



the new children's museum

Financial Statements

December 31, 2013



Leaf & Cole, LLP
Certified Public Accountants

**THE NEW CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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Independent Auditor's Report

To the Board of Directors
The New Children's Museum
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of The New Children's Museum, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 The New Children's Museum as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The New Children's Museum's 2012 financial statements, and our report dated May 16, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of functional expenses for the year ended December 31, 2013 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The summarized comparative information for the year ended December 31, 2012 included in the supplementary schedule of functional expenses for the year ended December 31, 2013 has been derived from The New Children's Museum's 2012 financial statements and in our report dated May 6, 2013, we expressed our opinion that the information was fairly stated in all material respects in relation to the financial statements as a whole.

Leaf & Cole LLP

San Diego, California
May 22, 2014

**THE NEW CHILDREN'S MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)**

ASSETS		
	<u>2013</u>	<u>2012</u>
<u>Assets:</u> (Notes 1, 2, 3, 4, 5, 6, 7 and 8)		
Cash and cash equivalents	\$ 115,913	\$ 658,049
Investments	1,884,134	605,846
Grants and other receivables	65,274	181,288
Contributions receivable, net	125,125	182,644
Inventory	227	-
Prepaid expenses and deposits	11,036	14,174
Property and equipment, net	<u>20,286,027</u>	<u>20,528,186</u>
TOTAL ASSETS	\$ <u>22,487,736</u>	\$ <u>22,170,187</u>
LIABILITIES AND NET ASSETS		
<u>Liabilities:</u> (Notes 1, 7 and 8)		
Accounts payable and accrued expenses	\$ 186,414	\$ 109,615
Deferred revenue	249,801	201,159
Line-of-credit	281,000	-
Capital lease obligations	40,953	55,297
Total Liabilities	<u>758,168</u>	<u>366,071</u>
<u>Commitments</u> (Note 12)		
<u>Net Assets:</u> (Notes 1, 9 and 10)		
Unrestricted:		
Undesignated	19,514,022	20,787,811
Board designated endowment	1,911,547	656,319
Total Unrestricted	<u>21,425,569</u>	<u>21,444,130</u>
Temporarily restricted	<u>303,999</u>	<u>359,986</u>
Total Net Assets	<u>21,729,568</u>	<u>21,804,116</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>22,487,736</u>	\$ <u>22,170,187</u>

The accompanying notes are integral part of the financial statements.

**THE NEW CHILDREN'S MUSEUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012)**

	Unrestricted Operations	Temporarily Restricted	2013 Total	2012 Total
<u>Operating Support and Revenue:</u>				
Contributions	\$ 1,486,549	\$ 685,855	\$ 2,172,404	\$ 1,520,055
Fees and facility usage	430,732	-	430,732	361,881
Admissions	384,321	-	384,321	441,083
Memberships	221,493	-	221,493	240,592
Special events	212,923	-	212,923	402,477
Government grants	199,708	-	199,708	201,097
In-kind contributions	63,723	-	63,723	70,038
Other	15,914	-	15,914	5,343
Capital campaign contributions	1,106	-	1,106	24,903
Net assets released from restrictions	741,842	(741,842)	-	-
Total Operating Support and Revenue	<u>3,758,311</u>	<u>(55,987)</u>	<u>3,702,324</u>	<u>3,267,469</u>
<u>Program and Supporting Services:</u>				
Program Services:				
Programs and exhibits	2,907,828	-	2,907,828	2,728,114
Total Program Services	<u>2,907,828</u>	<u>-</u>	<u>2,907,828</u>	<u>2,728,114</u>
Supporting Services:				
Management and general	417,000	-	417,000	409,554
Fundraising	458,561	-	458,561	398,904
Total Supporting Services	<u>875,561</u>	<u>-</u>	<u>875,561</u>	<u>808,458</u>
Total Program and Supporting Services	<u>3,783,389</u>	<u>-</u>	<u>3,783,389</u>	<u>3,536,572</u>
Special Events Expense	<u>154,935</u>	<u>-</u>	<u>154,935</u>	<u>211,077</u>
Total Expenses	<u>3,938,324</u>	<u>-</u>	<u>3,938,324</u>	<u>3,747,649</u>
Change in Net Assets Before Investment				
Income	<u>(180,013)</u>	<u>(55,987)</u>	<u>(236,000)</u>	<u>(480,180)</u>
<u>Investment Income:</u>				
Net realized and unrealized gains				
on investments	59,059	-	59,059	31,215
Interest and dividend income	105,282	-	105,282	13,121
Investment fees	(2,889)	-	(2,889)	(708)
Total Investment Income	<u>161,452</u>	<u>-</u>	<u>161,452</u>	<u>43,628</u>
Change in Net Assets	(18,561)	(55,987)	(74,548)	(436,552)
Net Assets at Beginning of Year	<u>21,444,130</u>	<u>359,986</u>	<u>21,804,116</u>	<u>22,240,668</u>
NET ASSETS AT END OF YEAR	<u>\$ 21,425,569</u>	<u>\$ 303,999</u>	<u>\$ 21,729,568</u>	<u>\$ 21,804,116</u>

The accompanying notes are integral part of the financial statements.

**THE NEW CHILDREN'S MUSEUM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012)**

	<u>2013</u>	<u>2012</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (74,548)	\$ (436,552)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	671,099	690,393
Loss on disposal of property and equipment	494	32,125
Donated property and equipment	(6,995)	-
Net realized and unrealized gains on investments	(59,059)	(31,215)
(Increase) Decrease in:		
Grants and other receivables	116,014	(64,267)
Contributions receivable, net	57,519	96,584
Inventory	(227)	-
Prepaid expenses and deposits	3,138	(442)
Increase (Decrease) in:		
Accounts payable and accrued expenses	21,840	(26,112)
Deferred revenue	48,642	45,240
Net Cash Provided by Operating Activities	<u>777,917</u>	<u>305,754</u>
 <u>Cash Flows From Investing Activities:</u>		
Investment (purchases)/sales/maturities, net	(1,219,229)	(574,631)
Purchase of property and equipment	(367,480)	(42,131)
Proceeds from disposal of property and equipment	-	39,292
Net Cash Used in Investing Activities	<u>(1,586,709)</u>	<u>(577,470)</u>
 <u>Cash Flows From Financing Activities:</u>		
Proceeds from line-of-credit	281,000	-
Payments on capital lease obligations	(14,344)	(11,596)
Net Cash Provided by (Used in) Financing Activities	<u>266,656</u>	<u>(11,596)</u>
 Decrease in Cash and Cash Equivalents	(542,136)	(283,312)
 Cash and Cash Equivalents at Beginning of Year	<u>658,049</u>	<u>941,361</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 115,913</u>	<u>\$ 658,049</u>
 <u>Supplementary Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 9,352</u>	<u>\$ 8,859</u>

The accompanying notes are integral part of the financial statements.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 1 - Organization and Significant Accounting Policies:

Organization

The New Children's Museum is a new model of children's museum whose mission is to stimulate imagination, creativity, and critical thinking in children and families through inventive and engaging experiences with contemporary art.

As a California not-for-profit corporation funded by admissions, memberships, and community support, the Museum empowers children to think, play and create through participatory exhibitions, engaging art-making activities, open-ended play, and in-depth educational programs. Incorporated on March 21, 1981, the original Children's Museum opened its first facility in 1983 in La Jolla, and relocated to a downtown warehouse at 200 West Island Avenue in 1993. At that time, the Museum became Children's Museum/Museo de los Niños San Diego. After nearly ten years in the warehouse space, the doors were closed in 2002 to break ground for a new building at the same site. The Museum operated "without walls" during the closure, providing community outreach activities throughout the region.

The Museum reinvented itself and opened a new environmentally sustainable facility in downtown San Diego's Marina District in May of 2008. Designed by Robert Wellington Quigley, the 50,000-square-foot building houses expansive galleries, open studio environments, and an Arts Education Center providing enriching and informative school visits and in-depth camps. As a reflection of the new building and new programs, the Museum changed its name to The New Children's Museum.

The New Children's Museum ("NCM") brings families together in a rich educational environment that fosters creativity, blending elements of art museum and children's museum. NCM is the only children's museum in the United States dedicated to commissioning leading contemporary artists to create works for its audience rather than reinterpreting existing works of art or applying an artistic element to a hands-on children's activity. By asking artists to create pieces with tactile, physical, and participatory components, NCM opens a world of art and creativity to children through opportunities to observe and create.

Serving all ages from toddler to teen, NCM takes a unique approach to the environments and opportunities designed for and presented to children. The Museum's visitors interact with the exhibitions in a hands-on way, which may include climbing in, running through, rearranging and manipulating, stacking, driving, riding, painting, and examining the pieces. These interactive experiences are enhanced with on-site engagement by trained museum educators who are always present throughout the Museum; these individuals are artists and educators. The Museum also provides a variety of hands-on art making activities for all visitors throughout each day; some are self-directed, and others are led by staff members. The objectives of each of these offerings are to stimulate the imagination and provide open-ended opportunities to explore the world. As a result, the Museum cultivates innovative thinking, nurtures collaboration, develops problem solving skills, and encourages risk taking.

In 2013, 147,407 children and families had an opportunity to experience The New Children's Museum, with a total of approximately 832,000 visitors since re-opening in 2008. During 2013, the Museum welcomed approximately 13,000 students and chaperones through the Museum's innovative education and school visits programs. Camp attendance continues to increase, with 1,987 children participating in Spring, Summer and Fall/Winter camps in 2013.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Additionally, NCM continues to offer access to families from all economic levels with its innovative and expanding Community Access Program. In 2013, 26% of visitors attended the Museum free of charge through the following programs:

- Free Title 1 school visits
- Free Check Out NCM Program at city and county libraries
- Free admission on Target Free Second Sundays
- pARTners in Creativity
- Free access to military families via Blue Star Museum initiative (Memorial Day to Labor Day)

In addition, the Museum participated with the San Diego Museum Council on Museum Month in February, a collaboration with Macy's that spotlights arts and cultural activities and provides discounted admission.

Vision

To address a critical need in our society and become a leader in engaging children through contemporary art in order to develop the skills needed for the 21st century.

Mission

The New Children's Museum is a new model of children's museum whose mission is to stimulate imagination, creativity, and critical thinking in children and families through inventive and engaging experiences with contemporary art.

Exhibitions

The New Children's Museum is a non-collecting museum that presents Museum-wide thematic exhibitions featuring original works of art that occupy all of the gallery spaces. Since re-opening in 2008, the Museum has launched four Museum-wide exhibitions.

- *Childsplay* (2008 - 2009)
- *Animal Art* (2009 - 2011)
- *TRASH* (2011 - 2013)
- *Feast: The Art of Playing With Your Food* (2013 – present)

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Exhibitions (Continued)

In October 2013, The New Children's Museum launched *Feast: The Art of Playing with Your Food*. This exhibition explores the subject of food through playful, multisensory, immersive experiences. Through *Feast*, the Museum engages children and families around many timely topics, including health, agriculture, family heritage, community and the environment. In addition to using contemporary visual art as a vehicle for presenting these ideas, the exhibition will incorporate science, technology, music and design in novel and engaging ways. Through *Feast*, the Museum offers a wide range of hands-on art-making studios, education programs, workshops and celebratory events, including an outdoor garden and chicken coop with five chickens, all designed to provide an ever-changing menu of enrichment opportunities for our visitors.

Community Outreach

pARTners in Creativity: Working with local social service organizations such as the Monarch School and the YWCA, NCM provides an opportunity for at-risk children and their families to be in an environment that is designed for children and to experience a place that is uniquely tailored for their needs. pARTners in Creativity gives them the chance to use their imaginations, express themselves through art, explore new ideas, and just have fun in a safe, clean, and stimulating place. It also allows the children's caregivers a respite and a chance to interact with them in a new way. NCM aspires to enrich the lives of those it serves. pARTners in Creativity is the only program of its kind in the community. NCM's distinctive approach of collaborating with community partners across the San Diego non-profit sector to provide underserved and at-risk children with unique art experiences tailored to their educational needs solidifies NCM as a vital community resource.

Educators' Night Out: 2013 marked the 3rd Annual Educators' Night Out, a free evening event for educators from the San Diego region. Teachers were invited to experience the Museum firsthand and learn about the innovative programs available to them and their students. Educators were encouraged to bring their children to the event to enjoy performances, art-making workshops, artist demonstrations, opportunity drawings, and refreshments. NCM distributed art materials and lesson plans, and teachers had the chance to view the curriculum materials on our recently updated, interactive education section, which also provides complete information about school visits and lesson plans. In addition, the Museum presented hands-on workshops of our featured studio art activities that are available to school groups. In 2013, 249 educators and their children attended the event and other arts organizations participated in the evening's activities.

Significant Accounting Policies

Method of Accounting

The financial statements of NCM have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of NCM and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by NCM. The income from these assets is available for either general operations or specific programs as specified by the donor.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

NCM invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

NCM's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

Allowance for Doubtful Accounts

Management believes that all grants and other receivables and contributions receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded as of December 31, 2013 and 2012.

Contributions

Contributions are recognized when the donor makes a promise to give to NCM that is in substance unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Inventory

Inventory consists of merchandise valued at the lower of cost or market.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation

NCM capitalizes all expenditures for property and equipment in excess of \$5,000 at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted, absent donor stipulations regarding how long those donated assets must be maintained. NCM reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. NCM reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Building and improvements	10 - 50 years
Parking garage	50 years
Furniture and fixtures	2 - 10 years
Exhibits	2 - 5 years
Equipment	5 years
Vehicles	5 years

Depreciation totaled \$671,099 and \$690,393 for the years ended December 31, 2013 and 2012, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Impairment of Real Estate

NCM reviews its investment in real estate for impairment wherever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2013 or 2012.

Compensated Absences

Accumulated unpaid vacation is accrued when incurred. Accrued vacation totaled \$31,587 and \$18,103 at December 31, 2013 and 2012, respectively, and is included in accounts payable and accrued expenses.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Revenue Recognition

Revenue from memberships is recognized on a pro-rata basis over the period the memberships are earned during the year. Deferred memberships and deluxe parking totaled \$134,581 and \$106,850 at December 31, 2013 and 2012, respectively.

Revenue from unredeemed membership vouchers is deferred until the earlier of (1) the redemption of the membership voucher, or (2) the expiration of the membership voucher. Deferred unredeemed membership vouchers totaled \$-0- and \$1,198 at December 31, 2013 and 2012, respectively.

Deposits received for facility events are recognized as revenue when the event occurs. Deferred event revenue totaled \$115,220 and \$93,111 at December 31, 2013 and 2012, respectively.

Donated Services, Materials, Supplies and Equipment

NCM utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

NCM has received donations for professional services. The professional services are recorded at their fair value, totaled \$470 and \$14,888 for the years ended December 31, 2013 and 2012, respectively, and have been included in revenue and expenses for the years ended December 31, 2013 and 2012.

NCM received donations of catering and other items for special events and programs. The donations are recorded at their fair value and totaled \$56,258 and \$55,150 for the years ended December 31, 2013 and 2012, respectively.

NCM received donated art which has been capitalized totaling \$6,995 and \$-0- for the years ended December 31, 2013 and 2012, respectively.

Allocated Expenses

NCM allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by NCM's management.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Income Taxes

NCM is a public charity and 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. NCM believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. NCM is not a private foundation.

NCM's Return of Organization Exempt from Income Tax for the years ended December 31, 2013, 2012, 2011 and 2010 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

NCM maintains its cash in bank accounts and brokerage accounts which, at times, may exceed federally insured limits. NCM has not experienced any losses in such accounts. NCM believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statement of cash flows, NCM considers all highly liquid investments available for current use to be cash equivalents.

Comparative Totals for December 31, 2012

The financial statements include certain prior year summarized comparative information in total but not by net asset class. This summarized information is for comparative purposes only, and accordingly, such information should be read in conjunction with NCM's financial statements for the year ended December 31, 2012, from which the summarized comparative information was derived.

Subsequent Events

In preparing these financial statements, NCM has evaluated events and transactions for potential recognition or disclosure through May 22, 2014, the date the financial statements were available to be issued.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy as of December 31:

	2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013
Mutual funds:				
Growth funds	\$ 608,419	\$ -	\$ -	\$ 608,419
Fixed income funds	474,148	-	-	474,148
Value funds	146,434	-	-	146,434
Real estate	655,133	-	-	655,133
	\$ 1,884,134	\$ -	\$ -	\$ 1,884,134

	2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
Mutual funds:				
Growth funds	\$ 184,184	\$ -	\$ -	\$ 184,184
Fixed income funds	173,855	-	-	173,855
Value funds	202,814	-	-	202,814
Real estate	44,993	-	-	44,993
	\$ 605,846	\$ -	\$ -	\$ 605,846

Note 3 - Investments:

NCM's investments consist of the following at December 31:

	2013	2012
Mutual funds	\$ 1,884,134	\$ 605,846

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 3 - Investments: (Continued)

The following schedule summarizes the investment income and its classification in the statement of activities for the years ended December 31:

	<u>2013</u>			<u>2012</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Interest and dividends	\$ 105,282	\$ -	\$ 105,282	\$ 13,121
Realized and unrealized gains on investments	59,059	-	59,059	31,215
Investment fees	(2,889)	-	(2,889)	(708)
Total Investment Income	<u>\$ 161,452</u>	<u>\$ -</u>	<u>\$ 161,452</u>	<u>\$ 43,628</u>

Note 4 - Grants and Other Receivables:

Grants and other receivables consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
City of San Diego Commission for Arts and Culture	\$ 37,264	\$ 118,181
Other	18,010	55,607
Rice Foundation	10,000	7,500
Total Grants and Other Receivables	<u>\$ 65,274</u>	<u>\$ 181,288</u>

Note 5 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Current:		
Receivables due in less than one year	<u>\$ 125,125</u>	<u>\$ 108,750</u>
Noncurrent:		
Receivables due in one to five years	-	75,000
Less: Discounts to present value	-	(1,106)
Total Noncurrent	<u>-</u>	<u>73,894</u>
Contributions Receivable, Net	<u>\$ 125,125</u>	<u>\$ 182,644</u>

The contributions receivable due in more than a year have been discounted to their present value using a discount rate of 1.50% at December 31, 2013 and 2012.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 6 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 2,232,286	\$ 2,232,286
Building and improvements	18,724,080	18,652,929
Parking garage	1,200,000	1,200,000
Furniture and fixtures	324,358	316,689
Exhibits	338,004	499,479
Equipment	187,788	175,178
Equipment held under capital lease obligations	69,752	69,752
Vehicles	11,106	11,106
Subtotal	<u>23,087,374</u>	<u>23,157,419</u>
Less: Accumulated depreciation	<u>(2,801,347)</u>	<u>(2,629,233)</u>
Property and Equipment, Net	<u>\$ 20,286,027</u>	<u>\$ 20,528,186</u>

Note 7 - Line-of-Credit:

NCM has a line-of-credit with First Republic Bank in the amount of \$500,000 with interest at the bank's index rate plus .50% with a minimum rate of 4.25% (4.25% at December 31, 2013). The line-of-credit is renewable on May 24, 2014, and is secured by real property. The balance outstanding totaled \$281,000 and \$-0- at December 31, 2013 and 2012, respectively.

Note 8 - Capital Lease Obligations:

NCM leases equipment under capital leases expiring in various years through 2016. The economic substance of the leases is that NCM is financing the acquisition of the assets through the lease, and accordingly, it is recorded in NCM's assets and liabilities. The leased property under the capital leases consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Cost	\$ 68,771	\$ 68,771
Less: Accumulated depreciation	<u>(27,904)</u>	<u>(13,954)</u>
Net Book Value	<u>\$ 40,867</u>	<u>\$ 54,817</u>

Future minimum capital lease payments are as follows:

<u>Years Ended</u> <u>December 31</u>	
2014	\$ 20,712
2015	19,776
2016	<u>7,110</u>
Total	47,598
Less: Amount representing interest	<u>(6,645)</u>
Capital Lease Obligations	<u>\$ 40,953</u>

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets represent contributions received or receivable by NCM, which are limited in their use by time or donor-imposed restrictions. Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2013</u>	<u>2012</u>
Contribution - purpose restrictions	\$ 178,874	\$ 77,342
Contributions receivable - time restrictions	125,125	182,644
Contribution - time restriction	-	100,000
Total Temporarily Restricted Net Assets	<u>\$ 303,999</u>	<u>\$ 359,986</u>

Net assets in the amount of \$741,842 were released from donor restrictions for the year ended December 31, 2013, by incurring expenses satisfying the purpose or time restrictions specified by donors.

Note 10 – Board Designated Endowment Fund:

NCM has established an unrestricted board designated endowment fund. NCM's spending policy is to disburse funds available to meet current program needs at a target rate of up to 2.5% of a rolling 36-month moving average of the market value of the fund annually.

Changes in the board designated endowment fund for the years ended December 31:

Board Designated Endowment at December 31, 2011		\$ -
Board-designated contributions		679,741
Investment return:		
Investment income		12,365
Net realized and unrealized gains		30,639
Investment fees		<u>(708)</u>
Total Investment Return		42,296
Appropriation of endowment assets for expenditure		<u>(65,718)</u>
Board Designated Endowment at December 31, 2012		656,319
Board-designated contributions		1,094,000
Investment return:		
Investment income		105,058
Net realized and unrealized gains		59,059
Investment fees		<u>(2,889)</u>
Total Investment Return		<u>161,228</u>
Board Designated Endowment at December 31, 2013		<u>\$ 1,911,547</u>

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

Note 11 - Pension Plan:

NCM has a 403(b) plan covering all regular employees. Under the plan, employees can contribute and defer taxes on compensation earned. NCM does not make any contributions on the employee's behalf.

Note 12 - Commitments:

Landscape Maintenance Agreement

The City of San Diego constructed the Children's Museum Park in 2008 which is adjacent to NCM. NCM entered into a landscape maintenance agreement with the City of San Diego that obligates NCM to pay all costs of maintaining the park for an initial period of 30 years, renewable for an additional 30 years. The maintenance costs totaled \$3,075 and \$5,467 for the years ended December 31, 2013 and 2012, respectively.

Common Area and Parking

NCM has a common interest in the adjacent common area and parking structure with Pinnacle Market Development (US), LLC. The Covenants, Conditions, and Restrictions (CC&Rs) for NCM & Pinnacle Museum Tower Development require payments for operating and replacement funding. Payments totaled \$33,103 and \$28,863 for the years ended December 31, 2013 and 2012, respectively.

**THE NEW CHILDREN'S MUSEUM
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012)**

	Supporting Services			2013 Total	2012 Total	
	Programs and Exhibits	Management and General	Fundraising			Total Supporting Services
Salaries and Related Expenses:						
Salaries and wages	\$ 1,375,156	\$ 189,080	\$ 305,949	\$ 495,029	\$ 1,870,185	\$ 1,584,928
Payroll taxes	128,636	14,607	24,956	39,563	168,199	147,715
Employee benefits	147,434	20,470	21,674	42,144	189,578	153,999
Total Salaries and Related Expenses	<u>1,651,226</u>	<u>224,157</u>	<u>352,579</u>	<u>576,736</u>	<u>2,227,962</u>	<u>1,886,642</u>
Nonsalary Related Expenses:						
Advertising	78,606	-	-	-	78,606	70,935
Artist honorarium	23,225	-	-	-	23,225	16,968
Bad debt	-	-	-	-	-	6,666
Bank fees and other charges	26,360	2,561	1,638	4,199	30,559	24,860
Conferences and meetings	34,037	25,075	11,718	36,793	70,830	10,971
Consultants and contract services	174,318	41,257	39,333	80,590	254,908	426,813
Donor recognition and events	1,057	50	1,025	1,075	2,132	8,021
Insurance	22,369	7,610	-	7,610	29,979	35,513
Interest	-	9,352	-	9,352	9,352	8,859
Loss on disposal of property and equipment	-	494	-	494	494	32,125
Occupancy	119,169	11,571	1,940	13,511	132,680	122,325
Office	54,393	20,891	11,923	32,814	87,207	65,390
Other expenses	390	539	821	1,360	1,750	5,849
Professional fees	3,163	35,199	-	35,199	38,362	32,377
Repairs and maintenance	24,013	-	-	-	24,013	35,055
Supplies and materials	72,084	690	1,072	1,762	73,846	37,404
Travel, meals and entertainment	19,429	3,999	2,957	6,956	26,385	19,406
Total Nonsalary Related Expenses	<u>652,613</u>	<u>159,288</u>	<u>72,427</u>	<u>231,715</u>	<u>884,328</u>	<u>959,537</u>
Depreciation	<u>603,989</u>	<u>33,555</u>	<u>33,555</u>	<u>67,110</u>	<u>671,099</u>	<u>690,393</u>
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	<u>\$ 2,907,828</u>	<u>\$ 417,000</u>	<u>\$ 458,561</u>	<u>\$ 875,561</u>	<u>\$ 3,783,389</u>	<u>\$ 3,536,572</u>