



the new children's museum

Financial Statements

December 31, 2015



Leaf & Cole, LLP
Certified Public Accountants

**THE NEW CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
The New Children's Museum

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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

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, 2015 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, 2014 included in the supplementary schedule of functional expenses for the year ended December 31, 2015 has been derived from The New Children's Museum's 2014 financial statements and in our report dated May 27, 2015, 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
June 23, 2016

**THE NEW CHILDREN'S MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

ASSETS		
	<u>2015</u>	<u>2014</u>
<u>Assets:</u> (Notes 1, 2, 3, 4, 5, 6, 7, 8 and 9)		
Cash and cash equivalents	\$ 479,197	\$ 532,961
Investments	1,574,257	2,175,779
Grants and other receivables	151,229	111,598
Contributions receivable	46,000	50,000
Inventory	105	23
Prepaid expenses and other assets	189,049	12,049
Property and equipment, net	<u>19,361,126</u>	<u>19,815,254</u>
TOTAL ASSETS	\$ <u>21,800,963</u>	\$ <u>22,697,664</u>
LIABILITIES AND NET ASSETS		
<u>Liabilities:</u> (Notes 1, 7, 8 and 9)		
Accounts payable and accrued expenses	\$ 328,689	\$ 315,211
Deferred revenue	219,285	235,559
Line-of-credit	-	257,000
Note payable	-	171,000
Capital lease obligations	6,793	23,758
Total Liabilities	<u>554,767</u>	<u>1,002,528</u>
<u>Commitments</u> (Note 12)		
<u>Net Assets:</u> (Notes 1, 10 and 11)		
Unrestricted:		
Undesignated	19,321,346	18,692,927
Board designated endowment	1,630,736	2,680,412
Total Unrestricted	<u>20,952,082</u>	<u>21,373,339</u>
Temporarily restricted	<u>294,114</u>	<u>321,797</u>
Total Net Assets	<u>21,246,196</u>	<u>21,695,136</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>21,800,963</u>	\$ <u>22,697,664</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, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)**

	Unrestricted Operations	Temporarily Restricted	2015 Total	2014 Total
<u>Operating Support and Revenue:</u>				
Contributions	\$ 959,284	\$ 726,462	\$ 1,685,746	\$ 2,070,222
Fees and facility usage	582,382	-	582,382	562,074
Admissions	574,326	-	574,326	501,141
Memberships	359,160	-	359,160	303,772
Government grants	310,461	-	310,461	164,330
In-kind contributions	228,808	-	228,808	90,057
Special events	-	-	-	32,316
Other	9,689	-	9,689	943
Net assets released from restrictions	754,145	(754,145)	-	-
Total Operating Support and Revenue	<u>3,778,255</u>	<u>(27,683)</u>	<u>3,750,572</u>	<u>3,724,855</u>
<u>Program and Supporting Services:</u>				
Program Services:				
Programs and exhibits	3,173,661	-	3,173,661	2,903,396
Total Program Services	<u>3,173,661</u>	<u>-</u>	<u>3,173,661</u>	<u>2,903,396</u>
Supporting Services:				
Management and general	484,196	-	484,196	484,967
Fundraising	491,753	-	491,753	482,594
Total Supporting Services	<u>975,949</u>	<u>-</u>	<u>975,949</u>	<u>967,561</u>
Total Program and Supporting Services Expenses	<u>4,149,610</u>	<u>-</u>	<u>4,149,610</u>	<u>3,870,957</u>
Change in Net Assets Before Investment Income (Loss)	<u>(371,355)</u>	<u>(27,683)</u>	<u>(399,038)</u>	<u>(146,102)</u>
<u>Investment Income (Loss):</u>				
Interest and dividend income	55,401	-	55,401	47,503
Net realized and unrealized (losses) gains	(92,770)	-	(92,770)	74,020
Investment fees	(12,533)	-	(12,533)	(9,853)
Total Investment Income (Loss)	<u>(49,902)</u>	<u>-</u>	<u>(49,902)</u>	<u>111,670</u>
Change in Net Assets	(421,257)	(27,683)	(448,940)	(34,432)
Net Assets at Beginning of Year	<u>21,373,339</u>	<u>321,797</u>	<u>21,695,136</u>	<u>21,729,568</u>
NET ASSETS AT END OF YEAR	<u>\$ 20,952,082</u>	<u>\$ 294,114</u>	<u>\$ 21,246,196</u>	<u>\$ 21,695,136</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, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)**

	<u>2015</u>	<u>2014</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (448,940)	\$ (34,432)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	686,426	505,192
Loss on disposal of property and equipment	10,272	-
Donated vehicle	(9,221)	-
Donated artwork	(150,000)	-
Net realized and unrealized losses (gains) on investments	92,770	(74,020)
(Increase) Decrease in:		
Grants and other receivables	(39,631)	(46,324)
Contributions receivable	4,000	75,125
Inventory	(82)	204
Prepaid expenses and other assets	(27,000)	(1,013)
Increase (Decrease) in:		
Accounts payable and accrued expenses	16,594	175,314
Deferred revenue	(16,274)	(14,242)
Net Cash Provided by Operating Activities	<u>118,914</u>	<u>585,804</u>
<u>Cash Flows From Investing Activities:</u>		
Investment (purchases)/sales/maturities, net	508,752	(217,625)
Purchase of property and equipment	(236,465)	(80,936)
Net Cash Provided by (Used in) Investing Activities	<u>272,287</u>	<u>(298,561)</u>
<u>Cash Flows From Financing Activities:</u>		
Payments on line-of-credit, net	(257,000)	(24,000)
(Payments) / proceeds from note payable	(171,000)	171,000
Payments on capital lease obligations	(16,965)	(17,195)
Net Cash (Used in) Provided by Financing Activities	<u>(444,965)</u>	<u>129,805</u>
(Decrease) Increase in Cash and Cash Equivalents	(53,764)	417,048
Cash and Cash Equivalents at Beginning of Year	<u>532,961</u>	<u>115,913</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 479,197</u>	<u>\$ 532,961</u>
<u>Supplementary Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 32,099</u>	<u>\$ 21,896</u>

The accompanying notes are integral part of the financial statements.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

Note 1 - Organization and Significant Accounting Policies:

Organization

The New Children's Museum (the "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 Museum brings families together in a rich educational environment that fosters creativity, blending elements of art museum and children's museum. The Museum 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, the Museum opens a world of art and creativity to children through opportunities to think, play and create.

Serving a wide range of ages, the Museum 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.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

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

Organization (Continued)

In 2015, 168,074 people had an opportunity to experience the Museum, including visitors, members, school visits, birthday parties and events. A total of 1,212,191 individuals have visited since re-opening in 2008. Each year the Museum welcomes approximately 11,000 students and chaperones through the Museum's innovative education and school visits programs. Camp attendance continues to increase, with 917 children participating in Spring, Summer and Fall/Winter camps in 2015.

As a community-based organization, the Museum is committed to offering access to families from all economic levels with its innovative and expanding Community Access Program. In 2015, close to 30% of visitors attended the Museum free of charge through the following programs:

- Free Title 1 school visits 7,473
- Free Check Out NCM Program at city and county libraries 7,708
- Free admission on Target Free Second Sundays 5,999
- Dollar admission on Target Dollar Second Sundays 5,020
- Mass Creativity Workshops and Event 2,189 (1,583 event day; 606 workshops)
- pARTners in Creativity 1,401
- Free access to military families via Blue Star Museum initiative (Memorial Day to Labor Day) 6,966

In addition, the Museum participated with the San Diego Museum Council and 40+ other San Diego museums and cultural institutions on three collaborative county-wide programs: Macy's Museum Month in February, a collaboration with Macy's that spotlights arts and cultural activities and provides half price admission; the Big Exchange in May, which offers reciprocal admission to members of 30 museums; and Kids Free October, during which children are admitted for free with a paid adult.

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 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.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

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

Organization (Continued)

Exhibitions

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

- *Childsplay* (2008 - 2009)
- *Animal Art* (2009 - 2011)
- *TRASH* (2011 - 2013)
- *Feast: The Art of Playing With Your Food* (2013 – present)
- *Eureka!* (2015 – present)

In October 2015, the Museum launched *Eureka*, an exhibition that explores the state of California through playful, multisensory, immersive experiences created by commissioned artists. Through *Eureka*, the Museum engages children and families around many timely topics, including California's history, the environment, water challenges, cultural heritage, and focus on pop culture community. In addition to using contemporary visual art as a vehicle for presenting these ideas, the exhibition touches upon music, history, geology, and design in novel and engaging ways. Through *Eureka*, the Museum offers a wide range of hands-on art-making studios, education programs, workshops and celebratory events, all designed to provide an ever-changing menu of enrichment opportunities for our visitors.

Community Outreach

Mass Creativity: Mass Creativity is a means for the Museum to extend its innovative approach to supporting and cultivating creativity in the community. These collaborations provide art-making opportunities to residents who, due to economic constraints or lack of transportation, may not visit museums or have regular access to tools, materials and artistic instruction for creative expression.

The Mass Creativity program took place in community centers and other non-traditional venues throughout San Diego County, connecting with families in underserved areas. It included a series of hands-on art making workshops at eight community centers in the San Diego region (Casa Familiar, Southern Sudanese Community Center, Bayside Community Center, South Bay Community Center, The San Diego LGBT Center, Taiwanese American Community Center, St. Madeleine Sophie's Center, and the History Barrio District/Sherman Heights Community Center.) Workshops were led by professional artists with the assistance of Museum staff and served 679 people. The workshops culminated in an all-day celebration on June 20, 2015, serving approximately 1,500 participants. The theme for Mass Creativity was related to one of our current exhibitions, *Feast*.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

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

Organization (Continued)

Community Outreach (Continued)

pARTners in Creativity: Working with ten local social service organizations such as the Monarch School and the YWCA, the Museum 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 the children in a new way. The Museum aspires to enrich the lives of those it serves. pARTners in Creativity is the only program of its kind in the community. The Museum'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 the Museum as a vital community resource.

Educators' Night Out: 2015 marked the 5th 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. The Museum 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 2015, 299 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 the Museum 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, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

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 the Museum 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 the Museum. 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

The Museum 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, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

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.

The Museum'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.

Inventory

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

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all grants and other receivables and contributions receivable were fully collectible; therefore, no allowance for doubtful grants and other receivables and contributions receivable was recorded at December 31, 2015 and 2014.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

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

Significant Accounting Policies (Continued)

Capitalization and Depreciation

The Museum 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. The Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum 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
Equipment under capital lease	5 years
Vehicles	5 years

Depreciation totaled \$686,426 and \$505,192 for the years ended December 31, 2015 and 2014, 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

The Museum 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 2015 and 2014.

Compensated Absences

Accumulated unpaid vacation is accrued when incurred. Accrued vacation totaled \$29,724 and \$36,000 at December 31, 2015 and 2014, respectively, and is included in accounts payable and accrued expenses.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

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

Significant Accounting Policies (Continued)

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Museum 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.

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 \$191,470 and \$180,322 at December 31, 2015 and 2014, respectively.

Deposits received for facility events are recognized as revenue when the event occurs. Deferred event revenue totaled \$27,815 and \$55,237 at December 31, 2015 and 2014, respectively.

Donated Services, Materials, Supplies and Equipment

The Museum 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.

The Museum has received donations for professional services. The professional services are recorded at their fair value, totaled \$-0- and \$2,087 for the years ended December 31, 2015 and 2014, respectively.

The Museum received donations of catering and other items for special events and programs. The donations are recorded at their fair value and totaled \$69,587 and \$87,970 for the years ended December 31, 2015 and 2014, respectively.

The Museum received donated property and equipment which has been capitalized totaling \$9,221 and \$-0- for the years ended December 31, 2015 and 2014, respectively.

The Museum received donated art totaling \$150,000 and \$-0- for the years ended December 31, 2015 and 2014, respectively, which is included in prepaid expenses and other assets.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

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

Significant Accounting Policies (Continued)

Allocated Expenses

The Museum 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 the Museum's management.

Income Taxes

The Museum 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. The Museum 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. The Museum is not a private foundation.

The Museum's Return of Organization Exempt from Income Tax for the years ended December 31, 2015, 2014, 2013 and 2012 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

The Museum maintains its cash in bank accounts and brokerage accounts which, at times, may exceed federally insured limits. The Museum has not experienced any losses in such accounts. The Museum 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, the Museum considers all highly liquid investments available for current use to be cash equivalents.

Comparative Totals for December 31, 2014

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 the Museum's financial statements for the year ended December 31, 2014, from which the summarized comparative information was derived.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

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

Significant Accounting Policies (Continued)

Reclassification

The Museum has reclassified certain prior year information to conform with the current year presentation.

Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through June 23, 2016, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements:

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

	2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Mutual funds:				
Growth funds	\$ 503,108	\$ -	\$ -	\$ 503,108
Fixed income funds	443,145	-	-	443,145
Value funds	499,811	-	-	499,811
Real estate	128,193	-	-	128,193
	<u>\$ 1,574,257</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,574,257</u>

	2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Mutual funds:				
Growth funds	\$ 620,012	\$ -	\$ -	\$ 620,012
Fixed income funds	597,232	-	-	597,232
Value funds	769,924	-	-	769,924
Real estate	188,611	-	-	188,611
	<u>\$ 2,175,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,175,779</u>

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

Note 3 - Investments:

Investments consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ <u>1,574,257</u>	\$ <u>2,175,779</u>

The following schedule summarizes the investment income (loss) for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 55,401	\$ 47,503
Realized and unrealized (losses) gains	(92,770)	74,020
Investment fees	(12,533)	(9,853)
Total Investment Income (Loss)	\$ <u>(49,902)</u>	\$ <u>111,670</u>

Note 4 - Grants and Other Receivables:

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

	<u>2015</u>	<u>2014</u>
City of San Diego Commission for Arts and Culture	\$ 93,500	\$ 72,122
Rice Foundation	20,000	15,000
Other	19,535	16,496
Institute of Museum and Library Services	13,194	2,980
Pacific Life Foundation	5,000	5,000
Total Grants and Other Receivables	\$ <u>151,229</u>	\$ <u>111,598</u>

Note 5 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Receivables due in less than one year	\$ 12,000	\$ 25,000
Receivables due in one to five years	34,000	25,000
Total Contributions Receivable	\$ <u>46,000</u>	\$ <u>50,000</u>

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

Note 6 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 2,232,286	\$ 2,232,286
Building and improvements	18,782,345	18,740,880
Parking garage	1,200,000	1,200,000
Furniture and fixtures	304,758	294,165
Exhibits	257,138	327,643
Equipment	63,757	63,757
Equipment held under capital lease obligations	69,752	69,752
Vehicles	20,327	11,106
Subtotal	<u>22,930,363</u>	<u>22,939,589</u>
Less: Accumulated depreciation	<u>(3,569,237)</u>	<u>(3,124,335)</u>
Property and Equipment, Net	<u>\$ 19,361,126</u>	<u>\$ 19,815,254</u>

Note 7 - Line-of-Credit:

The Museum has a line-of-credit with First Republic Bank in the amount of \$750,000 with interest at the bank's index rate plus .50% with a minimum rate of 4.25% (4.25% at December 31, 2015). The line-of-credit is renewable on June 30, 2016, and is secured by real property. The outstanding balance totaled \$0- and \$257,000 at December 31, 2015 and 2014, respectively.

Note 8 - Note Payable:

Note payable consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Note payable to First Republic Bank in the original amount of \$171,000. Payable in monthly payments of \$5,072 including interest at 4.25%, due December 4, 2017. Secured by equipment and other assets.	\$ <u>-</u>	\$ <u>171,000</u>

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

Note 9 - Capital Lease Obligations:

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

	<u>2015</u>	<u>2014</u>
Cost	\$ 36,287	\$ 69,752
Less: Accumulated depreciation	(29,031)	(41,854)
Net Book Value	<u>\$ 7,256</u>	<u>\$ 27,898</u>

Future minimum capital lease payments are as follows:

<u>Year Ended</u> <u>December 31</u>	
2016	<u>\$ 7,110</u>
Total	7,110
Less: Amount representing interest	(317)
Capital Lease Obligations	<u>\$ 6,793</u>

Note 10 – Board Designated Endowment Fund:

The Museum has established an unrestricted board designated endowment fund.

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

	<u>2015</u>	<u>2014</u>
Board Designated Endowment at Beginning of Year	\$ 2,680,412	\$ 1,911,547
Board-designated contributions	-	700,000
Investment return:		
Investment income	54,859	47,500
Net realized and unrealized (losses) gains	(92,052)	74,193
Investment fees	(12,483)	(9,828)
Total Investment Return	<u>(49,676)</u>	<u>111,865</u>
Distributions	<u>(1,000,000)</u>	<u>(43,000)</u>
Board Designated Endowment at End of Year	<u>\$ 1,630,736</u>	<u>\$ 2,680,412</u>

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

Note 11 - Temporarily Restricted Net Assets:

Temporarily restricted net assets represent contributions received or receivable by the Museum, 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>2015</u>	<u>2014</u>
Contribution - purpose restrictions	\$ 243,114	\$ 166,797
Contribution - time restriction	-	100,000
Contributions receivable - time restrictions	46,000	50,000
Grant receivable - time restriction	5,000	5,000
Total Temporarily Restricted Net Assets	<u>\$ 294,114</u>	<u>\$ 321,797</u>

Net assets in the amount of \$754,145 were released from donor restrictions for the year ended December 31, 2015, by incurring expenses satisfying the purpose or time restrictions specified by donors.

Note 12 - Commitments:

Pension Plan

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

Landscape Maintenance Agreement

The City of San Diego constructed the Children's Museum Park in 2008 which is adjacent to the Museum. The Museum entered into a landscape maintenance agreement with the City of San Diego that obligates the Museum 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 \$3,523 and \$4,454 for the years ended December 31, 2015 and 2014, respectively.

Common Area and Parking

The Museum 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 the Museum and Pinnacle Museum Tower Development require payments for operating and replacement funding. Payments totaled \$32,803 and \$33,203 for the years ended December 31, 2015 and 2014, respectively.

**THE NEW CHILDREN'S MUSEUM
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)**

	Supporting Services			2015 Total	2014 Total
	Programs and Exhibits	Management and General	Fundraising		
Salaries and Related Expenses:					
Salaries and wages	\$ 1,497,629	\$ 205,920	\$ 333,198	\$ 539,118	\$ 2,036,747
Payroll taxes	150,765	17,120	29,248	46,368	197,133
Employee benefits	140,780	19,546	20,696	40,242	181,022
Total Salaries and Related Expenses	<u>1,789,174</u>	<u>242,586</u>	<u>383,142</u>	<u>625,728</u>	<u>2,414,902</u>
Nonsalary Related Expenses:					
Advertising	129,590	-	-	-	129,590
Artist honorarium	22,665	-	-	-	22,665
Bank fees and other charges	31,761	3,995	1,974	5,969	37,730
Conferences and meetings	38,981	28,718	13,421	42,139	81,120
Consultants and contract services	145,880	34,526	32,916	67,442	213,322
Donor recognition and events	847	40	821	861	1,708
Equipment expense	6,641	913	1,478	2,391	9,032
Insurance	19,560	6,654	-	6,654	26,214
Interest	-	32,099	-	32,099	32,099
Loss on disposal of property and equipment	10,272	-	-	-	10,272
Occupancy	147,727	14,344	2,404	16,748	164,475
Office	45,124	17,278	9,891	27,169	72,293
Other expenses	1,962	5,202	4,132	9,334	11,296
Professional fees	5,001	55,645	-	55,645	60,646
Repairs and maintenance	50,488	2,805	2,805	5,610	56,098
Supplies and materials	89,741	859	1,334	2,193	91,934
Travel, meals and entertainment	20,463	4,211	3,114	7,325	27,788
Total Nonsalary Related Expenses	<u>766,703</u>	<u>207,289</u>	<u>74,290</u>	<u>281,579</u>	<u>1,048,282</u>
Depreciation	<u>617,784</u>	<u>34,321</u>	<u>34,321</u>	<u>68,642</u>	<u>686,426</u>
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	<u>\$ 3,173,661</u>	<u>\$ 484,196</u>	<u>\$ 491,753</u>	<u>\$ 975,949</u>	<u>\$ 4,149,610</u>
				<u>\$ 4,149,610</u>	<u>\$ 3,870,957</u>