



the new children's museum

Financial Statements

December 31, 2012



Leaf & Cole, LLP
Certified Public Accountants

**THE NEW CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
DECEMBER 31, 2012**

TABLE OF CONTENTS

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



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The New Children's Museum, which comprise the statement of financial position as of December 31, 2012, 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, 2012, 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 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 26, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of functional expenses for the year ended December 31, 2012 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, 2011 included in the supplementary schedule of functional expenses for the year ended December 31, 2012 has been derived from The New Children's Museum's 2011 financial statements and in our report dated April 26, 2012, we expressed our opinion that the information was fairly stated in all material respects in relation to the financial statements as a whole.

Leaf & Cole LLP

San Diego, California
May 16, 2013

THE NEW CHILDREN'S MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

ASSETS

	<u>2012</u>	<u>2011</u>
<u>Assets:</u> (Notes 1, 2, 3, 4, 5 and 6)		
Cash and cash equivalents	\$ 658,049	\$ 941,361
Investments	605,846	-
Grants and other receivables	181,288	117,021
Contributions receivable, net	182,644	279,228
Prepaid expenses and deposits	14,174	13,732
Property and equipment, net	<u>20,528,186</u>	<u>21,256,065</u>
TOTAL ASSETS	<u>\$ 22,170,187</u>	<u>\$ 22,607,407</u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Notes 1 and 8)		
Accounts payable and accrued expenses	\$ 109,615	\$ 143,927
Deferred revenue	201,159	155,919
Capital lease obligations	55,297	66,893
Total Liabilities	<u>366,071</u>	<u>366,739</u>
<u>Commitments</u> (Notes 7 and 12)		
<u>Net Assets:</u> (Notes 1, 9 and 10)		
Unrestricted:		
Undesignated	20,787,811	21,800,950
Board designated endowment	656,319	-
Total Unrestricted	<u>21,444,130</u>	<u>21,800,950</u>
Temporarily restricted	359,986	439,718
Total Net Assets	<u>21,804,116</u>	<u>22,240,668</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,170,187</u>	<u>\$ 22,607,407</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, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)**

	<u>Unrestricted Operations</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
<u>Operating Support and Revenue:</u>				
Contributions	\$ 1,248,623	\$ 271,432	\$ 1,520,055	\$ 1,117,054
Capital campaign contributions	24,903	-	24,903	124,824
Special events	402,477	-	402,477	762,871
Admissions	441,083	-	441,083	437,966
Fees and facility usage	361,881	-	361,881	269,739
Memberships	240,592	-	240,592	245,131
Government grants	201,097	-	201,097	151,580
In-kind contributions	70,038	-	70,038	-
Other	5,343	-	5,343	3,899
Net assets released from restrictions	351,164	(351,164)	-	-
Total Operating Support and Revenue	<u>3,347,201</u>	<u>(79,732)</u>	<u>3,267,469</u>	<u>3,113,064</u>
<u>Program and Supporting Services:</u>				
Program Services:				
Programs and exhibits	<u>2,728,114</u>	<u>-</u>	<u>2,728,114</u>	<u>2,420,621</u>
Total Program Services	<u>2,728,114</u>	<u>-</u>	<u>2,728,114</u>	<u>2,420,621</u>
Supporting Services:				
Management and general	409,554	-	409,554	403,790
Fundraising	<u>398,904</u>	<u>-</u>	<u>398,904</u>	<u>345,212</u>
Total Supporting Services	<u>808,458</u>	<u>-</u>	<u>808,458</u>	<u>749,002</u>
Total Program and Supporting Services	<u>3,536,572</u>	<u>-</u>	<u>3,536,572</u>	<u>3,169,623</u>
Special Events Expense	<u>211,077</u>	<u>-</u>	<u>211,077</u>	<u>315,834</u>
Total Expenses	<u>3,747,649</u>	<u>-</u>	<u>3,747,649</u>	<u>3,485,457</u>
Change in Net Assets Before Investment				
Income	<u>(400,448)</u>	<u>(79,732)</u>	<u>(480,180)</u>	<u>(372,393)</u>
<u>Investment Income:</u>				
Net realized and unrealized gains				
on investments	31,215	-	31,215	-
Interest and dividend income	13,121	-	13,121	2,796
Investment fees	<u>(708)</u>	<u>-</u>	<u>(708)</u>	<u>-</u>
Total Investment Income	<u>43,628</u>	<u>-</u>	<u>43,628</u>	<u>2,796</u>
Change in Net Assets	(356,820)	(79,732)	(436,552)	(369,597)
Net Assets at Beginning of Year	<u>21,800,950</u>	<u>439,718</u>	<u>22,240,668</u>	<u>22,610,265</u>
NET ASSETS AT END OF YEAR	<u>\$ 21,444,130</u>	<u>\$ 359,986</u>	<u>\$ 21,804,116</u>	<u>\$ 22,240,668</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, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)**

	<u>2012</u>	<u>2011</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (436,552)	\$ (369,597)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	690,393	553,040
Loss on sale of property and equipment	32,125	11,638
Donated property and equipment	-	(75,000)
Net realized and unrealized gains on investments	(31,215)	-
(Increase) Decrease in:		
Grants and other receivables	(64,267)	32,469
Contributions receivable, net	96,584	407,334
Prepaid expenses and deposits	(442)	5,450
Increase (Decrease) in:		
Accounts payable and accrued expenses	(26,112)	(18,869)
Deferred revenue	45,240	(58)
Net Cash Provided by Operating Activities	<u>305,754</u>	<u>546,407</u>
<u>Cash Flows From Investing Activities:</u>		
Investment (purchases)/sales/maturities, net	(574,631)	-
Purchase of property and equipment	(42,131)	(419,522)
Proceeds from sale of property and equipment	39,292	1,200
Net Cash Used in Investing Activities	<u>(577,470)</u>	<u>(418,322)</u>
<u>Cash Flows From Financing Activities:</u>		
Payments on capital lease obligations	(11,596)	(1,878)
Net Cash Used in Financing Activities	<u>(11,596)</u>	<u>(1,878)</u>
(Decrease) Increase in Cash and Cash Equivalents	(283,312)	126,207
Cash and Cash Equivalents at Beginning of Year	<u>941,361</u>	<u>815,154</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 658,049</u>	<u>\$ 941,361</u>
<u>Supplementary Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 8,859</u>	<u>\$ 1,428</u>
<u>Supplementary Disclosure of Noncash Investing and Financing Activities:</u>		
Equipment acquired through capital lease obligations	<u>\$ -</u>	<u>\$ 68,771</u>
Parking garage - contributed parking spaces	<u>\$ -</u>	<u>\$ 75,000</u>

The accompanying notes are integral part of the financial statements.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

Note 1 - Organization and Significant Accounting Policies:

Organization

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

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

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

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

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

In 2012, 143,295 children and families had an opportunity to experience The New Children's Museum, with a total of 730,168 visitors since re-opening in 2008. During 2012, the Museum welcomed 14,501 students and chaperones through the Museum's innovative education and school visits programs. Camp attendance continues to increase, with 420 children participating in Spring, Summer and Fall/Winter camps in 2012.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

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

Organization (Continued)

Additionally, NCM continues to offer access to families from all economic levels with its innovative and expanding Community Access Program. In 2012, 25% of our visitors attended the Museum free of charge through the following programs:

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

In addition, the Museum participated with the San Diego Museum Council on two initiatives designed to spotlight arts and cultural activities and provide discounted admission:

- Museum Month (February): half off admission
- Fall For The Arts (October): free admission for children with adult admission

Vision

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

Mission

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

Programs

Current Exhibition

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

- Childsplay (2008 - 2009)
- Animal Art (2009 - 2011)
- TRASH (2011 - 2013)

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

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

Organization (Continued)

Programs (Continued)

Current Exhibition (Continued)

The current exhibition, *TRASH*, seeks to draw attention to an invisible issue that increasingly dominates our lives. For nearly 100 years, artists have chosen to work with trash to create a tangible connection to everyday life and to reject the idea that making art requires precious or expensive materials. Today artists are also passionately interested in the environmental impact of their materials. Through their transformation of trash into art, our artists encourage you to envision trash as more than waste needing disposal. The future starts here at NCM. We want to empower children and families to act as the agents of change at home, and we look to children to find the new approaches, new ideas, and new solutions that will change our future.

Upcoming Exhibition

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

Community Outreach

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

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

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

Organization (Continued)

Programs (Continued)

Community Outreach (Continued)

Educators' Night Out: Educators' Night Out is a free evening event for educators from throughout the San Diego region. The Museum invited teachers to experience the Museum firsthand and learn about the innovative programs available to them and their students. Educators were encouraged to bring their children to the event to enjoy performances, art-making workshops, artist demonstrations, opportunity drawings, and refreshments. NCM distributed art materials and lesson plans, and teachers had the chance to view the curriculum materials that we offer as downloads from our website. In addition, the Museum presented hands-on workshops demonstrating two of our featured studio art activities that are available to school groups. In 2012, 296 educators and their children attended the event and 16 other arts organizations participated in the evening's activities.

NCM Innovators: In 2012, NCM Innovators was presented once a quarter as a series of events and collaborative discussions about the intersection of art, science, creativity, and innovation. A free public program organized by NCM and presented in partnership with various community organizations and individuals, the program targeted adult professionals interested in contemporary issues and networking opportunities.

Significant Accounting Policies

Method of Accounting

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

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.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

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

Significant Accounting Policies (Continued)

Estimates

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

Risks and Uncertainties

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

Fair Value Measurements

NCM has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement 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). These standards do not change existing guidance as to whether or not an instrument is carried at fair value.

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

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

Allowance for Doubtful Accounts

Management believes that all grants and other receivables and contributions receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded as of December 31, 2012 and 2011.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

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

Significant Accounting Policies (Continued)

Contributions

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

Capitalization and Depreciation

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

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

Depreciation totaled \$690,393 and \$553,040 for the years ended December 31, 2012 and 2011, respectively.

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

Impairment of Real Estate

NCM reviews its investment in real estate for impairment wherever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2012 or 2011.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

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

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation is accrued when incurred. Accrued vacation totaled \$18,103 and \$19,962 at December 31, 2012 and 2011, respectively, and is included in accounts payable and accrued expenses.

Revenue Recognition

Revenue from memberships is recognized on a pro-rata basis over the period the memberships are earned during the year. Deferred memberships totaled \$106,850 and \$117,464 at December 31, 2012 and 2011, respectively.

Revenue from unredeemed membership vouchers is deferred until the earlier of (1) the redemption of the membership voucher, or (2) the expiration of the membership voucher. Deferred unredeemed membership vouchers totaled \$1,198 and \$8,988 at December 31, 2012 and 2011, respectively.

Deposits received for facility events are recognized as revenue when the event occurs. Deferred event revenue totaled \$93,111 and \$29,467 at December 31, 2012 and 2011, respectively.

Donated Services, Materials, Supplies and Equipment

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

NCM has received donations for professional services. The professional services are recorded at their fair value, totaled \$14,888 and \$-0- for the years ended December 31, 2012 and 2011, respectively, and have been included in revenue and expenses for the years ended December 31, 2012 and 2011.

NCM received donations of catering and other items for the Gala, a special event. The donations are recorded at their fair value and totaled \$55,150 and \$-0- for the years ended December 31, 2012 and 2011, respectively.

Allocated Expenses

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

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

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

Significant Accounting Policies (Continued)

Income Taxes

NCM is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. NCM believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. NCM is not a private foundation.

NCM's Return of Organization Exempt from Income Tax for the years ended December 31, 2012, 2011, 2010 and 2009 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

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

Cash and Cash Equivalents

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

Comparative Totals for December 31, 2011

The financial statements include certain prior year summarized comparative information in total but not by net asset class. This summarized information is for comparative purposes only, and accordingly, such information should be read in conjunction with NCM's financial statements for the year ended December 31, 2011, from which the summarized comparative information was derived.

Subsequent Events

In preparing these financial statements, NCM has evaluated events and transactions for potential recognition or disclosure through May 16, 2013, the date the financial statements were available to be issued.

Reclassification

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

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy as of December 31, 2012. NCM had no assets requiring classification as of December 31, 2011.

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

Note 3 - Investments:

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

	<u>2012</u>	<u>2011</u>
Mutual funds	<u>\$ 605,846</u>	<u>\$ -</u>

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

	<u>2012</u>			<u>2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Realized and unrealized gains on investments	\$ 31,215	\$ -	\$ 31,215	\$ -
Interest and dividends	13,121	-	13,121	2,796
Investment fees	(708)	-	(708)	-
Total Investment Return	<u>\$ 43,628</u>	<u>\$ -</u>	<u>\$ 43,628</u>	<u>\$ 2,796</u>

Note 4 - Grants and Other Receivables:

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

	<u>2012</u>	<u>2011</u>
City of San Diego Commission for Arts and Culture	\$ 118,181	\$ 75,916
Other	55,607	12,605
Rice Foundation	7,500	7,500
Scholarshare	-	20,000
Special event 2011	-	1,000
Total Grants and Other Receivables	<u>\$ 181,288</u>	<u>\$ 117,021</u>

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

Note 5 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Current:		
Receivables due in less than one year	\$ <u>108,750</u>	\$ <u>116,666</u>
Noncurrent:		
Receivables due in one to five years	75,000	165,000
Less: Discounts to present value	<u>(1,106)</u>	<u>(2,438)</u>
Total Noncurrent	<u>73,894</u>	<u>162,562</u>
Contributions Receivable, Net	<u>\$ 182,644</u>	<u>\$ 279,228</u>

The contributions receivable have been discounted to their present value using a discount rate of 1.50% at December 31, 2012 and 2011.

Note 6 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,232,286	\$ 2,232,286
Building and improvements	18,652,929	18,638,857
Parking garage	1,200,000	1,275,000
Furniture and fixtures	316,689	316,689
Exhibits	499,479	484,769
Equipment	175,178	160,302
Equipment held under capital lease obligations	69,752	68,771
Vehicles	11,106	11,106
Construction in progress	-	10,000
Subtotal	<u>23,157,419</u>	<u>23,197,780</u>
Less: Accumulated depreciation	<u>(2,629,233)</u>	<u>(1,941,715)</u>
Property and Equipment, Net	<u>\$ 20,528,186</u>	<u>\$ 21,256,065</u>

Note 7 - Line-of-Credit:

NCM has a line-of-credit with Torrey Pines Bank in the amount of \$250,000 with interest at the bank's index rate plus .50% with a minimum rate of 6.50% and 6.50% at December 31, 2012 and 2011, respectively. The line-of-credit is renewable on June 15, 2013, and is secured by real property. There was no outstanding balance at December 31, 2012 and 2011.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

Note 8 - Capital Lease Obligations:

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

	<u>2012</u>	<u>2011</u>
Cost	\$ 68,771	\$ 68,771
Less: Accumulated depreciation	(13,954)	-
Net Book Value	<u>\$ 54,817</u>	<u>\$ 68,771</u>

Future minimum capital lease payments are as follows:

<u>Years Ended</u> <u>December 31</u>	
2013	\$ 20,712
2014	20,712
2015	19,776
2016	<u>7,110</u>
Total	68,310
Less: Amount representing interest	(13,013)
Capital Lease Obligations	<u>\$ 55,297</u>

Note 9 - Temporarily Restricted Net Assets:

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

	<u>2012</u>	<u>2011</u>
Contributions receivable - time restrictions	\$ 182,644	\$ 279,228
Contribution - time restriction	100,000	160,490
Contribution - purpose restrictions	<u>77,342</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 359,986</u>	<u>\$ 439,718</u>

Net assets in the amount of \$351,164 were released from donor restrictions for the year ended December 31, 2012, by incurring expenses satisfying the purpose or time restrictions specified by donors.

Note 10 - Endowment Net Assets:

NCM's endowment consists of a fund established for a general purpose. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. NCM holds and manages its unrestricted board designated endowment fund.

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

Note 10 - Endowment Net Assets: (Continued)

NCM has interpreted the enacted version of the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NCM classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the NCM in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the NCM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the NCM and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the NCM
7. The investment policies of the NCM

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires NCM to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2012.

NCM has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
4. Comply with applicable laws

NCM'S endowment funds are invested in a diversified portfolio of mutual funds that are structured to satisfy its long-term total return objectives. NCM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

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

Endowment composition by type of fund at December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Board-Designated Endowment Funds:</u>				
<u>Managed by NCM:</u>				
General endowment fund	\$ 656,319	\$ -	\$ -	\$ 656,319
Total Board-Designated Endowment Funds	<u>\$ 656,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 656,319</u>

THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

Note 10 - Endowment Net Assets: (Continued)

Change in endowment net assets for the years ended December 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at December 31, 2011	\$ -	\$ -	\$ -	\$ -
Board-designated contributions	679,741	-	-	679,741
Investment return:				
Investment income	12,365	-	-	12,365
Net realized and unrealized gains	30,639	-	-	30,639
Investment fees	(708)	-	-	(708)
Total Investment Return	<u>42,296</u>	<u>-</u>	<u>-</u>	<u>42,296</u>
Appropriation of endowment assets for expenditure	<u>(65,718)</u>	<u>-</u>	<u>-</u>	<u>(65,718)</u>
Endowment Net Assets at December 31, 2012	<u>\$ 656,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 656,319</u>

Note 11 - Pension Plan:

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

Note 12 - Commitments:

Landscape Maintenance Agreement

The City of San Diego constructed the Children's Museum Park in 2008 which is adjacent to NCM. NCM entered into a landscape maintenance agreement with the City of San Diego that obligates NCM to pay all costs of maintaining the park for an initial period of 30 years, renewable for an additional 30 years. The maintenance costs totaled \$5,467 and \$8,445 for the years ended December 31, 2012 and 2011, respectively.

Common Area and Parking

NCM has a common interest in the adjacent common area and parking structure with Pinnacle Market Development (US), LLC. The Covenants, Conditions, and Restrictions (CC&Rs) for NCM & Pinnacle Museum Tower Development require payments for operating and replacement funding. Payments totaled \$28,863 and \$30,875 for the years ended December 31, 2012 and 2011, respectively.

THE NEW CHILDREN'S MUSEUM
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

	Supporting Services				2012 Total	2011 Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services		
<u>Salaries and Related Expenses:</u>						
Salaries and wages	\$ 1,198,865	\$ 152,136	\$ 233,927	\$ 386,063	\$ 1,584,928	\$ 1,390,762
Payroll taxes	114,497	13,797	19,421	33,218	147,715	130,657
Employee benefits	121,635	16,069	16,295	32,364	153,999	110,526
Total Salaries and Related Expenses	1,434,997	182,002	269,643	451,645	1,886,642	1,631,945
<u>Nonsalary Related Expenses:</u>						
Advertising	70,803	-	132	132	70,935	45,074
Artist honorarium	16,968	-	-	-	16,968	12,975
Bad debt	-	-	6,666	6,666	6,666	-
Bank fees and other charges	19,114	5,746	-	5,746	24,860	32,949
Conferences and meetings	6,508	1,806	2,657	4,463	10,971	21,215
Consultants and contract services	289,545	66,374	70,894	137,268	426,813	402,452
Donor recognition and events	3,868	418	3,735	4,153	8,021	51,431
Insurance	25,961	9,552	-	9,552	35,513	33,228
Interest	-	8,859	-	8,859	8,859	1,428
Loss on sale of property and equipment	-	32,125	-	32,125	32,125	11,638
Occupancy	104,756	14,958	2,611	17,569	122,325	150,471
Office	41,676	17,207	6,507	23,714	65,390	68,694
Other expenses	5,801	24	24	48	5,849	6,156
Professional fees	876	31,501	-	31,501	32,377	39,622
Repairs and maintenance	35,055	-	-	-	35,055	27,396
Supplies and materials	36,673	300	431	731	37,404	55,223
Travel, meals and entertainment	14,160	4,162	1,084	5,246	19,406	24,686
Total Nonsalary Related Expenses	671,764	193,032	94,741	287,773	959,537	984,638
Depreciation	621,353	34,520	34,520	69,040	690,393	553,040
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	\$ 2,728,114	\$ 409,554	\$ 398,904	\$ 808,458	\$ 3,536,572	\$ 3,169,623