



the new children's museum

Financial Statements

December 31, 2020 and 2019



Leaf & Cole, LLP
Certified Public Accountants

**THE NEW CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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 27, 2021

**THE NEW CHILDREN'S MUSEUM
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019**

ASSETS

	<u>2020</u>	<u>2019</u>
<u>Assets:</u> (Notes 2, 4, 5, 6, 7, 8 and 9)		
Cash and cash equivalents	\$ 10,688	\$ 115,839
Grants and other receivables	302,177	174,731
Contributions receivable, net	95,116	58,221
Inventory	24,992	28,105
Prepaid expenses and other assets	16,384	22,661
Board designated funds:		
Cash and cash equivalents	28,998	38,046
Investments	1,955,323	1,901,460
Property and equipment, net	18,003,346	18,467,481
Collection	-	-
TOTAL ASSETS	\$ <u>20,437,024</u>	\$ <u>20,806,544</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2, 7 and 8)		
Accounts payable and accrued expenses	\$ 301,858	\$ 699,794
Deferred revenue	23,845	89,139
Line-of-credit	191,674	169,815
Notes payable, current portion	46,842	-
Security deposits	2,500	2,500
Total Current Liabilities	<u>566,719</u>	<u>961,248</u>
<u>Noncurrent Liabilities:</u> (Note 8)		
Notes payable, net of current portion	303,158	-
Total Noncurrent Liabilities	<u>303,158</u>	<u>-</u>
Total Liabilities	<u>869,877</u>	<u>961,248</u>
<u>Commitments and Contingencies</u> (Notes 7 and 11)		
<u>Net Assets:</u> (Notes 2, 9 and 10)		
Without Donor Restrictions:		
Undesignated	16,956,003	17,660,774
Board designated funds	1,984,321	1,939,506
Total Without Donor Restrictions	<u>18,940,324</u>	<u>19,600,280</u>
With Donor Restrictions	626,823	245,016
Total Net Assets	<u>19,567,147</u>	<u>19,845,296</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>20,437,024</u>	\$ <u>20,806,544</u>

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

**THE NEW CHILDREN'S MUSEUM
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Operating Revenue and Support:</u>						
Government grants	\$ 1,108,308	\$ -	\$ 1,108,308	\$ 485,732	\$ -	\$ 485,732
Contributions	563,043	473,993	1,037,036	480,778	432,219	912,997
Auxiliary activities	333,681	-	333,681	1,116,270	-	1,116,270
Admissions	332,849	-	332,849	1,322,582	-	1,322,582
Other income	212,856	-	212,856	5,144	-	5,144
Memberships	171,376	-	171,376	989,942	-	989,942
Special events, net of costs of direct benefits to donors of \$-0- and \$84,412, respectively	-	-	-	350,733	-	350,733
In-kind contributions	161,394	-	161,394	99,202	-	99,202
Net assets released from restrictions	92,186	(92,186)	-	386,139	(386,139)	-
Total Operating Revenue and Support	<u>2,975,693</u>	<u>381,807</u>	<u>3,357,500</u>	<u>5,236,522</u>	<u>46,080</u>	<u>5,282,602</u>
<u>Expenses:</u>						
Program Services:						
Programs and exhibits	2,691,405	-	2,691,405	4,346,621	-	4,346,621
Supporting Services:						
Management and general	596,558	-	596,558	710,175	-	710,175
Fundraising	495,921	-	495,921	684,133	-	684,133
Total Supporting Services	<u>1,092,479</u>	<u>-</u>	<u>1,092,479</u>	<u>1,394,308</u>	<u>-</u>	<u>1,394,308</u>
Total Expenses	<u>3,783,884</u>	<u>-</u>	<u>3,783,884</u>	<u>5,740,929</u>	<u>-</u>	<u>5,740,929</u>
Change in Net Assets Before Investment Income (Loss)	<u>(808,191)</u>	<u>381,807</u>	<u>(426,384)</u>	<u>(504,407)</u>	<u>46,080</u>	<u>(458,327)</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, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Investment Income:</u>						
Net realized and unrealized gains	\$ 115,764	\$ -	\$ 115,764	\$ 292,092	\$ -	\$ 292,092
Interest and dividend income	41,163	-	41,163	59,891	-	59,891
Investment fees	(8,692)	-	(8,692)	(9,890)	-	(9,890)
Total Investment Income	<u>148,235</u>	<u>-</u>	<u>148,235</u>	<u>342,093</u>	<u>-</u>	<u>342,093</u>
Change in Net Assets	(659,956)	381,807	(278,149)	(162,314)	46,080	(116,234)
Net Assets at Beginning of Year	<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>
NET ASSETS AT END OF YEAR	<u>\$ 18,940,324</u>	<u>\$ 626,823</u>	<u>\$ 19,567,147</u>	<u>\$ 19,600,280</u>	<u>\$ 245,016</u>	<u>\$ 19,845,296</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, 2020**

	Supporting Services				Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services	
<u>Salaries and Related Expenses:</u>					
Salaries and wages	\$ 1,140,784	\$ 325,730	\$ 360,890	\$ 686,620	\$ 1,827,404
Payroll taxes	117,797	17,277	21,989	39,266	157,063
Employee benefits	245,794	37,814	31,512	69,326	315,120
Total Salaries and Related Expenses	<u>1,504,375</u>	<u>380,821</u>	<u>414,391</u>	<u>795,212</u>	<u>2,299,587</u>
<u>Nonsalary Related Expenses:</u>					
Administrative expenses	129,212	64,818	30,602	95,420	224,632
Advertising and marketing	55,686	-	-	-	55,686
Artist performance fee	17,668	-	-	-	17,668
Communications	15,863	4,532	2,266	6,798	22,661
Cost of goods sold	56,895	-	-	-	56,895
Dues and memberships	1,958	758	442	1,200	3,158
Equipment	16,622	1,662	185	1,847	18,469
Exhibitions	696	-	-	-	696
Information technology	35,254	14,102	21,152	35,254	70,508
In-kind expenses	58,102	96,836	6,456	103,292	161,394
Meetings and conferences	7,568	1,180	1,259	2,439	10,007
Miscellaneous	4,276	874	5,028	5,902	10,178
Occupancy	127,611	7,242	7,243	14,485	142,096
Program events	12,775	6,388	2,129	8,517	21,292
Special events	-	-	2,314	2,314	2,314
Supplies	59,476	1,565	1,565	3,130	62,606
Temporary non-payroll help	2,665	333	334	667	3,332
Travel	3,934	555	555	1,110	5,044
Total Nonsalary Related Expenses	<u>606,261</u>	<u>200,845</u>	<u>81,530</u>	<u>282,375</u>	<u>888,636</u>
Depreciation	580,769	14,892	-	14,892	595,661
TOTAL EXPENSES	<u>\$ 2,691,405</u>	<u>\$ 596,558</u>	<u>\$ 495,921</u>	<u>\$ 1,092,479</u>	<u>\$ 3,783,884</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	
<u>Salaries and Related Expenses:</u>					
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	<u>2,794,601</u>	<u>379,055</u>	<u>319,322</u>	<u>698,377</u>	<u>3,492,978</u>
<u>Nonsalary Related Expenses:</u>					
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	<u>1,068,370</u>	<u>304,250</u>	<u>337,941</u>	<u>642,191</u>	<u>1,710,561</u>
Depreciation	483,650	26,870	26,870	53,740	537,390
TOTAL EXPENSES	<u>\$ 4,346,621</u>	<u>\$ 710,175</u>	<u>\$ 684,133</u>	<u>\$ 1,394,308</u>	<u>\$ 5,740,929</u>

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

**THE NEW CHILDREN'S MUSEUM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (278,149)	\$ (116,234)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	595,661	537,390
Net realized and unrealized gains on investments	(115,764)	(292,092)
Donated capitalized design services	-	(8,000)
(Increase) Decrease in:		
Grants and other receivables	(127,446)	(26,653)
Contributions receivable, net	(36,895)	(39,171)
Inventory	3,113	(19,451)
Prepaid expenses and other assets	6,277	168,283
Increase (Decrease) in:		
Accounts payable and accrued expenses	(397,936)	265,510
Deferred revenue	(65,294)	(276,703)
Net Cash (Used in) Provided by Operating Activities	<u>(416,433)</u>	<u>192,879</u>
<u>Cash Flows From Investing Activities:</u>		
Investment sales/maturities, net	61,901	359,013
Purchase of property and equipment	<u>(131,526)</u>	<u>(517,561)</u>
Net Cash Used in Investing Activities	<u>(69,625)</u>	<u>(158,548)</u>
<u>Cash Flows From Financing Activities:</u>		
Line-of-credit advances	441,674	-
Line-of-credit payments	(419,815)	-
Proceeds from notes payable	<u>350,000</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>371,859</u>	<u>-</u>
Net (Decrease) Increase in Cash and Cash Equivalents and Restricted Cash	(114,199)	34,331
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>153,885</u>	<u>119,554</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u>\$ 39,686</u>	<u>\$ 153,885</u>
<u>Supplementary Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 7,686</u>	<u>\$ 9,784</u>

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

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 1 - Organization:

Mission and Vision

The New Children's Museum's (the "Museum") in San Diego is a hybrid children's/contemporary art museum whose mission is to stimulate imagination, creativity, and critical thinking in children and families through inventive, engaging experiences with contemporary art.

The Museum's vision is to address a critical need in our society and become a leader in engaging children to help them develop 21st century skills. Its virtual and on-site activities build on research about brain development, play, and the arts.

History and Achievements

The Museum opened in a La Jolla shopping center in 1983 and moved to its current downtown location in 1993. Renaming 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 a community resource serving all of San Diego and a "backyard" for urban families living downtown. the Museum provides a safe and engaging place and impacts the economy by providing work for local artists and a destination for tourist families.

The Museum was deeply honored to receive the 2019 National Medal for Museum and Library Service for outstanding service to our communities. Widespread access continues to be the cornerstone of the Museum's 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 and partnerships with organizations working with underserved populations.

In 2020, the Museum welcomed 65,181 visitors during the first weeks prior to closing to the public March 2020 due to California and San Diego County mandates related to the COVID-19 pandemic. During the rest of 2020, the Museum served 54,185 virtually by offering its families, educators, and community partners original videos and robust virtual programming with age-appropriate prompts and activities, thousands of Arts/Learning Kits, and more. This was due to the generosity of its Board and steadfast donors, some CARES Act/other funding, and strict cost controls (including 75% layoffs/furloughs).

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 1 - Organization: (Continued)

Exhibitions, Studios and Distance Opportunities

The Museum is an arts-based children's museum that celebrates its role as a community resource for early childhood creativity and learning through contemporary art and open play. It invites families to "think, play, and create" in multiple ways:

- Children touch, jump, climb, and crawl as they physically explore colorful, large-scale, interactive installations created by the Museum commissioned contemporary artists. Each is notable for its aesthetics, conceptual ideas, creativity, playability, and layered interactions. Recently commissioned installations include: *Brian and the Bugs* by Katie Ruiz; *El Más Allá* by Panca Villaseñor; *Energized!* by Regan Russell; *Sketch Aquarium* by Team LAB, *Whamrock!* by Toshiko Horiuchi MacAdam; *Wobbleland 2.0* by Marisol Rendón; *The Wonder Sound and Garden* by Wes Bruce.
- The Museum offers art-making and educational themes in its studio spaces, through drop-in activities and scheduled workshops that are free with admission. This includes a 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: *The Rosso Family Foundation 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, singing, and stories.
- Distance learning offerings like @thinkplaycreatefromhome continued the Museum's commitment to art exposure and engagement for children and families. In 2020, the Museum produced/posted 137 videos and 30+ art-making prompts for use at home or in school situations. Conversations with its community partners serving primarily low-income/BIPOC families identified the need for "low-tech" creative options as well. the Museum responded with 13,240 Arts/Learning Kits containing basic art supplies like paper, colored pens/pencils, safety scissors, and activity pages (sometimes bilingual). Many 2020 pivots will become permanent as the Museum re-envision itself with new exhibitions and programming.

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 community access programs that include (in order of attendance):

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 1 - Organization: (Continued)

- ***Salute Our Troops*** – This popular access program provides active military visitors a safe place where children and parents can play, away from worries about deployment or even the next meal. Partnerships include: National Endowment for the Arts' Blue Star Museum's program; USO San Diego; and Support The Enlisted Program (STEP).
- ***School Visits/Title I*** – Students, teachers, and chaperones from many dozens of schools come for free or at discounted rates for arts education; 60% are typically from Title I schools and Head Start programs. Tours and activities emphasize student-centered discussions, visual literacy, and 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.
- ***Museums for All*** – This partnership with the Institute of Museum and Library Services serves low-income visitors that use EBT card (food benefits/WIC) for \$1 admission.
- ***PARTners in Creativity*** – Children and chaperones come 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 with activities geared to their needs.
- ***Accessibility Mornings*** – Children with disabilities and their family/caretakers explored the Museum's exhibitions/activities, 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.

Community outreach programs are an important part of the many programs that engage families and children in creativity. the Museum's signature outreach program focuses on lower-income, primarily Latinx neighborhoods:

- ***Mass Creativity Day and Workshops*** – Since 2013, the Mass Creativity program has impacted more than 20 diverse community groups. the Museum artists have led free art-making workshops each spring, including with: Barrio Logan College Institute, Barrio Logan; Casa Familiar; San Ysidro; City Heights/Weingart Library, City Heights; Paradise Hills/Skyline Hills Library, Paradise Hills; The San Diego LGBT Community Center, Hillcrest; Solutions for Change, Vista; and South Bay Community Services, Chula Vista. The workshop series culminates each June on Mass Creativity Day, when participants and the public come to the Museum and its park for a free festival of art-making, music, and fun. Mass Creativity workshops were held virtually in 2020.

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.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 1 - Organization: (Continued)

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.

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 9.
- 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.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 2 - Significant Accounting Policies: (Continued)

Risks and Uncertainties

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

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value, and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy), and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The Museum's 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, 2020 and 2019. The allowance for doubtful contributions receivable totaled \$1,700 and \$3,000 at December 31, 2020 and 2019, respectively.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation

The Museum capitalizes all expenditures for property and equipment in excess of \$5,000 at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

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

Depreciation totaled \$595,661 and \$537,390 for the years ended December 31, 2020 and 2019, 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 collection is subject to a policy that requires proceeds from their sales to be used to acquire other items for collections or to support the direct care of collections. Direct care of collections is defined by the Museum as costs that prolong the life and usefulness of the collection, costs providing benefits that enhance the quality and protection of the collection, and costs that make a physical impact on collections objects, increasing or restoring their cultural or scientific value. Routine and ongoing expenditures are not considered direct care of collections. There were no collection items donated for the years ended December 31, 2020 and 2019.

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, 2020 and 2019.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 2 - Significant Accounting Policies: (Continued)

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 2020 and 2019.

Compensated Absences

Accumulated unpaid vacation is accrued when incurred. Accrued vacation totaled \$109,604 and \$107,312 at December 31, 2020 and 2019, 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.

Auxiliary Activities

Revenue from auxiliary activities includes parking and retail sales totaling \$107,036 and \$378,998 for the years ended December 31, 2020 and 2019, 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 \$226,645 and \$737,272 for the years ended December 31, 2020 and 2019, 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 \$23,845 and \$69,139 at December 31, 2020 and 2019, respectively. Deferred revenue from traveling exhibitions totaled \$-0- and \$20,000 at December 31, 2020 and 2019, 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 program

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition (Continued)

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.

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>2020</u>	<u>2019</u>
Professional services	\$ 107,920	\$ 16,200
Catering and other program items	51,474	73,202
Facility usage	<u>1,800</u>	<u>1,800</u>
Total Program and Supporting Services	161,194	91,202
Capitalized design services	<u>-</u>	<u>8,000</u>
Total In-Kind Contributions	<u>\$ 161,394</u>	<u>\$ 99,202</u>

Donations of catering and other items for special events totaled \$-0- and \$171,903 for the years ended December 31, 2020 and 2019, 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.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 2 - Significant Accounting Policies: (Continued)

Income Taxes

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

The Museum's Return of Organization Exempt from Income Tax for the years ended December 31, 2020, 2019, 2018 and 2017 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

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

Cash and Cash Equivalents 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 10,688	\$ 115,839
Cash and cash equivalents – Board-designated funds	28,998	38,046
Total Cash and Cash Equivalents and Restricted Cash	<u>\$ 39,686</u>	<u>\$ 153,885</u>

Accounting Pronouncements Adopted

In March 2019, the FASB issued ASU 2019-03, Not-for-Profit Entities – *Updating the Definition of Collections*. This standard addresses the use of deaccessioned funds not only for the acquisition of new collection items, but also for direct care of the collection. This standard is applied on a prospective basis. The adoption had no effect on the 2020 financial statements.

Subsequent Events

The Museum has evaluated subsequent events through July 27, 2021, 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 12.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 10,688	\$ 115,839
Grants and other receivables	302,177	174,731
Contributions receivable, net	95,116	58,221
Board-designated funds	1,984,321	1,939,506
Distributions from board-designated funds	<u>380,000</u>	<u>380,000</u>
Total financial assets	<u>2,772,302</u>	<u>2,668,297</u>
Less assets unavailable for general expenditures:		
Restricted by governing body requiring approval for disbursement	<u>(1,984,321)</u>	<u>(1,939,506)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 787,981</u>	<u>\$ 728,791</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 9.

Note 4 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Receivables due in less than one year	\$ 96,816	\$ 61,221
Less: Allowance for doubtful accounts	<u>(1,700)</u>	<u>(3,000)</u>
Total Contributions Receivable, Net	<u>\$ 95,116</u>	<u>\$ 58,221</u>

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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>2020</u>			Balance at December 31, 2020
	<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>1,955,323</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,955,323</u>
	<u>2019</u>			Balance at December 31, 2019
	<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>

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

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gains	\$ 115,764	\$ 292,092
Interest and dividend income	41,163	59,891
Investment fees	(8,692)	(9,890)
Total Investment Income	\$ <u>148,235</u>	\$ <u>342,093</u>

Note 6 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,232,286	\$ 2,232,286
Building and improvements	19,105,070	19,105,070
Parking garage	1,320,000	1,320,000
Furniture and fixtures	334,220	334,220
Exhibits	927,235	932,926
Equipment	141,793	141,793
Vehicles	25,808	25,808
Construction-in-progress	135,872	63,546
Subtotal	<u>24,222,284</u>	<u>24,155,649</u>
Less: Accumulated depreciation	<u>(6,218,938)</u>	<u>(5,688,168)</u>
Property and Equipment, Net	\$ <u>18,003,346</u>	\$ <u>18,467,481</u>

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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 3.25% (3.75% at December 31, 2020). The line-of-credit matures on July 31, 2021 and is secured by real property. The outstanding advances under the line-of-credit totaled \$191,674 and \$169,815 at December 31, 2020 and 2019, respectively.

Note 8 - Notes Payable:

Notes payable consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Note payable to MDF Fund I, LP in the original amount of \$200,000. The note is noninterest bearing. Principal payments of \$5,555 monthly, begin on May 2021 for twelve (12) months. Principal payments of \$11,111 monthly, begin on May 2022 for remaining twelve (12) months of note. The note is due April 2023. Secured by property and receivables.	\$ 200,000	\$ -
Note payable to U.S. Small Business Administration in the original amount of \$150,000, bears interest at 2.75% with payments of principal and interest of \$641 monthly, beginning May 2021. The note is due May 2050. Secured by property and receivables. Accrued interest totaled \$2,406 and is included in accounts payable and accrued expenses at December 31, 2020.	150,000	-
Total Notes Payable	<u>350,000</u>	<u>-</u>
Less: Current portion of notes payable	<u>(46,842)</u>	<u>-</u>
Total Notes Payable, Noncurrent	<u>\$ 303,158</u>	<u>\$ -</u>

Future principal payments on the notes payable are as follows:

<u>Years Ended December 31</u>	
2021	\$ 46,842
2022	114,740
2023	48,226
2024	3,887
2025	3,995
Thereafter	132,310
	<u>\$ 350,000</u>

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 9 - 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 4% to 5% 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>2020</u>	<u>2019</u>
Board-Designated Funds at Beginning of Year	\$ 1,939,506	\$ 1,980,182
Investment income:		
Investment income	41,163	59,891
Net realized and unrealized gains	117,735	292,055
Investment fees	(8,692)	(9,890)
Total Investment Income	<u>150,206</u>	<u>342,056</u>
Distributions	<u>(155,391)</u>	<u>(382,732)</u>
Board-Designated Funds at End of Year	<u>\$ 1,984,321</u>	<u>\$ 1,939,506</u>

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 28,998	\$ 38,046
Board-designated investments	<u>1,955,323</u>	<u>1,901,460</u>
Total Board-Designated Funds	<u>\$ 1,984,321</u>	<u>\$ 1,939,506</u>

Note 10 - 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>2020</u>	<u>2019</u>
Subject to Expenditure for Specified Purpose:		
Innovators lab	\$ 231,742	\$ 31,250
Exhibits	163,528	2,500
Outreach	81,323	32,500
Welcome desk project	69,230	69,230
Military and public access programs	31,000	29,036
Feasibility study	30,000	30,000
Education	15,000	50,500
Other	5,000	-
Total Net Assets with Donor Restrictions	<u>\$ 626,823</u>	<u>\$ 245,016</u>

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
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Note 10 - Net Assets With Donor Restrictions: (Continued)

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>2020</u>	<u>2019</u>
Purpose Restrictions Accomplished:		
Education	\$ 50,499	\$ 36,770
Military and public access programs	27,536	129,338
Innovation lab	11,008	53,000
Outreach	3,143	121,144
Exhibits	-	25,387
Garden project	-	15,000
Other	-	5,500
Total Net Assets Released from Restrictions	<u>\$ 92,186</u>	<u>\$ 386,139</u>

Note 11 - Commitments and Contingency:

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 \$32,814 and \$47,680 for the years ended December 31, 2020 and 2019, 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 \$7,799 and \$1,920 for the years ended December 31, 2020 and 2019, 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 \$30,697 and \$34,227 for the years ended December 31, 2020 and 2019, respectively.

Collective Bargaining Agreement

Certain Museum employees are represented by International Brotherhood of Electrical Workers Local Union 465 AFL-CIO (the "Union"). The collective bargaining agreement was effective on January 1, 2020 for a term of three (3) years, through December 31, 2023.

**THE NEW CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 11 - Commitments and Contingency: (Continued)

Payroll Protection Program Loan

In April 2020, the Museum received a loan totaling \$681,700 from the U.S. Small Business Administration, under the CARES Act Paycheck Protection Program ("PPP"). The loan is forgivable to the extent that the Museum meets the terms and conditions of the PPP. Any portion of the loan that is not forgiven bears interest at 1% and is due in April 2022. The Museum has recognized \$681,700 as revenue for the year ended December 31, 2020, since subsequent to year end, the full loan amount was forgiven by the U.S. Small Business Administration.

Coronavirus Pandemic Contingency

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Museum is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Museum's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Museum's donors, customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Museum's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Note 12 - Subsequent Event:

In February 2021, the Museum obtained a loan totaling \$681,787 from the U.S. Small Business Administration, under the Consolidated Appropriations Act Payroll Protection Program (PPP2). The loan is forgivable to the extent that the Museum meets the terms and conditions of the PPP2. Any portion of the loan that is not forgiven bears interest at 1% and is due in February 2026.