

San Diego Children's Discovery Museum and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2018 and 2017



SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY
Consolidated Financial Statements
Years Ended June 30, 2018 and 2017

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, 2018 and 2017 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, 2018 and 2017, 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
October 19, 2018

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

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 157,549	\$ 64,115
Accounts receivable	92,420	17,923
Pledges receivable, net	315,809	114,902
Grants receivable	26,000	70,300
Inventory	12,135	14,668
Prepaid expenses	15,416	6,641
Property and equipment, net	<u>2,013,588</u>	<u>2,030,888</u>
 Total Assets	 <u>\$ 2,632,917</u>	 <u>\$ 2,319,437</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 46,234	\$ 12,774
Unearned revenue	78,094	82,808
Accrued vacation	27,968	16,878
Accrued expenses - other	52,570	30,052
Advances payable - LRDF	<u>300,000</u>	<u>300,000</u>
 Total Liabilities	 504,866	 442,512
 Net Assets:		
Unrestricted	2,024,048	1,738,375
Temporarily restricted	<u>104,003</u>	<u>138,550</u>
 Total Net Assets	 <u>2,128,051</u>	 <u>1,876,925</u>
 Total Liabilities and Net Assets	 <u>\$ 2,632,917</u>	 <u>\$ 2,319,437</u>

See accompanying notes to consolidated financial statements.

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

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Total	2017 Total
Revenue and Support:				
Contributions - general	\$ 820,224	\$ 12,669	\$ 832,893	\$ 600,812
Earned revenue	596,667	-	596,667	499,200
Grants	269,395	71,505	340,900	247,250
Contributions - gifts in kind	206,928	-	206,928	181,929
Membership dues	163,227	-	163,227	154,969
Fundraising events	150,347	-	150,347	141,096
Contributions - capital campaign	-	-	-	168,867
Net assets released from restrictions, satisfaction of program restrictions	118,721	(118,721)	-	-
Total Revenue and Support	2,325,509	(34,547)	2,290,962	1,994,123
Expenses:				
Program services	1,593,896	-	1,593,896	1,376,174
Supporting services:				
Management and general	173,349	-	173,349	147,709
Fundraising	272,591	-	272,591	271,518
Total Expenses	2,039,836	-	2,039,836	1,795,401
Change in Net Assets	285,673	(34,547)	251,126	198,722
Net Assets, beginning	1,738,375	138,550	1,876,925	1,678,203
Net Assets, ending	\$ 2,024,048	\$ 104,003	\$ 2,128,051	\$ 1,876,925

See accompanying notes to consolidated financial statements.

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

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
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
Membership dues	154,969	-	154,969
Fundraising events	141,096	-	141,096
Contributions - capital campaign	168,867	-	168,867
Net assets released from restrictions, satisfaction of program restrictions	69,355	(69,355)	-
Total Revenue and Support	1,930,439	63,684	1,994,123
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	1,795,401	-	1,795,401
Change in Net Assets	135,038	63,684	198,722
Net Assets, beginning	1,603,337	74,866	1,678,203
Net Assets, ending	\$ 1,738,375	\$ 138,550	\$ 1,876,925

See accompanying notes to consolidated financial statements.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	Supporting Services			Total	2017 Total
	Program Services	Management and General	Fundraising		
Compensation and Related Expenses:					
Compensation	\$ 747,980	\$ 111,867	\$ 166,829	\$ 1,026,676	\$ 861,913
Payroll tax	79,764	8,569	13,835	102,168	81,876
Employee benefits	35,334	6,452	8,317	50,103	36,777
Workers' compensation insurance	15,736	2,282	3,511	21,529	23,172
Service fees	27,718	1,814	2,242	31,774	6,429
Total	<u>906,532</u>	<u>130,984</u>	<u>194,734</u>	<u>1,232,250</u>	<u>1,010,167</u>
Advertising and marketing:					
In-kind	179,760	-	-	179,760	168,600
Other	63,312	97	11,364	74,773	70,445
Bad debt	900	-	-	900	2,180
Bank and credit card charges	18,692	469	62	19,223	20,650
Computer service	20,461	6,023	4,910	31,394	37,423
Conference and training	576	-	-	576	7,943
Contract services	17,880	2,824	2,235	22,939	52,200
Cost of goods sold	34,330	-	-	34,330	27,445
Depreciation	101,043	1,926	1,617	104,586	83,923
Events	-	-	19,330	19,330	41,240
Exhibits and maintenance	68,805	630	70	69,505	37,471
Fundraising	943	4	27,896	28,843	27,445
Interest	-	10,291	-	10,291	11,403
Insurance	12,423	3,444	2,537	18,404	18,294
Meetings and meals	1,502	612	1,795	3,909	5,652
Occupancy	77,823	7,003	695	85,521	71,139
Office	20,234	5,740	3,394	29,368	34,788
Outreach and special programs	32,047	-	800	32,847	26,795
Supplies	7,960	1,052	349	9,361	22,129
Staff development	7,587	2,192	734	10,513	5,345
Taxes:					
Property tax	-	-	-	-	4,915
Other	-	-	-	-	30
Transportation	20,359	58	69	20,486	7,297
Volunteer program	727	-	-	727	482
Total Expenses	<u>\$ 1,593,896</u>	<u>\$ 173,349</u>	<u>\$ 272,591</u>	<u>\$ 2,039,836</u>	<u>\$ 1,795,401</u>

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

See accompanying notes to consolidated financial statements.

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

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 251,126	\$ 198,722
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	104,586	83,923
Forgiveness of advances payable	-	(200,000)
Changes in operating assets and liabilities:		
Accounts receivable	(74,497)	(680)
Pledges receivable	(200,907)	52,643
Grants receivable	44,300	(47,300)
Inventory	2,533	(3,370)
Prepaid expenses	(8,775)	1,375
Accounts payable	33,460	7,034
Unearned revenue	(4,714)	12,124
Payroll taxes payable	-	(9,847)
Accrued vacation	11,090	5,949
Accrued expenses - other	22,518	10,310
Net Cash Provided by Operating Activities	180,720	110,883
Cash Flows Used by Investing Activities:		
Purchases of property and equipment	(87,286)	(55,429)
Cash Flows Used by Financing Activities:		
Change on line of credit	-	(55,481)
Net Increase (Decrease) in Cash and Cash Equivalents	93,434	(27)
Cash and cash equivalents, beginning	64,115	64,142
Cash and cash equivalents, ending	\$ 157,549	\$ 64,115
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 3,604	\$ 3,587

See accompanying notes to consolidated financial statements.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

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 SDCCDM 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 SDCCDM land, building, and improvements located at 320 North Broadway in Escondido, California.

Basis of Consolidation

The consolidated financial statements include the accounts of SDCCDM and Holdings. SDCCDM 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, 2018 and 2017.

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 as of June 30, 2018 and 2017.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

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) and net realizable value.

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 years ended June 30, 2018 and 2017, SDCDM received gift in-kind contributions of advertising valued at \$179,760 and \$168,800, respectively, which are reflected in the consolidated statements of activities and consolidated statements 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, 2018 and 2017.

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, 2018 and 2017 and therefore no amounts have been accrued.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

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

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, 2018 and 2017, due to the relative short maturities of these instruments.

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, 2018, two entities accounted for approximately 96% of total pledges and grants receivable and as of June 30, 2017, two entities accounted for approximately 65% of total pledges receivable. For the year ended June 30, 2018, two entities accounted for approximately 27% of total revenue and support and for the year ended June 30, 2017, two entities accounted for 36% of total revenue and support.

Subsequent Events

The Museum has evaluated subsequent events through October 19, 2018, 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, 2018 and 2017, 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:

	2018	2017
Due in one year or less	\$ 99,048	\$ 147,887
Due after one year through nine years	345,042	37,315
	444,090	185,202
Less reduction in pledges for present value	(102,281)	-
	\$ 341,809	\$ 185,202

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

Note 3 – Pledges and Grants Receivable, continued

No allowance was considered necessary at June 30, 2018 and 2017 because management believes that all amounts are collectible. Discount was imputed for long term pledges at rates from 6% to 10% based on the deemed credit worthiness of the donor.

Note 4 – Property and Equipment

Property and equipment consists of the following:

	2018	2017
Building and improvements	\$ 1,188,258	\$ 1,118,360
Land	749,240	749,240
Exhibits	235,194	231,278
Furniture and equipment	119,858	106,386
Vehicles	68,162	68,162
	<u>2,360,712</u>	<u>2,273,426</u>
Less accumulated depreciation	<u>(347,124)</u>	<u>(242,538)</u>
Property and equipment, net	<u>\$ 2,013,588</u>	<u>\$ 2,030,888</u>

Note 5 – Restrictions on Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Exhibits and Building	\$ 16,466	\$ 21,010
Programs	76,802	103,731
Management	<u>10,735</u>	<u>13,809</u>
	<u>\$ 104,003</u>	<u>\$ 138,550</u>

Note 6 – Line of Credit

For the years ended June 30, 2018 and 2017, the Museum had a \$100,000 unsecured bank revolving line of credit with an annual interest rate of prime plus 2.5%. There was no outstanding balance as of June 30, 2018 or 2017. Interest expense on the line of credit for the years ended June 30, 2018 and 2017 was \$3,604 and \$3,587, respectively. The Museum has secured a new bank line of credit for the year ended June 30, 2019 of \$150,000 with an annual interest rate of prime plus 2.25%.

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, 2018 and \$300,000 at June 30, 2017, respectively. While, the unsecured advances of \$300,000 are payable on July 19, 2019, LRDF has expressed its willingness to extend the due date as necessary.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

Note 7 – Advances Payable – LRDF, continued

Contributed interest of \$6,687 and \$7,816 for the years ended June 30, 2018 and 2017, was calculated using the AFR mid-term quarterly rates ranging from 1.18%-2.83%.

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.