



the new children's museum

Financial Statements

December 31, 2017 AND 2016



Leaf & Cole, LLP  
*Certified Public Accountants*

**THE NEW CHILDREN'S MUSEUM  
FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 17
Supplementary Information:	
Schedule of Functional Expenses - 2017	18
Schedule of Functional Expenses - 2016	19



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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New Children's Museum as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of functional expenses for the years ended December 31, 2017 and 2016 are presented for purposes of additional analysis and are 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.

Leaf & Cole LLP  
San Diego, California  
June 21, 2018

**THE NEW CHILDREN'S MUSEUM  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b><u>Current Assets:</u></b> (Notes 2, 3 and 7)		
Cash and cash equivalents	\$ 273,724	\$ 264,135
Grants and other receivables	154,893	143,096
Contributions receivable	14,500	24,000
Inventory	2,376	879
Prepaid expenses and other assets	197,358	183,714
Total Current Assets	<u>642,851</u>	<u>615,824</u>
<b><u>Noncurrent Assets:</u></b> (Notes 2, 4, 5, 6 and 7)		
Investments - Board designated endowment	2,363,072	2,180,642
Property and equipment, net	18,663,312	18,928,227
Total Noncurrent Assets	<u>21,026,384</u>	<u>21,108,869</u>
<b>TOTAL ASSETS</b>	<u>\$ 21,669,235</u>	<u>\$ 21,724,693</u>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities:</u></b> (Note 2)		
Accounts payable and accrued expenses	\$ 373,076	\$ 300,860
Deferred revenue	496,445	322,117
Security deposits	2,500	-
Total Current Liabilities	<u>872,021</u>	<u>622,977</u>
Total Liabilities	<u>872,021</u>	<u>622,977</u>
<b><u>Commitments</u></b> (Notes 6 and 9)		
<b><u>Net Assets:</u></b> (Notes 2, 7 and 8)		
Unrestricted:		
Undesignated	18,081,588	18,505,382
Board designated endowment	2,403,811	2,190,474
Total Unrestricted	<u>20,485,399</u>	<u>20,695,856</u>
Temporarily restricted	311,815	405,860
Total Net Assets	<u>20,797,214</u>	<u>21,101,716</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 21,669,235</u>	<u>\$ 21,724,693</u>

The accompanying notes are an integral part of the financial statements.

**THE NEW CHILDREN'S MUSEUM  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			2016		
	Unrestricted Operations	Temporarily Restricted	Total	Unrestricted Operations	Temporarily Restricted	Total
<b><u>Operating Support and Revenue:</u></b>						
Contributions	\$ 825,355	\$ 379,165	\$ 1,204,520	\$ 1,146,952	\$ 435,300	\$ 1,582,252
Admissions	902,749	-	902,749	651,699	-	651,699
Fees and facility usage	649,008	-	649,008	629,111	-	629,111
Memberships	598,741	-	598,741	438,509	-	438,509
Government grants	285,344	-	285,344	329,482	-	329,482
Special events	272,561	-	272,561	262,841	-	262,841
In-kind contributions	199,218	-	199,218	69,683	-	69,683
Parking	158,710	-	158,710	21,427	-	21,427
Program events	24,022	-	24,022	-	-	-
Other	14,505	-	14,505	6,972	-	6,972
Net assets released from restrictions	473,210	(473,210)	-	323,554	(323,554)	-
Total Operating Support and Revenue	<u>4,403,423</u>	<u>(94,045)</u>	<u>4,309,378</u>	<u>3,880,230</u>	<u>111,746</u>	<u>3,991,976</u>
<b><u>Program and Supporting Services:</u></b>						
<b>Program Services:</b>						
Programs and exhibits	<u>3,749,132</u>	<u>-</u>	<u>3,749,132</u>	<u>3,139,056</u>	<u>-</u>	<u>3,139,056</u>
<b>Supporting Services:</b>						
Management and general	594,477	-	594,477	450,102	-	450,102
Fundraising	<u>365,756</u>	<u>-</u>	<u>365,756</u>	<u>478,535</u>	<u>-</u>	<u>478,535</u>
Total Supporting Services	<u>960,233</u>	<u>-</u>	<u>960,233</u>	<u>928,637</u>	<u>-</u>	<u>928,637</u>
Total Program and Supporting Services Expenses	<u>4,709,365</u>	<u>-</u>	<u>4,709,365</u>	<u>4,067,693</u>	<u>-</u>	<u>4,067,693</u>
<b>Cost of Sales</b>	3,785	-	3,785	-	-	-
<b>Special Events</b>	<u>202,623</u>	<u>-</u>	<u>202,623</u>	<u>216,105</u>	<u>-</u>	<u>216,105</u>
Total Expenses	<u>4,915,773</u>	<u>-</u>	<u>4,915,773</u>	<u>4,283,798</u>	<u>-</u>	<u>4,283,798</u>
Change in Net Assets Before Investment Income	<u>(512,350)</u>	<u>(94,045)</u>	<u>(606,395)</u>	<u>(403,568)</u>	<u>111,746</u>	<u>(291,822)</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

**THE NEW CHILDREN'S MUSEUM  
STATEMENTS OF ACTIVITIES (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			2016		
	Unrestricted Operations	Temporarily Restricted	Total	Unrestricted Operations	Temporarily Restricted	Total
<b>Investment Income:</b>						
Interest and dividend income	\$ 47,928	\$ -	\$ 47,928	\$ 44,144	\$ -	\$ 44,144
Net realized and unrealized gains	264,497	-	264,497	111,572	-	111,572
Investment fees	<u>(10,532)</u>	<u>-</u>	<u>(10,532)</u>	<u>(8,374)</u>	<u>-</u>	<u>(8,374)</u>
Total Investment Income	<u>301,893</u>	<u>-</u>	<u>301,893</u>	<u>147,342</u>	<u>-</u>	<u>147,342</u>
Change in Net Assets	(210,457)	(94,045)	(304,502)	(256,226)	111,746	(144,480)
Net Assets at Beginning of Year	<u>20,695,856</u>	<u>405,860</u>	<u>21,101,716</u>	<u>20,952,082</u>	<u>294,114</u>	<u>21,246,196</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 20,485,399</u>	<u>\$ 311,815</u>	<u>\$ 20,797,214</u>	<u>\$ 20,695,856</u>	<u>\$ 405,860</u>	<u>\$ 21,101,716</u>

The accompanying notes are an integral part of the financial statements.

**THE NEW CHILDREN'S MUSEUM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ (304,502)	\$ (144,480)
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Depreciation	562,353	598,420
Loss on disposal of property and equipment	-	1,503
Donated property and equipment	(65,250)	(5,323)
Net realized and unrealized gains	(264,497)	(111,572)
<b>(Increase) Decrease in:</b>		
Grants and other receivables	(11,797)	8,133
Contributions receivable	9,500	22,000
Inventory	(1,497)	(774)
Prepaid expenses and other assets	(13,644)	5,335
<b>Increase (Decrease) in:</b>		
Accounts payable and accrued expenses	72,216	(22,503)
Deferred revenue	174,328	102,832
Security deposits	2,500	-
Net Cash Provided by Operating Activities	<u>159,710</u>	<u>453,571</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment (purchases)/sales/maturities, net	82,067	(494,813)
Proceeds from sale of property and equipment	-	250
Purchase of property and equipment	(232,188)	(167,277)
Net Cash Used in Investing Activities	<u>(150,121)</u>	<u>(661,840)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Payments on capital lease obligations	-	(6,793)
Net Cash Used in Financing Activities	<u>-</u>	<u>(6,793)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,589	(215,062)
Cash and Cash Equivalents at Beginning of Year	<u>264,135</u>	<u>479,197</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 273,724</u>	<u>\$ 264,135</u>
<b><u>Supplementary Disclosure of Cash Flow Information:</u></b>		
Cash paid for interest	<u>\$ -</u>	<u>\$ 344</u>

The accompanying notes are an integral part of the financial statements.



**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 1 - 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 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.

In 2017, 269,951 people had an opportunity to experience the Museum, including visitors, members, school visits, birthday parties and events. Over 1.6 million individuals have visited since its re-opening in 2008. Each year the Museum welcomes over 15,000 students and chaperones through the Museum's innovative education and school visits programs. Camp attendance continues to increase, with over 1,000 children participating in Spring, Summer and Fall/Winter camps in 2017.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization: (Continued)**

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 2017, 26% of visitors attended the Museum free or at a discounted through the following programs:

- Free Title 1 school visits 7,191
- Free Check Out NCM Program at city and county libraries 8,559
- Discounted admission on Target Second Sundays 9,567
- Mass Creativity Workshops and Event 2,828 (Mass Creativity Day)
- pARTners in Creativity 2,062
- Discounted or free for military families including Blue Star program 18,412

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 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.

**Collection and Exhibitions**

The Museum regularly commissions one-of-a-kind works of art by leading contemporary artists. These works are intended for thousands of children and families to engage and play with each year. The majority of the artworks exhibited at the museum are temporary works of art commissioned as part of rotating exhibitions for a limited amount of time. The works are returned to the artist at the close of the exhibition. While we are not a collecting institution, from time to time, the Museum has identified opportunities when acquiring a work or art furthers its mission. In addition, an acquired or permanently loaned work of art provides lasting enjoyment of a beloved piece as well as opportunities for deepened understanding. These result in connections across generations, deepening visitors' engagement with the Museum.

Since re-opening in 2008, the Museum has launched seven 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, 2017 AND 2016**

**Note 1 - Organization: (Continued)**

**Collection and Exhibitions (Continued)**

- *Eureka!* (2015 – present)
- *The Wonder Sound* (2016 – present)
- *Sketch Aquarium* (2017 – 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. The Museum opened *The Wonder Sound* in June 2016. Created by Wes Sam-Bruce, an artist with deep roots in San Diego, this popular exhibit draws its inspiration from tree houses, canyons, plants, animals, mountain ranges, stories, histories and languages. In March 2017 the Museum, in collaboration with the artists and engineers at teamLab of Japan, launched its newest exhibit, Sketch Aquarium, an immersive, interactive, underwater experience in which children can create and interact with their own animated sea life.

**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 six community centers in the San Diego region (Solutions for Change – Vista, The San Diego LGBT Community Center – Hillcrest, South Bay Community Services – Chula Vista, Barrio Logan College Institute – Barrio Logan, Casa Familiar – San Ysidro, Southern Sudanese Community Center – City Heights.) Workshops were led by professional artists with the assistance of Museum staff. The workshops culminated in an all-day celebration in June 24, 2017.

**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.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization: (Continued)**

**Community Outreach (Continued)**

Educators' Night Out: 2017 marked the 7<sup>th</sup> 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 2017, nearly 350 educators and their children attended the event and other arts organizations participated in the evening's activities.

**Note 2 - Significant Accounting Policies:**

**Accounting Method**

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 (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

**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.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**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.

**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, 2017 and 2016.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 2 - 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
Vehicles	5 years

Depreciation totaled \$562,353 and \$598,420 for the years ended December 31, 2017 and 2016, 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.

**Collections**

In conformity with the practice followed by many museums, art objects purchased by or donated to the Museum are not capitalized in the statement of financial position. The Museum's collection is made up of works of art that are held for exhibition and various other program activities. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily or permanently restricted net assets if the net assets used to purchase the items are restricted by the donor. Contributed collection items are excluded from the financial statements.

Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Museum did not purchase collection items during the years ended December 31, 2017 and 2016, respectively.

**Impairment of Real Estate**

The Museum reviews its investment in real estate for impairment whenever 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 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 2017 and 2016.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Compensated Absences**

Accumulated unpaid vacation is accrued when incurred. Accrued vacation totaled \$68,268 and \$50,093 at December 31, 2017 and 2016, respectively, and is included in accounts payable and accrued expenses.

**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 \$276,887 and \$258,528 at December 31, 2017 and 2016, respectively.

Deposits received for facility events are recognized as revenue when the event occurs. Deferred event revenue totaled \$219,558 and \$63,589 at December 31, 2017 and 2016, 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 received the following in-kind donations which are recorded at fair value for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Catering and other program items	\$ 114,969	\$ 50,939
Professional services	18,999	13,421
Total Program and Supporting Services	<u>133,968</u>	<u>64,360</u>
Capitalized property and equipment	65,250	5,323
Total In-Kind Contributions	<u>\$ 199,218</u>	<u>\$ 69,683</u>

In addition, the Museum received donations of catering and other items for special events. The donations are recorded at fair value and totaled \$77,244 and \$65,764 for the years ended December 31, 2017 and 2016, respectively, which is included in special events.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 2 - 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, 2017, 2016, 2015 and 2014 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.

**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 21, 2018, the date the financial statements were available to be issued.



**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 3 - Contributions Receivable:**

Contributions receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Receivables due in less than one year	\$ 14,500	\$ 12,000
Receivables due in one to five years	-	12,000
Total Contributions Receivable	<u>\$ 14,500</u>	<u>\$ 24,000</u>

**Note 4 - Investments and Fair Value Measurements:**

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

	<u>2017</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Balance at December 31, 2017</u>
Mutual funds:				
Growth funds	\$ 553,134	\$ -	\$ -	\$ 553,134
Fixed income funds	661,801	-	-	661,801
Value funds	961,007	-	-	961,007
Real estate	187,130	-	-	187,130
Total Investments	<u>\$ 2,363,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,363,072</u>

	<u>2016</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Balance at December 31, 2016</u>
Mutual funds:				
Growth funds	\$ 576,838	\$ -	\$ -	\$ 576,838
Fixed income funds	660,753	-	-	660,753
Value funds	766,489	-	-	766,489
Real estate	176,562	-	-	176,562
Total Investments	<u>\$ 2,180,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,180,642</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 47,928	\$ 44,144
Net realized and unrealized gains	264,497	111,572
Investment fees	(10,532)	(8,374)
Total Investment Income	<u>\$ 301,893</u>	<u>\$ 147,342</u>

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 5 - Property and Equipment:**

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 2,232,286	\$ 2,232,286
Building and improvements	18,894,644	18,793,167
Parking garage	1,320,000	1,200,000
Furniture and fixtures	334,220	312,212
Exhibits	398,543	394,756
Equipment	103,367	103,367
Vehicles	9,221	9,221
Construction-in-progress	6,950	-
Subtotal	<u>23,299,231</u>	<u>23,045,009</u>
Less: Accumulated depreciation	<u>(4,635,919)</u>	<u>(4,116,782)</u>
Property and Equipment, Net	<u>\$ 18,663,312</u>	<u>\$ 18,928,227</u>

**Note 6 - Line-of-Credit:**

The Museum has a line-of-credit with First Republic Bank in the amount of \$500,000 with interest at the bank's index rate (5.00% at December 31, 2017) plus .50% with a minimum rate of 4.25%. The line-of-credit is renewable on June 30, 2018 and is secured by real property. There was no outstanding balance at December 31, 2017 and 2016.

**Note 7 - Board Designated Endowment Fund:**

The Museum has established an unrestricted board designated endowment fund. The funds are invested in accordance with the investment policy with a portion of the funds available for short-term or emergency cash requirements and the remainder to be invested for long-term growth and income. Annually, Museum management will make a recommendation to the Investment Committee on a withdrawal amount for the year, if any, from the Museum's investment funds. In August, 2017 the Museum's Board of Directors changed the guidelines for annual withdrawals from 5% to 4% of the rolling 36-month moving average of the market value of the investment portfolio as of December 31 of each year. The Investment Committee may recommend a different amount or no withdrawal at all. All withdrawals, within guidelines or not, must be approved by the Museum Board of Directors.

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

	<u>2017</u>	<u>2016</u>
Board Designated Endowment at Beginning of Year	\$ 2,190,474	\$ 1,630,736
Board-designated contributions, net	20,008	500,000
Investment return:		
Investment income	47,880	44,125
Net realized and unrealized gains	264,341	111,557
Investment fees	<u>(10,532)</u>	<u>(8,324)</u>
Total Investment Return	301,689	147,358
Distributions	<u>(108,360)</u>	<u>(87,620)</u>
Board Designated Endowment at End of Year	<u>\$ 2,403,811</u>	<u>\$ 2,190,474</u>

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 7 - Board Designated Endowment Fund: (Continued)**

The Board Designated Endowment fund assets have been reported as follows at December 31:

	2017	2016
Cash and cash equivalents	\$ 40,739	\$ 9,832
Investments – Board designated endowment	<u>2,363,072</u>	<u>2,180,642</u>
	<u>\$ 2,403,811</u>	<u>\$ 2,190,474</u>

**Note 8 - 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 consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Contributions - purpose restrictions	\$ 264,815	\$ 246,860
Contributions - time restriction	-	100,000
Contributions receivable - time restrictions	12,000	24,000
Grant receivable - time restriction	<u>35,000</u>	<u>35,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 311,815</u>	<u>\$ 405,860</u>

Net assets in the amount of \$473,210 and \$323,554 were released from donor restrictions for the years ended December 31, 2017 and 2016, respectively, by incurring expenses satisfying the purpose or time restrictions specified by donors.

**Note 9 - Commitments:**

**Pension Plan**

The Museum has a 403(b) Plan (the “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 to the Plan.

**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 \$3,341 and \$3,575 for the years ended December 31, 2017 and 2016, 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. CC&R payments totaled \$34,200 and \$32,952 for the years ended December 31, 2017 and 2016, respectively.

**THE NEW CHILDREN'S MUSEUM  
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Supporting Services				Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services	
<b><u>Salaries and Related Expenses:</u></b>					
Salaries and wages	\$ 1,945,440	\$ 290,763	\$ 218,210	\$ 508,973	\$ 2,454,413
Payroll taxes	176,506	36,206	13,577	49,783	226,289
Employee benefits	212,254	32,655	27,212	59,867	272,121
Total Salaries and Related Expenses	<u>2,334,200</u>	<u>359,624</u>	<u>258,999</u>	<u>618,623</u>	<u>2,952,823</u>
<b><u>Nonsalary Related Expenses:</u></b>					
Administrative expenses	63,705	50,965	12,741	63,706	127,411
Advertising and marketing	146,810	-	-	-	146,810
Artist performance fee	28,697	-	-	-	28,697
Bank fee and other charges	194	1,482	88	1,570	1,764
Communications	6,744	1,926	964	2,890	9,634
Dues and memberships	7,642	2,958	1,726	4,684	12,326
Equipment	11,623	1,162	129	1,291	12,914
Equipment rental	12,276	1,227	137	1,364	13,640
Events	50,904	25,452	8,484	33,936	84,840
Exhibitions	8,817	1,889	1,889	3,778	12,595
Information technology	17,281	23,761	2,160	25,921	43,202
In-kind expenses	87,877	23,434	5,858	29,292	117,169
Insurance	23,071	3,254	3,254	6,508	29,579
Meetings and conferences	24,864	5,040	3,696	8,736	33,600
Miscellaneous	1,733	1,733	1,485	3,218	4,951
Occupancy	245,547	24,555	2,728	27,283	272,830
Other expenses	15,032	2,310	1,157	3,467	18,499
Parking	7,900	1,975	1,743	3,718	11,618
Postage	3,633	1,514	908	2,422	6,055
Supplies	81,190	2,137	2,137	4,274	85,464
Taxes	6,420	642	71	713	7,133
Temporary non-payroll help	40,049	24,029	16,019	40,048	80,097
Travel, meals and entertainment	19,486	3,950	9,925	13,875	33,361
Total Nonsalary Related Expenses	<u>911,495</u>	<u>205,395</u>	<u>77,299</u>	<u>282,694</u>	<u>1,194,189</u>
Depreciation	503,437	29,458	29,458	58,916	562,353
<b>TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES</b>	<u>\$ 3,749,132</u>	<u>\$ 594,477</u>	<u>\$ 365,756</u>	<u>\$ 960,233</u>	<u>\$ 4,709,365</u>

**THE NEW CHILDREN'S MUSEUM  
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Supporting Services				Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services	
<b><u>Salaries and Related Expenses:</u></b>					
Salaries and wages	\$ 1,555,299	\$ 210,176	\$ 336,281	\$ 546,457	\$ 2,101,756
Payroll taxes	137,464	18,576	29,722	48,298	185,762
Employee benefits	162,816	22,961	22,961	45,922	208,738
Total Salaries and Related Expenses	<u>1,855,579</u>	<u>251,713</u>	<u>388,964</u>	<u>640,677</u>	<u>2,496,256</u>
<b><u>Nonsalary Related Expenses:</u></b>					
Administrative expenses	71,821	57,457	14,364	71,821	143,642
Advertising and marketing	153,042	-	-	-	153,042
Artist performance fee	32,054	-	-	-	32,054
Bank fee and other charges	330	2,517	150	2,667	2,997
Communications	5,158	1,997	1,165	3,162	8,320
Dues and memberships	5,875	2,274	1,327	3,601	9,476
Equipment	11,912	1,191	132	1,323	13,235
Equipment rental	12,636	1,264	140	1,404	14,040
Events	39,705	8,758	9,926	18,684	58,389
Exhibitions	3,550	9,605	7,726	17,331	20,881
Information technology	18,050	24,819	2,256	27,075	45,125
In-kind expenses	43,765	16,090	4,505	20,595	64,360
Insurance	24,540	3,461	3,461	6,922	31,462
Interest expense	-	344	-	344	344
Loss on sale of property and equipment	1,503	-	-	-	1,503
Meetings and conferences	14,678	2,975	2,182	5,157	19,835
Miscellaneous	2,816	2,733	2,733	5,466	8,282
Occupancy	190,988	19,099	2,122	21,221	212,209
Other expenses	7,626	694	570	1,264	8,890
Parking	2,634	659	581	1,240	3,874
Postage	5,412	2,255	1,353	3,608	9,020
Supplies	60,906	621	621	1,242	62,148
Taxes	7,940	794	88	882	8,822
Temporary non-payroll help	17,557	6,753	2,701	9,454	27,011
Travel, meals and entertainment	10,401	2,108	1,547	3,655	14,056
Total Nonsalary Related Expenses	<u>744,899</u>	<u>168,468</u>	<u>59,650</u>	<u>228,118</u>	<u>973,017</u>
Depreciation	538,578	29,921	29,921	59,842	598,420
<b>TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES</b>	<u>\$ 3,139,056</u>	<u>\$ 450,102</u>	<u>\$ 478,535</u>	<u>\$ 928,637</u>	<u>\$ 4,067,693</u>