



the new children's museum

Financial Statements

December 31, 2018 and 2017



Leaf & Cole, LLP  
*Certified Public Accountants*

**THE NEW CHILDREN'S MUSEUM  
FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses 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.

To the Board of Directors  
The New Children's Museum

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***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, 2018 and 2017, 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.

Leaf & Cole LLP

San Diego, California  
May 20, 2019

**THE NEW CHILDREN'S MUSEUM  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017**

**ASSETS**

	<u>2018</u>	<u>2017</u>
<b><u>Assets:</u></b> (Notes 2, 4, 5, 6, 7 and 8)		
Cash and cash equivalents	\$ 107,753	\$ 232,985
Grants and other receivables	148,078	154,893
Contributions receivable	19,050	14,500
Inventory	8,654	2,376
Prepaid expenses and other assets	190,944	197,358
Board designated funds:		
Cash and cash equivalents	11,801	40,739
Investments	1,968,381	2,363,072
Property and equipment, net	<u>18,479,310</u>	<u>18,663,312</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 20,933,971</u></b>	<b><u>\$ 21,669,235</u></b>

**LIABILITIES AND NET ASSETS**

<b><u>Liabilities:</u></b> (Notes 2 and 7)		
Accounts payable and accrued expenses	\$ 434,284	\$ 373,076
Deferred revenue	365,842	496,445
Line-of-credit	169,815	-
Security deposits	<u>2,500</u>	<u>2,500</u>
Total Liabilities	<u>972,441</u>	<u>872,021</u>
<b><u>Commitments</u></b> (Notes 7 and 10)		
<b><u>Net Assets:</u></b> (Notes 2, 8 and 9)		
Without Donor Restrictions:		
Undesignated	17,782,412	18,081,588
Board designated funds	<u>1,980,182</u>	<u>2,403,811</u>
Total Net Assets Without Donor Restrictions	<u>19,762,594</u>	<u>20,485,399</u>
With Donor Restrictions:		
Purpose restriction	198,936	299,815
Time restriction	-	12,000
Total Net Assets With Donor Restrictions	<u>198,936</u>	<u>311,815</u>
Total Net Assets	<u>19,961,530</u>	<u>20,797,214</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 20,933,971</u></b>	<b><u>\$ 21,669,235</u></b>

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, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b><u>Operating Support and Revenue:</u></b>						
Admissions	\$ 1,046,822	\$ -	\$ 1,046,822	\$ 902,749	\$ -	\$ 902,749
Contributions	561,043	395,334	956,377	825,355	379,165	1,204,520
Fees and facility usage	828,399	-	828,399	649,008	-	649,008
Memberships	593,996	-	593,996	598,741	-	598,741
In-kind contributions	269,438	-	269,438	199,218	-	199,218
Government grants	395,009	-	395,009	285,344	-	285,344
Special events	396,678	-	396,678	272,561	-	272,561
Parking	177,400	-	177,400	158,710	-	158,710
Other	39,316	-	39,316	14,505	-	14,505
Program events	17,232	-	17,232	24,022	-	24,022
Net assets released from restrictions	508,213	(508,213)	-	473,210	(473,210)	-
Total Operating Support and Revenue	<u>4,833,546</u>	<u>(112,879)</u>	<u>4,720,667</u>	<u>4,403,423</u>	<u>(94,045)</u>	<u>4,309,378</u>
<b><u>Expenses:</u></b>						
<b>Program Services:</b>						
Programs and exhibits	4,025,177	-	4,025,177	3,749,132	-	3,749,132
<b>Supporting Services:</b>						
Management and general	690,507	-	690,507	594,477	-	594,477
Fundraising	395,454	-	395,454	365,756	-	365,756
Total Supporting Services	<u>1,085,961</u>	<u>-</u>	<u>1,085,961</u>	<u>960,233</u>	<u>-</u>	<u>960,233</u>
Total Program and Supporting Services Expenses	<u>5,111,138</u>	<u>-</u>	<u>5,111,138</u>	<u>4,709,365</u>	<u>-</u>	<u>4,709,365</u>
<b>Cost of Sales</b>	16,303	-	16,303	3,785	-	3,785
<b>Special Events</b>	281,732	-	281,732	202,623	-	202,623
Total Expenses	<u>5,409,173</u>	<u>-</u>	<u>5,409,173</u>	<u>4,915,773</u>	<u>-</u>	<u>4,915,773</u>
Change in Net Assets Before Investment (Loss) Income	<u>(575,627)</u>	<u>(112,879)</u>	<u>(688,506)</u>	<u>(512,350)</u>	<u>(94,045)</u>	<u>(606,395)</u>

(Continued)

**THE NEW CHILDREN'S MUSEUM  
STATEMENTS OF ACTIVITIES (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b><u>Investment (Loss) Income:</u></b>						
Interest and dividend income	\$ 48,933	\$ -	\$ 48,933	\$ 47,928	\$ -	\$ 47,928
Net realized and unrealized (losses) gains	(184,935)	-	(184,935)	264,497	-	264,497
Investment fees	(11,176)	-	(11,176)	(10,532)	-	(10,532)
Total Investment (Loss) Income	<u>(147,178)</u>	<u>-</u>	<u>(147,178)</u>	<u>301,893</u>	<u>-</u>	<u>301,893</u>
Change in Net Assets	(722,805)	(112,879)	(835,684)	(210,457)	(94,045)	(304,502)
Net Assets at Beginning of Year	<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>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 19,762,594</u>	<u>\$ 198,936</u>	<u>\$ 19,961,530</u>	<u>\$ 20,485,399</u>	<u>\$ 311,815</u>	<u>\$ 20,797,214</u>

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

**THE NEW CHILDREN'S MUSEUM  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Supporting Services				Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services	
<b><u>Salaries and Related Expenses:</u></b>					
Salaries and wages	\$ 2,032,211	\$ 305,087	\$ 233,582	\$ 538,669	\$ 2,570,880
Payroll taxes	172,622	35,410	13,279	48,689	221,311
Employee benefits	279,682	43,028	35,857	78,885	358,567
Total Salaries and Related Expenses	<u>2,484,515</u>	<u>383,525</u>	<u>282,718</u>	<u>666,243</u>	<u>3,150,758</u>
<b><u>Nonsalary Related Expenses:</u></b>					
Administrative expenses	102,147	59,717	17,794	77,511	179,658
Advertising and marketing	164,933	-	-	-	164,933
Artist performance fee	37,287	-	-	-	37,287
Communications	8,059	2,303	1,151	3,454	11,513
Dues and memberships	6,292	2,435	1,421	3,856	10,148
Equipment	20,210	2,021	225	2,246	22,456
Events	59,117	29,558	9,853	39,411	98,528
Exhibitions	7,268	1,557	1,557	3,114	10,382
Information technology	27,303	37,541	3,413	40,954	68,257
In-kind expenses	155,436	71,739	11,957	83,696	239,132
Meetings and conferences	26,510	5,374	3,941	9,315	35,825
Miscellaneous	1,897	1,858	7,177	9,035	10,932
Occupancy	310,972	31,109	3,472	34,581	345,553
Supplies	76,251	2,007	2,007	4,014	80,265
Temporary non-payroll help	50,777	30,466	20,311	50,777	101,554
Travel	15,529	3,148	2,308	5,456	20,985
Total Nonsalary Related Expenses	<u>1,069,988</u>	<u>280,833</u>	<u>86,587</u>	<u>367,420</u>	<u>1,437,408</u>
Depreciation	<u>470,674</u>	<u>26,149</u>	<u>26,149</u>	<u>52,298</u>	<u>522,972</u>
<b>TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES</b>	<u>\$ 4,025,177</u>	<u>\$ 690,507</u>	<u>\$ 395,454</u>	<u>\$ 1,085,961</u>	<u>\$ 5,111,138</u>

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



**THE NEW CHILDREN'S MUSEUM  
STATEMENT 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	97,023	57,857	17,062	74,919	171,942
Advertising and marketing	146,810	-	-	-	146,810
Artist performance fee	28,697	-	-	-	28,697
Communications	6,744	1,926	964	2,890	9,634
Dues and memberships	7,642	2,958	1,726	4,684	12,326
Equipment	23,899	2,389	266	2,655	26,554
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
Meetings and conferences	24,864	5,040	3,696	8,736	33,600
Miscellaneous	16,765	4,043	9,671	13,714	30,479
Occupancy	253,447	26,530	4,471	31,001	284,448
Supplies	81,190	2,137	2,137	4,274	85,464
Temporary non-payroll help	40,049	24,029	16,019	40,048	80,097
Travel	19,486	3,950	2,896	6,846	26,332
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	<u>503,437</u>	<u>29,458</u>	<u>29,458</u>	<u>58,916</u>	<u>562,353</u>
<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 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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ (835,684)	\$ (304,502)
<b>Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:</b>		
Depreciation	522,972	562,353
Donated property and equipment	(30,306)	(65,250)
Net realized and unrealized losses (gains) on investments	184,935	(264,497)
<b>(Increase) Decrease in:</b>		
Grants and other receivables	6,815	(11,797)
Contributions receivable	(4,550)	9,500
Inventory	(6,278)	(1,497)
Prepaid expenses and other assets	6,414	(13,644)
<b>Increase (Decrease) in:</b>		
Accounts payable and accrued expenses	61,208	72,216
Deferred revenue	(130,603)	174,328
Security deposits	-	2,500
Net Cash (Used in) Provided by Operating Activities	<u>(225,077)</u>	<u>159,710</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment (purchases)/sales/maturities, net	209,756	82,067
Purchase of property and equipment	(308,664)	(232,188)
Net Cash Used in Investing Activities	<u>(98,908)</u>	<u>(150,121)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Line-of-credit advances, net	169,815	-
Net Cash Provided by Financing Activities	<u>169,815</u>	<u>-</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(154,170)	9,589
Cash and Cash Equivalents at Beginning of Year	<u>273,724</u>	<u>264,135</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 119,554</u></b>	<b><u>\$ 273,724</u></b>
<b><u>Supplementary Disclosure of Cash Flow Information:</u></b>		
Cash paid for interest	<u>\$ 2,873</u>	<u>\$ -</u>

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

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**Note 1 - Organization:**

**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.

**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.

**History and Achievements**

The Museum opened in a La Jolla shopping center in 1983 and moved to its current downtown location in 1993. It renamed itself the San Diego Children's Museum/Museo de los Niños; it was among the first children's museums to emphasize bilingual engagement and cross-border artist commissions. In 2003, the Museum closed its doors to function "without walls" while constructing a new home. For five years, community outreach, including San Diego's underserved communities and schools, was its entire focus.

In 2008, the Museum opened its current, environmentally sustainable, three-story/50,000 square-foot facility in downtown San Diego (designed by architect Rob Quigley) and renamed itself The New Children's Museum. It is proud to serve as a community resource for San Diegans and an urban "backyard" for downtown families.

2018 marked The New Children's Museum's 35th year of bringing creative play and art-making to the lives of San Diego children and families. It welcomed 270,655 visitors and celebrated its 10th year in its downtown location. Widespread access continues to be cornerstone of its philosophy; over 25% of its visitors – over 70,000 in 2018 – come for free or at discounted rates through an array of community access initiatives.

**Exhibitions and Studios**

The New Children's Museum focuses on early childhood learning through creative exploration and play through its inventive and engaging art installations and studios:

- Children touch, jump, climb, and crawl as they physically explore 12+ art installations. Each is notable for its aesthetics, conceptual ideas, creativity, playability, and layered interactions. Recently commissioned installations include: *No Rules...Except* by Brian Dick; *Crystal Cortex* by Jason Hackenwerth; *Sketch Aquarium* by Team LAB, *The Wonder Sound* by Wes Sam-Bruce, *Desert Derby* by Roman de Salvo, and *Return to Home* by Alison Pebworth.

The Museum also offers art-making and educational themes in 10+ studios, through drop-in activities and scheduled workshops that are free with admission. This includes *Innovators LAB*, the Museum's makerspace where children explore STEAM-based projects; *Clay Studio* where visitors sculpt everything from unique creatures to pinch pots; *Tot Studio* for the youngest visitors to explore manipulatives that stimulate the senses; *Paint Studio* that lets children paint a full-sized object like a stagecoach or a truck; and *Toddler Time* workshops that include finger painting, yoga, and singing.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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

**Community Access**

Serving the community is a part of the Museum's strategic plan. Over the past 10 years, the needs of Hispanic and minority neighborhoods have been continually discussed with stakeholders, and the imperative to meet these needs has long been emphasized by the Board. The Museum has built relationships with hundreds of social service agencies, schools, and community leaders. Fueled by research showing that students from low socio-economic backgrounds who are exposed to the arts make greater academic and professional increases than their more privileged peers, the Museum serves children and family members through robust access programs.

The Museum's access programs include:

- ***Salute Our Troops*** – The Museum's largest access program, providing over 19,000 military visitors a safe place where children and parents can play, away from worries about deployment or even the next meal. Partnerships with USO San Diego and Support The Enlisted Program (STEP) for group visits; passes show the Museum's further commitment to active military families
- ***School Visits/Title I*** – 13,440 students, teachers, and chaperones from 182 schools came for free or at discounted rates for arts education; 60% were from Title I schools and Head Start programs. Tours and activities emphasized student-centered discussions and visual literacy. Many included art-making activities led by the Museum's Teaching Artists.
- ***Check Out The New Children's Museum*** – City and County library branches (60+) offer free admission passes that can be checked out for ten days, like a book. This program reached 12,074 visitors in 2018.
- ***Museums For All*** – This newest program started in May 2018 and served 4,222 low-income visitors that used EBT card (food benefits/WIC) for \$1 admission.
- ***pARTners in Creativity*** – Served 1,824 children/chaperones from 11 social service agencies working with abuse/neglect, homelessness, low literacy, mental and physical disabilities, substance abuse, and migrant issues. Groups enjoy free visits in a safe environment geared to their needs.
- ***Accessibility Mornings*** – 87 children with disabilities and their family/caretakers explored the Museum's exhibitions/activities in 2018, coming on designated mornings before the noise and crowds.
- ***Other*** – Kids Free October, Macy's Museum month in February, cross-membership promotions, and other initiatives provide even more opportunities to visit the Museum for free or nearly free each year.

**Outreach**

Community outreach programs are an important part of the many programs that engage families and children in creativity. The following outreach programs served 3,765 children and families in 2018, focusing on lower-income, primarily Latino neighborhoods.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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

**Outreach (Continued)**

- ***Mass Creativity Day and Workshops*** – Since 2013, this program has impacted more than 20 diverse community groups where Museum artists lead free art-making workshops each spring. In 2018, it included a series of hands-on art making workshops led by professional artists with the assistance of Museum staff at seven community centers in the San Diego region: Barrio Logan College Institute, Barrio Logan; Casa Familiar; San Ysidro; Made in Paradise Hills, Paradise Hills; The San Diego LGBT Community Center, Hillcrest; Solutions for Change, Vista; South Bay Community Services, Chula Vista; and Southern Sudanese Community Center, City Heights. Workshops participants and the public came to the Museum and park on June 24, 2018 for Mass Creativity Day, a free festival of art-making, music, and fun.
- ***Mass Creativity: Comunidad and Mi Familia, Mi Historia*** – These other programs, each with deepened community engagement as primary goals, served additional families in 2018.

Feedback from evaluations, observations, and community partners consistently supports the Museum's theory of change: that small successes experienced during open play and art activities reinforce the development of crucial skills like confidence, optimism, creativity, problem solving, collaboration, critical thinking, and resilience. These skills encompass the overarching impact the Museum strives to have and align with the identified needs of various community partners.

**Why the emphasis on play and art?**

Children's need for play is fundamental and basic. Infants begin playing almost immediately after birth and continue even in dire circumstances like in prisons or extreme poverty. Through play, children learn about the world and social relationships; they can test out ideas and build skills like resiliency. It is how children learn best when young and is an expression of joy and good health. The Museum's stress on open-ended play is one way to combat today's trend of declining playtime due to reduced school funding that has cancelled recess and art/music electives, various screens, time constraints that favor structured playdates or test-prep classes.

Similarly, children need art. Art-making boosts critical thinking as children problem solve through different media and processes. The arts also provide contact with varied cultures, ideas, and historical periods. As noted by *Americans for the Arts*, the positive, well-documented impact of art on children includes children being more engaged and motivated at school; art giving students a voice in learning and telling their stories; and art nurturing collaboration, flexibility, hope, and resiliency.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated net assets without donor restrictions as described in Note 8.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**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.

**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).

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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

**Fair Value Measurements (Continued)**

- 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 statements 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, 2018 and 2017.

**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 support without donor restrictions 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 support with donor restrictions. Absent donor stipulations regarding how 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 net assets with donor restrictions to net assets without donor restrictions 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 \$522,972 and \$562,353 for the years ended December 31, 2018 and 2017, respectively.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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

**Capitalization and Depreciation (Continued)**

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 net assets without restriction in the year in which the items are acquired, or in net assets with restrictions if the net assets used to purchase the items are restricted by the donor. Contributed collection items are excluded from the financial statements. The Museum received a donation of Ernest Silva's installation "The Rainhouse" and its associated drawings and designs on May 9, 2018 to its collection. The fair value of the donation totaled \$37,400 for the year ended December 31, 2018.

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, 2018 and 2017, 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 2018 and 2017.

**Compensated Absences**

Accumulated unpaid vacation is accrued when incurred. Accrued vacation totaled \$80,008 and \$68,268 at December 31, 2018 and 2017, respectively, and is included in accounts payable and accrued expenses.

**Revenue Recognition**

Contributions are recognized when the donor makes a promise to give in writing to the Museum that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as without donor restriction or with donor restriction, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When the stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions. 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.



**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
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**Note 2 - Significant Accounting Policies: (Continued)**

**Revenue Recognition (Continued)**

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 \$283,801 and \$276,887 at December 31, 2018 and 2017, respectively.

Deposits received for facility events are recognized as revenue when the event occurs. Deferred event revenue totaled \$82,041 and \$219,558 at December 31, 2018 and 2017, 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>2018</u>	<u>2017</u>
Catering and other program items	\$ 152,988	\$ 114,969
Professional services	85,000	18,999
Furniture and equipment (non-capitalized)	1,144	-
Total Program and Supporting Services	239,132	133,968
Capitalized property and equipment	30,306	65,250
Total In-Kind Contributions	\$ 269,438	\$ 199,218

Donations of catering and other items for special events totaled \$135,678 and \$77,244 for the years ended December 31, 2018 and 2017, respectively, which are included in special events.

**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 NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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

**Income Taxes (Continued)**

The Museum's Return of Organization Exempt from Income Tax for the years ended December 31, 2018, 2017, 2016 and 2015 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 statements of cash flows, the Museum considers all highly liquid investments available for current use to be cash equivalents.

**Accounting Pronouncements Adopted**

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes that affected the Museum's financial statements include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Museum has adopted this ASU as of and for the year ended December 31, 2018. The Museum has reclassified certain accounts in the 2017 financial statements to conform with the current year financial statement presentation.

**Reclassification**

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

**Subsequent Events**

The Museum has evaluated subsequent events through May 20, 2019, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed except as disclosed in Note 11.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**Note 3 - Liquidity and Availability:**

The Museum regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. The Museum considers appropriated earnings and distributions from board designated funds, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include management and general expenses and fundraising expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Museum's fiscal year.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use except as described above, within one year, are comprised of the following:

Financial assets as year-end:	
Cash and cash equivalents	\$ 107,753
Grant and other receivables	148,078
Contributions receivable	19,050
Investments	<u>1,980,182</u>
Total financial assets	<u>2,255,063</u>
Less assets unavailable for general expenditures:	
Restricted by governing body requiring approval for disbursements, net of distributable portion (\$83,000)	<u>(1,897,182)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 357,881</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Museum has a line-of-credit agreement with available borrowings totaling \$500,000 as described in Note 7. In addition, the Museum operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The Museum's governing board has designated a portion of funds without donor restrictions. These funds are subject to a spending policy and are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board of Directors as described in Note 8.

**Note 4 - Contributions Receivable:**

Contributions receivable totaling \$19,050 and \$14,500 at December 31, 2018 and 2017, respectively are due in less than one year.

**THE NEW CHILDREN'S MUSEUM  
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**Note 5 - Investments and Fair Value Measurements:**

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

	2018			Balance at December 31, 2018
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	\$ 1,968,381	\$ -	\$ -	\$ 1,968,381
	2017			Balance at December 31, 2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	\$ 2,363,072	\$ -	\$ -	\$ 2,363,072

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

	2018	2017
Interest and dividend income	\$ 48,933	\$ 47,928
Net realized and unrealized (losses) gains	(184,935)	264,497
Investment fees	(11,176)	(10,532)
Total Investment (Loss) Income	\$ (147,178)	\$ 301,893

**Note 6 - Property and Equipment:**

Property and equipment consist of the following at December 31:

	2018	2017
Land	\$ 2,232,286	\$ 2,232,286
Building and improvements	19,034,137	18,894,644
Parking garage	1,320,000	1,320,000
Furniture and fixtures	334,220	334,220
Exhibits	520,144	398,543
Equipment	132,551	103,367
Vehicles	25,808	9,221
Construction-in-progress	30,942	6,950
Subtotal	23,630,088	23,299,231
Less: Accumulated depreciation	(5,150,778)	(4,635,919)
Property and Equipment, Net	\$ 18,479,310	\$ 18,663,312

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**Note 7 - 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 (6.00% at December 31, 2018) plus .50% with a minimum rate of 4.25%. The line-of-credit is renewable on June 30, 2019 and is secured by real property. The outstanding advances under the line-of-credit totaled \$169,815 and \$-0- at December 31, 2018 and 2017, respectively.

**Note 8 - Board Designated Net Assets:**

The Museum's governing board has designated a portion of funds without donor restrictions. These funds are invested in accordance with the investment policy with \$500,000 of the fund 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 fund. 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's Board of Directors.

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

	<u>2018</u>	<u>2017</u>
Board Designated Funds at Beginning of Year	\$ 2,403,811	\$ 2,190,474
Board-designated contributions, net	-	20,008
Investment (loss) income		
Investment income	48,877	47,880
Net realized and unrealized (losses) gains	(185,219)	264,341
Investment fees	(11,176)	(10,532)
Total Investment (Loss) Income	<u>(147,518)</u>	<u>301,689</u>
Distributions	<u>(276,111)</u>	<u>(108,360)</u>
Board Designated Funds at End of Year	<u>\$ 1,980,182</u>	<u>\$ 2,403,811</u>

**Note 9 - Net Assets With Donor Restrictions:**

Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
<b>Subject to Expenditure for Specified Purpose:</b>		
Outreach	\$ 40,425	\$ 60,621
Military and public access programs	38,374	68,400
Exhibits	31,887	29,500
Feasibility study	30,000	-
Education	28,000	62,250
Garden project	15,000	-
Innovation lab	13,750	32,500
Other	1,500	1,500

(Continued)

**THE NEW CHILDREN'S MUSEUM  
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**Note 9 - Net Assets With Donor Restrictions: (Continued)**

	<u>2018</u>	<u>2017</u>
Security system	\$ -	\$ 28,044
Van	-	17,000
Total Subject to Expenditure for Specified Purpose	198,936	299,815
 <b>Subject to the Passage of Time:</b>		
Contributions receivable	\$ -	\$ 12,000
Total Subject to the Passage of Time	-	12,000
Total Net Assets with Donor Restrictions	\$ 198,936	\$ 311,815

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
<b>Purpose Restrictions Accomplished:</b>		
Military and public access programs	\$ 127,222	\$ 145,660
Outreach	106,947	51,800
Education	101,250	75,750
Innovation lab	73,750	88,000
Security system	28,044	-
Exhibits	27,000	-
Van	17,000	-
Garden project	15,000	-
Total Purpose Restrictions Accomplished	496,213	361,210
<b>Time Restrictions Fulfilled</b>		
Total Net Assets Released from Restrictions	\$ 508,213	\$ 473,210

**Note 10 - Commitments:**

**Pension Plan**

The Museum has a 403(b) Plan (the "Plan") covering all regular full-time and part-time employees. Under the Plan, employees can contribute and defer taxes on compensation earned. After the first year of employment and 1,000 hours worked, the Museum matches employees' contributions up to 3% of the employee's annual wages. Employer matching contribution is subject to change and annual approval by the Museum's Board of Directors. The employer matching contributions to the Plan totaled \$25,150 and \$-0- for the years ended December 31, 2018 and 2017, respectively, and are included in employee benefits in the statements of functional expenses.

**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 \$3,010 and \$3,341 for the years ended December 31, 2018 and 2017, respectively.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**Note 10 - Commitments: (Continued)**

**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 \$34,920 and \$34,200 for the years ended December 31, 2018 and 2017, respectively.

**Note 11 - Subsequent Event:**

On January 23, 2019, the Museum entered into an agreement for the development and installation of a sculpture. The commitment totals \$126,000.