,663	-	3,884	38,547	20,333
Bank and credit card charges	15,971	994	35	17,000	8,967
Computer service	12,791	10,908	2,909	26,608	65,800
Conference and training	5,568	9	1,878	7,455	3,805
Contract services	65,619	11,202	8,202	85,023	84,286
Cost of goods sold	31,506	-	-	31,506	19,575
Depreciation	78,181	2,614	773	81,568	56,030
Events	-	-	41,244	41,244	54,395
Exhibits and maintenance	21,203	32	-	21,235	12,514
Fundraising	1,263	-	23,534	24,797	48,442
Interest	-	11,711	-	11,711	13,729
Insurance	10,643	3,345	2,603	16,591	13,350
Meetings and meals	988	344	2,745	4,077	6,128
Occupancy	168,990	14,357	1,132	184,479	160,400
Office	31,067	6,208	4,162	41,437	26,335
Outreach and special programs	28,777	159	2,406	31,342	26,329
Supplies	11,141	3,612	42	14,795	11,172
Staff development	3,179	1,232	121	4,532	2,463
Taxes:					
Property tax	20,100	10,827	-	30,927	20,100
Other	-	3,339	-	3,339	2,519
Transportation	5,154	-	-	5,154	4,352
Volunteer program	750	38	40	828	1,138
Total Expenses	<u>\$ 1,153,971</u>	<u>\$ 121,689</u>	<u>\$ 260,199</u>	<u>\$ 1,535,859</u>	<u>\$ 1,223,938</u>

ESCONDIDO CHILDREN'S MUSEUM, INC.
dba SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY
Consolidated Statement of Functional Expenses
Year Ended June 30, 2015 (Restated)

	<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 AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended June 30, 2016 and 2015 (Restated)

	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,185,299	\$ 9,177
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	81,568	56,030
Forgiveness of advances payable	-	(100,000)
Donated property and equipment - land and building	(628,002)	-
Changes in operating assets and liabilities:		
Accounts receivable	(5,582)	(1,263)
Pledges receivable	(71,445)	111,900
Pledge receivable - building lease	110,597	91,784
Grants receivable	12,590	(14,490)
Inventory	(543)	(4,810)
Prepaid expenses	1,327	(618)
Deposits	13,998	-
Accounts payable	1,470	(952)
Unearned revenue	17,964	30,751
Payroll taxes payable	3,293	2,863
Accrued vacation	(2,292)	(2,547)
Accrued expenses - LRDF	(95,543)	20,100
Accrued expenses - other	4,264	(784)
	628,963	197,141
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities:		
Purchases of property and equipment	(65,011)	(159,187)
Purchases of land and building	(650,000)	-
	(715,011)	(159,187)
Net Cash Used by Investing Activities		
Cash Flows Used by Financing Activities:		
Change on line of credit	(14,519)	(16,000)
	(14,519)	(16,000)
Net Increase (Decrease) in Cash and Cash Equivalents	(100,567)	21,954
Cash and cash equivalents, beginning	174,220	152,266
Cash and cash equivalents, ending	\$ 73,653	\$ 174,220
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 3,528	\$ 3,578

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements
Years Ended June 30, 2016 and 2015 (Restated)

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 (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 three 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.
- 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.

The Museum had no permanently restricted net assets as of June 30, 2016 and 2015.

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, 2016 and 2015.

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

Notes to Consolidated Financial Statements
Years Ended June 30, 2016 and 2015 (Restated)

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

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 or at estimated fair value at date of gift, if donated, and consists of land, building, office furniture, equipment, exhibits, and 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. 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 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.

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, 2016 and 2015.

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, 2016 and 2015 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.

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

Notes to Consolidated Financial Statements
Years Ended June 30, 2016 and 2015 (Restated)

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

Fair Value Measurements, continued

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of June 30, 2016 and 2015, 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. As of June 30, 2016, one entity accounted for approximately 68% of total pledges receivable and as of June 30, 2015, three entities accounted for approximately 56% of total pledges receivable, respectively. For the year ended June 30, 2016, four entities accounted for approximately 56% of total support and revenue and for the year ended June 30, 2015, two entities accounted for 48% 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 January 3, 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, exceed the federal insurable limit. As of June 30, 2016 and 2015, 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 Receivable

Pledges receivable consist of the following:

	<u>2016</u>		<u>2015</u>
Due in one year or less	\$ 86,830	\$	86,100
Due after one year through five years	<u>80,715</u>		<u>10,000</u>
	<u>\$ 167,545</u>	\$	<u>96,100</u>

No allowance was considered necessary at June 30, 2016 and 2015 because management believes that all amounts are collectible. No discount was imputed because management determined the amounts to be insignificant.

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

Notes to Consolidated Financial Statements
 Years Ended June 30, 2016 and 2015 (Restated)

Note 4 – Pledge Receivable – Building Lease

SDCDM 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 then was a wholly owned subsidiary of LRDF. The terms of the lease were for basic rent of \$1.00 per year. The reduced rent was 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 \$51,515 and \$91,784 and in-kind interest income of \$1,459 and \$4,816 was recorded during the years ended June 30, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Due in one year or less	\$ -	\$ 96,600
Due after one year through five years	-	16,100
	-	112,700
Less Discount to Present Value - 3%	-	(2,103)
	<u>\$ -</u>	<u>\$ 110,597</u>

The lease agreement included an Option to Purchase for acquisition of the premises which was exercised on January 14, 2016. SDCDM now owns Children's Discovery Museum Holdings, LLC which owns the Museum premises noted above. For a period of 10 years following the acquisition, SDCDM must use the property to continuously operate a children's museum and maintain it's 501(c)(3) status or may forfeit the right to ownership.

Note 5 – Property and Equipment

Property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 1,118,360	\$ 620,897
Land	749,240	-
Exhibits	211,140	185,505
Furniture and equipment	105,428	99,187
Vehicles	33,829	33,829
	<u>2,217,997</u>	<u>939,418</u>
Less accumulated depreciation	<u>(158,615)</u>	<u>(141,481)</u>
Property and equipment, net	<u>\$ 2,059,382</u>	<u>\$ 797,937</u>

ESCONDIDO CHILDREN'S MUSEUM, INC.
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Notes to Consolidated Financial Statements
Years Ended June 30, 2016 and 2015 (Restated)

Note 6 – Restrictions on Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>		<u>2015</u>
Rent	\$ 4,184	\$	110,597
Exhibits and Building	28,610		107,395
Programs	36,072		55,756
Management	<u>6,000</u>		<u>14</u>
	<u>\$ 74,866</u>	\$	<u>273,762</u>

Temporarily restricted net assets were released from restrictions during the years ended June 30, 2016 and 2015 and in satisfaction of the following purposes:

	<u>2016</u>		<u>2015</u>
Rent	\$ 110,597	\$	91,784
Exhibits and Building	42,465		121,729
Programs	45,820		52,757
Management	<u>14</u>		<u>28,139</u>
	<u>\$ 198,896</u>	\$	<u>294,409</u>

Note 7 – Line of Credit

The Museum has a \$100,000 unsecured line of credit with AmericanWest Bank with an annual interest rate of prime plus 2.5%. The outstanding balance as of June 30, 2016 and 2015 was \$55,481 and \$70,000, respectively. Interest expense on the line of credit for the years ended June 30, 2016 and 2015 was \$3,528 and \$3,578, respectively. The line of credit automatically renews annually and matures on February 28, 2019.

Note 8 – Accrued Expenses - LRDF

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

	<u>2016</u>		<u>2015</u>
Building Rent and Deposit	\$ -	\$	14,000
Real Estate Taxes	-		80,543
Building Purchase Option	<u>-</u>		<u>1,000</u>
	<u>\$ -</u>	\$	<u>95,543</u>

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

Notes to Consolidated Financial Statements
Years Ended June 30, 2016 and 2015 (Restated)

Note 9 – Advances Payable - LRDF

LRDF 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, 2016 and 2015. The Advance Agreement was dated July 19, 2011. The unsecured advances of \$500,000 are payable on July 19, 2017.

Contributed interest of \$8,183 and \$10,151 for the years ended June 30, 2016 and 2015, was calculated using the AFR mid-term quarterly rates ranging from 1.41%-1.89%.

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 consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 11 – Reclassification

Certain items in the 2015 consolidated financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

Note 12 – Prior Period Restatement

During 2016, the Museum determined that the revenue recognition for membership should be updated so that revenue is recognized over the membership period. Previously, membership revenue was fully recognized when the membership began. As a result, a liability was increased by \$52,220 and revenue was reduced by \$30,251 as of June 30, 2015. Unrestricted net assets were reduced by \$21,969 at June 30, 2014.

The following is a summary of the restatements made to the June 30, 2015 consolidated financial statements:

Liabilities at June 30, 2015 (as previously stated)	\$	705,566
Restatement		<u>52,220</u>
Liabilities at June 30, 2015 (as restated)	\$	<u><u>757,786</u></u>
Unrestricted net assets at June 30, 2014 (as previously stated)	\$	147,310
Restatement		<u>(21,969)</u>
Unrestricted net assets at June 30, 2014 (as restated)	\$	<u><u>125,341</u></u>
Revenue for the year ended June 30, 2015 (as previously stated)	\$	1,263,366
Restatement		<u>(30,251)</u>
Revenue for the year ended June 30, 2015 (as restated)	\$	<u><u>1,233,115</u></u>