



the new children's museum

Financial Statements

December 31, 2019 and 2018



Leaf & Cole, LLP  
*Certified Public Accountants*

**THE NEW CHILDREN'S MUSEUM  
FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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  
July 24, 2020

**THE NEW CHILDREN'S MUSEUM  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018**

**ASSETS**

	<u>2019</u>	<u>2018</u>
<b><u>Assets:</u></b> (Notes 2, 4, 5, 6, 7 and 8)		
Cash and cash equivalents	\$ 115,839	\$ 107,753
Grants and other receivables	174,731	148,078
Contributions receivable, net	58,221	19,050
Inventory	28,105	8,654
Prepaid expenses and other assets	22,661	190,944
Board designated funds:		
Cash and cash equivalents	38,046	11,801
Investments	1,901,460	1,968,381
Property and equipment, net	18,467,481	18,479,310
Collection	-	-
<b>TOTAL ASSETS</b>	<b>\$ 20,806,544</b>	<b>\$ 20,933,971</b>

**LIABILITIES AND NET ASSETS**

<b><u>Liabilities:</u></b> (Notes 2 and 7)		
Accounts payable and accrued expenses	\$ 699,794	\$ 434,284
Deferred revenue	89,139	365,842
Line-of-credit	169,815	169,815
Security deposits	2,500	2,500
Total Liabilities	<u>961,248</u>	<u>972,441</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	17,660,774	17,782,412
Board designated funds	<u>1,939,506</u>	<u>1,980,182</u>
Total Without Donor Restrictions	19,600,280	19,762,594
With Donor Restrictions	<u>245,016</u>	<u>198,936</u>
Total Net Assets	<u>19,845,296</u>	<u>19,961,530</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 20,806,544</b>	<b>\$ 20,933,971</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, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b><u>Operating Revenue and Support:</u></b>						
Admissions	\$ 1,322,582	\$ -	\$ 1,322,582	\$ 1,046,822	\$ -	\$ 1,046,822
Auxiliary activities	1,116,270	-	1,116,270	1,059,819	-	1,059,819
Memberships	989,942	-	989,942	593,996	-	593,996
Contributions	480,778	432,219	912,997	566,043	395,334	961,377
Government grants	485,732	-	485,732	395,009	-	395,009
Special events, net of costs of direct benefits						
to donors of \$84,412 and \$76,160, respectively	350,733	-	350,733	315,831	-	315,831
In-kind contributions	99,202	-	99,202	269,438	-	269,438
Other income	5,144	-	5,144	2,215	-	2,215
Net assets released from restrictions	386,139	(386,139)	-	508,213	(508,213)	-
Total Operating Revenue and Support	<u>5,236,522</u>	<u>46,080</u>	<u>5,282,602</u>	<u>4,757,386</u>	<u>(112,879)</u>	<u>4,644,507</u>
<b><u>Expenses:</u></b>						
<b>Program Services:</b>						
Programs and exhibits	4,346,621	-	4,346,621	4,041,480	-	4,041,480
<b>Supporting Services:</b>						
Management and general	710,175	-	710,175	690,507	-	690,507
Fundraising	684,133	-	684,133	601,026	-	601,026
Total Supporting Services	<u>1,394,308</u>	<u>-</u>	<u>1,394,308</u>	<u>1,291,533</u>	<u>-</u>	<u>1,291,533</u>
Total Expenses	<u>5,740,929</u>	<u>-</u>	<u>5,740,929</u>	<u>5,333,013</u>	<u>-</u>	<u>5,333,013</u>
Change in Net Assets Before Investment Income (Loss)	<u>(504,407)</u>	<u>46,080</u>	<u>(458,327)</u>	<u>(575,627)</u>	<u>(112,879)</u>	<u>(688,506)</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, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b><u>Investment Income (Loss):</u></b>						
Net realized and unrealized gains (losses)	\$ 292,092	\$ -	\$ 292,092	\$ (184,935)	\$ -	\$ (184,935)
Interest and dividend income	59,891	-	59,891	48,933	-	48,933
Investment fees	(9,890)	-	(9,890)	(11,176)	-	(11,176)
Total Investment Income (Loss)	<u>342,093</u>	<u>-</u>	<u>342,093</u>	<u>(147,178)</u>	<u>-</u>	<u>(147,178)</u>
Change in Net Assets	(162,314)	46,080	(116,234)	(722,805)	(112,879)	(835,684)
Net Assets at Beginning of Year	<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>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 19,600,280</u>	<u>\$ 245,016</u>	<u>\$ 19,845,296</u>	<u>\$ 19,762,594</u>	<u>\$ 198,936</u>	<u>\$ 19,961,530</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, 2019**

	Supporting Services				Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services	
<b><u>Salaries and Related Expenses:</u></b>					
Salaries and wages	\$ 2,280,830	\$ 290,649	\$ 262,819	\$ 553,468	\$ 2,834,298
Payroll taxes	182,604	37,457	14,046	51,503	234,107
Employee benefits	331,167	50,949	42,457	93,406	424,573
Total Salaries and Related Expenses	2,794,601	379,055	319,322	698,377	3,492,978
<b><u>Nonsalary Related Expenses:</u></b>					
Administrative expenses	139,706	94,816	25,478	120,294	260,000
Advertising and marketing	197,735	-	-	-	197,735
Artist performance fee	33,651	-	-	-	33,651
Communications	15,221	4,349	2,175	6,524	21,745
Cost of goods sold	79,365	-	-	-	79,365
Dues and memberships	1,904	737	430	1,167	3,071
Equipment	19,263	1,926	214	2,140	21,403
Exhibitions	14,722	3,155	3,155	6,310	21,032
Information technology	25,097	34,509	3,137	37,646	62,743
In-kind expenses	59,281	27,361	4,560	31,921	91,202
Meetings and conferences	25,485	5,166	3,788	8,954	34,439
Miscellaneous	2,758	71,464	11,335	82,799	85,557
Occupancy	283,298	15,758	15,755	31,513	314,811
Program events	48,215	24,108	8,036	32,144	80,359
Special events	-	-	244,986	244,986	244,986
Supplies	77,645	2,043	2,043	4,086	81,731
Temporary non-payroll help	24,493	14,696	9,797	24,493	48,986
Travel	20,531	4,162	3,052	7,214	27,745
Total Nonsalary Related Expenses	1,068,370	304,250	337,941	642,191	1,710,561
Depreciation	483,650	26,870	26,870	53,740	537,390
<b>TOTAL EXPENSES</b>	<b>\$ 4,346,621</b>	<b>\$ 710,175</b>	<b>\$ 684,133</b>	<b>\$ 1,394,308</b>	<b>\$ 5,740,929</b>

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	2,484,515	383,525	282,718	666,243	3,150,758
<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
Cost of goods sold	16,303	-	-	-	16,303
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
Special events	-	-	281,732	281,732	281,732
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	1,086,291	280,833	368,319	649,152	1,735,443
Depreciation	470,674	26,149	26,149	52,298	522,972
<b>TOTAL EXPENSES</b>	<b>\$ 4,041,480</b>	<b>\$ 690,507</b>	<b>\$ 677,186</b>	<b>\$ 1,367,693</b>	<b>\$ 5,409,173</b>

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ (116,234)	\$ (835,684)
<b>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</b>		
Depreciation	537,390	522,972
Net realized and unrealized (gains) losses on investments	(292,092)	184,935
Donated capitalized design services	(8,000)	-
Donated property and equipment	-	(30,306)
<b>(Increase) Decrease in:</b>		
Grants and other receivables	(26,653)	6,815
Contributions receivable, net	(39,171)	(4,550)
Inventory	(19,451)	(6,278)
Prepaid expenses and other assets	168,283	6,414
<b>Increase (Decrease) in:</b>		
Accounts payable and accrued expenses	265,510	61,208
Deferred revenue	(276,703)	(130,603)
Net Cash Provided by (Used in) Operating Activities	<u>192,879</u>	<u>(225,077)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment (purchases)/sales/maturities, net	359,013	209,756
Purchase of property and equipment	(517,561)	(308,664)
Net Cash Used in Investing Activities	<u>(158,548)</u>	<u>(98,908)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Line-of-credit advances, net	-	169,815
Net Cash Provided by Financing Activities	<u>-</u>	<u>169,815</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	34,331	(154,170)
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>119,554</u>	<u>273,724</u>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR</b>	<u>\$ 153,885</u>	<u>\$ 119,554</u>
<b><u>Supplementary Disclosure of Cash Flow Information:</u></b>		
Cash paid for interest	<u>\$ 9,784</u>	<u>\$ 2,873</u>

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

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**Note 1 - Organization:**

**Mission**

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.

**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 21<sup>st</sup> 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.

The Museum was honored with the 2019 National Medal for Museums and Library Service for outstanding service to our communities. Widespread access continues to be cornerstone of its philosophy; over 26% of its 317,943 visitors in 2019 (82,000+) came for free or at discounted rates through an array of community access initiatives. In 2018, the Museum celebrated its 10th year in its downtown location, and marked 35th year of bringing creative play and art-making to the lives of San Diego children and families.

**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: *Whammock!* by Toshiko Horiuchi MacAdam; *Wobbleland 2.0* by Marisol Rendón; *No Rules...Except* by Brian Dick; *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 a newly commissioned art installation in the Tot Studio Space, *Tikitiko* by Tanya Aguiñiga, where the youngest visitors explore manipulatives that stimulate the senses. Other studios include: *Innovators LAB*, the Museum's makerspace where children explore STEAM-based projects; *Clay Studio*, where visitors sculpt everything from unique creatures to pinch pots; *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, 2019 AND 2018**

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

**Community Access**

Serving the community is a part of the Museum's strategic plan. Over the past several years, the needs of Latinx 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 25,000 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*** – 12,600+ students, teachers, and chaperones from 176 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 8,000+ visitors in 2019.
- ***Museums for All*** – This newest program served 11,890 low-income visitors that used EBT card (food benefits/WIC) for \$1 admission.
- ***PARTners in Creativity*** – Served 1,760 children/chaperones from 12 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*** – 355 children with disabilities and their family/caretakers explored the Museum's exhibitions/activities in 2019, coming on designated mornings before the noise and crowds.
- ***Other*** – Kids Free October, Macy's Museum month in February, Smithsonian Day, cross-membership promotions, and other initiatives provide even more opportunities to visit the Museum for free or nearly free each year.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**Outreach**

Community outreach programs are an important part of the many programs that engage families and children in creativity. The following outreach programs served 4,745 children and families in 2019, focusing on lower-income, primarily Latinx neighborhoods.

- ***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 2019, 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. The project culminated on Mass Creativity Day, when workshop participants and the public came to the Museum and park on June 22, 2019 for 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 2019 and 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, 2019 AND 2018**

**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, 2019 AND 2018**

**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 include the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual, index and exchanged traded 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 average cost or net realizable value.

**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 were fully collectible; therefore, no allowance for doubtful grants and other receivables was recorded at December 31, 2019 and 2018. The allowance for doubtful contributions receivable totaled \$3,000 and \$-0- at December 31, 2019 and 2018, respectively.

**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

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**Capitalization and Depreciation (Continued)**

Depreciation totaled \$537,390 and \$522,972 for the years ended December 31, 2019 and 2018, 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 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 fair value of donated collection items totaled \$-0- and \$37,400 for the years ended December 31, 2019 and 2018, respectively.

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, 2019 and 2018.

**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 2019 and 2018.

**Compensated Absences**

Accumulated unpaid vacation is accrued when incurred. Accrued vacation totaled \$107,312 and \$80,008 at December 31, 2019 and 2018, respectively, and is included in accounts payable and accrued expenses.

**Revenue Recognition**

**Admissions**

The Museum recognizes revenue from admissions upon sale or date of service, as applicable.



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

**Revenue Recognition (Continued)**

**Auxiliary Activities**

Revenue from auxiliary activities includes parking and retail sales totaling \$378,998 and \$214,501 for the years ended December 31, 2019 and 2018, respectively. The Museum recognizes revenue from these sources upon sale. Revenue from auxiliary activities also include education programs, facility rental, program events, and traveling exhibitions totaling \$737,272 and \$845,318 for the years ended December 31, 2019 and 2018, respectively. The Museum recognizes this revenue as performance obligations are satisfied, and the non-refundable portions of the contract are recorded as revenue upon receipt.

Deferred revenue from facility rentals totaled \$69,139 and \$82,041 at December 31, 2019 and 2018, respectively. Deferred revenue from traveling exhibitions totaled \$20,000 and \$-0- at December 31, 2019 and 2018, respectively.

**Memberships**

The Museum offers memberships of various categories that typically last for a term of one year. The Museum divides fees from these memberships between contributions and exchange transactions, and recognizes revenue for the contribution upon sale. The exchange portion is also recognized upon sale, since fees are non-refundable and used to fund the Museum's mission and access programs.

**Contributions**

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

**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>2019</u>	<u>2018</u>
Catering and other program items	\$ 73,202	\$ 152,988
Professional services	16,200	85,000
Facility usage	1,800	-
Furniture and equipment (non-capitalized)	-	1,144
Total Program and Supporting Services	91,202	239,132
Capitalized design services	8,000	-
Capitalized property and equipment	-	30,306
Total In-Kind Contributions	\$ 99,202	\$ 269,438

Donations of catering and other items for special events totaled \$171,903 and \$135,678 for the years ended December 31, 2019 and 2018, respectively, which are included in special events revenue and expenses.

**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 Return of Organization Exempt from Income Tax for the years ended December 31, 2019, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**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 and Restricted Cash**

For purposes of the statements of cash flows, the Museum considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The following is a reconciliation of cash and cash equivalents and restricted cash reported within the statements of financial position that sum to the total in the statements of cash flows at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 115,839	\$ 107,753
Cash and cash equivalents – Board-designated funds	38,046	11,801
Total Cash and Cash Equivalents and Restricted Cash	<u>\$ 153,885</u>	<u>\$ 119,554</u>

**Accounting Pronouncements Adopted**

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions, or opening net assets with donor restrictions, as of January 1, 2019. As a result of the adoption of ASU 2018-08, the Museum changed its revenue recognition related to memberships. Effective January 1, 2019, the contribution portions of memberships are accounted for as unconditional contributions, rather than exchange transactions. The change required the recognition of revenue that had been reported as deferred revenue at December 31, 2018, totaling \$283,801 during the year ended December 31, 2019.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis, which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the year ended December 31, 2019.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 for the year ended December 31, 2019 did not require any restatement of cash and cash equivalents for December 31, 2019 and 2018.

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**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 July 24, 2020, 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.

**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:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 115,839	\$ 107,753
Grants and other receivables	174,731	148,078
Contributions receivable, net	58,221	19,050
Board-designated funds	1,939,506	1,980,182
Distributions from board-designated funds	<u>380,000</u>	<u>380,000</u>
Total financial assets	<u>2,668,297</u>	<u>2,635,063</u>
Less assets unavailable for general expenditures:		
Restricted by governing body requiring approval for disbursement	<u>(1,939,506)</u>	<u>(1,980,182)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 728,791</u>	<u>\$ 654,881</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.

**THE NEW CHILDREN'S MUSEUM  
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DECEMBER 31, 2019 AND 2018**

**Note 4 - Contributions Receivable:**

Contributions receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Receivables due in less than one year	\$ 61,221	\$ 19,050
Less: Allowance for doubtful accounts	<u>(3,000)</u>	<u>-</u>
Total Contributions Receivable, Net	<u>\$ 58,221</u>	<u>\$ 19,050</u>

**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:

	<u>2019</u>			<u>Balance at December 31, 2019</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>	
Mutual index and exchange traded funds	<u>\$ 1,901,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,901,460</u>
	<u>2018</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, 2018</u>
Mutual index and exchange traded funds	<u>\$ 1,968,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,968,381</u>

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

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gains (losses)	\$ 292,092	\$ (184,935)
Interest and dividend income	59,891	48,933
Investment fees	<u>(9,890)</u>	<u>(11,176)</u>
Total Investment Income (Loss)	<u>\$ 342,093</u>	<u>\$ (147,178)</u>

**THE NEW CHILDREN'S MUSEUM  
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**Note 6 - Property and Equipment:**

Property and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,232,286	\$ 2,232,286
Building and improvements	19,105,070	19,034,137
Parking garage	1,320,000	1,320,000
Furniture and fixtures	334,220	334,220
Exhibits	932,926	520,144
Equipment	141,793	132,551
Vehicles	25,808	25,808
Construction-in-progress	<u>63,546</u>	<u>30,942</u>
Subtotal	24,155,649	23,630,088
Less: Accumulated depreciation	<u>(5,688,168)</u>	<u>(5,150,778)</u>
Property and Equipment, Net	<u>\$ 18,467,481</u>	<u>\$ 18,479,310</u>

**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 plus .50% with a minimum rate of 4.75% (5.25% at December 31, 2019). The line-of-credit is renewable on June 30, 2020, and is secured by real property. The outstanding advances under the line-of-credit totaled \$169,815 at December 31, 2019 and 2018.

**Note 8 – Board-Designated Funds:**

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. The Museum may withdraw 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>2019</u>	<u>2018</u>
Board-Designated Funds at Beginning of Year	\$ 1,980,182	\$ 2,403,811
Investment income (loss):		
Investment income	59,891	48,877
Net realized and unrealized gains (losses)	292,055	(185,219)
Investment fees	<u>(9,890)</u>	<u>(11,176)</u>
Total Investment Income (Loss)	342,056	(147,518)
Distributions	<u>(382,732)</u>	<u>(276,111)</u>
Board-Designated Funds at End of Year	<u>\$ 1,939,506</u>	<u>\$ 1,980,182</u>

**THE NEW CHILDREN'S MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
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**Note 8 – Board-Designated Funds: (Continued)**

Board-designated funds consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 38,046	\$ 11,801
Board-designated investments	<u>1,901,460</u>	<u>1,968,381</u>
Total Board-Designated Funds	<u>\$ 1,939,506</u>	<u>\$ 1,980,182</u>

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

Net assets with donor restrictions represent contributions received or receivable by the Museum, which are limited in their use by time or donor-imposed restrictions. Net assets with donor restrictions are available for the following purpose at December 31:

	<u>2019</u>	<u>2018</u>
<b>Subject to Expenditure for Specified Purpose:</b>		
Welcome desk project	\$ 69,230	\$ -
Education	50,500	28,000
Outreach	32,500	40,425
Innovation lab	31,250	13,750
Feasibility study	30,000	30,000
Military and public access programs	29,036	38,374
Exhibits	2,500	31,887
Garden project	-	15,000
Other	-	1,500
Total Net Assets with Donor Restrictions	<u>\$ 245,016</u>	<u>\$ 198,936</u>

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>2019</u>	<u>2018</u>
<b>Purpose Restrictions Accomplished:</b>		
Military and public access programs	\$ 129,338	\$ 127,222
Outreach	121,144	106,947
Innovation lab	53,000	73,750
Education	36,770	101,250
Exhibits	25,387	27,000
Garden project	15,000	15,000
Other	5,500	-
Security system	-	28,044
Van	-	17,000
<b>Time Restrictions Fulfilled</b>	-	12,000
Total Net Assets Released from Restrictions	<u>\$ 386,139</u>	<u>\$ 508,213</u>

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**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 \$47,680 and \$25,150 for the years ended December 31, 2019 and 2018, 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 \$1,920 and \$3,010 for the years ended December 31, 2019 and 2018, 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 \$34,227 and \$34,920 for the years ended December 31, 2019 and 2018, respectively.

**Note 11 - Subsequent Event:**

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. On March 19, 2020, the Governor of California declared a health emergency and issued an order to close all nonessential businesses until further notice. The Museum, as a nonessential business, was required to close its facility and cease operations. The closure has been extended indefinitely as the Museum continues to monitor the COVID-19 risks, and state and federal guidelines, for reopening. The potential impacts to the Museum include disruptions or restrictions on employees' ability to work, suspension of programs, closure of the Museum, and reduction in contributions from donors. In addition, there has been significant volatility in the financial markets, which may have an impact on the Museum's valuation of investments and investment income. Changes to the operating environment may also be impacted, and may have an impact on operating costs. The future effects of these issues are unknown.