

Kidspace: A Participatory Museum

Financial Statements

December 31, 2016



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kidspace: A Participatory Museum
Pasadena, California

We have audited the accompanying financial statements of Kidspace: A Participatory Museum (a California nonprofit corporation) (the "Museum"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kidspace: A Participatory Museum as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the U.S.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
Los Angeles, California

June 22, 2017

Kidspace: A Participatory Museum
Statement of Financial Position
December 31, 2016

ASSETS

Cash	\$	1,286,545
Investments		1,454,333
Contributions receivable, net		1,124,729
Inventory		42,145
Prepaid and other current assets		35,457
Donated use of long lived asset		653,400
Property and equipment		<u>17,511,934</u>
Total assets	\$	<u><u>22,108,543</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$	95,333
Accrued expenses		175,952
Deferred revenue		437,004
Notes payable		<u>2,598,167</u>
Total liabilities		<u><u>3,306,456</u></u>
Commitments and contingencies (Note 11)		
Net assets		
Unrestricted		15,049,646
Temporarily restricted		3,252,441
Permanently restricted		<u>500,000</u>
Total net assets		<u><u>18,802,087</u></u>
Total liabilities and net assets	\$	<u><u>22,108,543</u></u>

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

Kidspace: A Participatory Museum
Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Grants and contributions	\$ 298,629	\$ 783,209	\$ -	\$ 1,081,838
Gift store revenue, net	168,360	-	-	168,360
Facility rental	9,668	-	-	9,668
Other program revenue	200,808	-	-	200,808
Cafe loss, net	(59,348)	-	-	(59,348)
Admissions and memberships	2,401,644	-	-	2,401,644
Birthday fee	222,962	-	-	222,962
Special events, net	281,068	-	-	281,068
Other revenue	25,470	-	-	25,470
In-kind contributions	83,743	-	-	83,743
Miscellaneous	<u>29,267</u>	<u>-</u>	<u>-</u>	<u>29,267</u>
Net assets released from restriction	<u>1,542,234</u>	<u>(1,542,234)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>5,204,505</u>	<u>(759,025)</u>	<u>-</u>	<u>4,445,480</u>
Functional expenses				
Program services	4,444,922	-	-	4,444,922
Management and general	406,547	-	-	406,547
Fundraising	<u>471,182</u>	<u>-</u>	<u>-</u>	<u>471,182</u>
Total functional expenses	<u>5,322,651</u>	<u>-</u>	<u>-</u>	<u>5,322,651</u>
Change in net assets from operations	<u>(118,146)</u>	<u>(759,025)</u>	<u>-</u>	<u>(877,171)</u>
Non-operating activities				
Investment income	51,903	21,471	-	73,374
Loss on disposal of property and equipment	<u>(180,833)</u>	<u>-</u>	<u>-</u>	<u>(180,833)</u>
Total non-operating activities	<u>(128,930)</u>	<u>21,471</u>	<u>-</u>	<u>(107,459)</u>
Change in net assets	(247,076)	(737,554)	-	(984,630)
Net assets, beginning of year	<u>15,296,722</u>	<u>3,989,995</u>	<u>500,000</u>	<u>19,786,717</u>
Net assets, end of year	<u>\$ 15,049,646</u>	<u>\$ 3,252,441</u>	<u>\$ 500,000</u>	<u>\$ 18,802,087</u>

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

Kidspace: A Participatory Museum
Statement of Functional Expenses
For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salaries and wages	\$ 1,502,263	\$ 174,640	\$ 280,422	\$ 1,957,325
Employee benefits	164,392	19,111	30,686	214,189
Payroll taxes	<u>111,045</u>	<u>12,909</u>	<u>20,728</u>	<u>144,682</u>
Total personnel expenses	1,777,700	206,660	331,836	2,316,196
Outside services	238,918	71,062	8,047	318,027
Education expenses	346,357	1,100	1,766	349,223
Utilities and maintenance	181,545	2,600	3,792	187,937
Fundraising-other	-	-	108,980	108,980
Marketing	245,962	-	831	246,793
Office expense and supplies	130,159	20,970	7,847	158,976
Interest expense	-	84,948	-	84,948
In-kind expenses	74,744	8,999	-	83,743
Insurance	72,606	234	256	73,096
Other expenses	43,894	4,492	3,232	51,618
Depreciation and amortization	1,301,375	4,187	4,595	1,310,157
Travel and conferences	28,553	-	-	28,553
Gift store expenses	<u>3,109</u>	<u>1,295</u>	<u>-</u>	<u>4,404</u>
	<u>\$ 4,444,922</u>	<u>\$ 406,547</u>	<u>\$ 471,182</u>	<u>\$ 5,322,651</u>

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

Kidspace: A Participatory Museum
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities	
Change in net assets	\$ (984,630)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	1,310,712
Amortization of long-lived asset	20,909
Loss on disposal of property and equipment	180,833
Net realized and unrealized gains on investments	(48,728)
Contributions restricted for long-lived assets	(1,394,990)
Changes in operating assets and liabilities	
Inventory	903
Contributions receivable	239,502
Prepaid and other current assets	(2,505)
Accounts payable	(97,717)
Accrued expenses	32,544
Deferred revenue	90,358
Net cash used in operating activities	<u>(652,809)</u>
Cash flows from investing activities	
Proceeds from sales of investments	936,831
Purchases of investments	(170,786)
Purchase of property and equipment	(881,184)
Net cash used in investing activities	<u>(115,139)</u>
Cash flows from financing activities	
Repayments on notes payable	(300,862)
Contributions restricted for long-lived assets	1,394,990
Net cash provided by financing activities	<u>1,094,128</u>
Net increase in cash	326,180
Cash, beginning of year	<u>960,365</u>
Cash, end of year	<u><u>\$ 1,286,545</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 84,948
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The accompanying notes are an integral part of these financial statements.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

1. NATURE OF OPERATIONS

Kidspace: A Participatory Museum (the "Museum" or "Kidspace") is a nonprofit corporation which operates a children's museum in Pasadena, California.

The vision of Kidspace is an evolution of the Museum's innovative activities that began over 35 years ago. The focus on kid-driven experiences descends directly from the Museum's early ideal of "A Participatory Museum." The many major and minor accomplishments of the Museum provide a rich background for what is to come.

As the premier children's museum in Southern California, Kidspace is putting plans in place to remain so for years to come. Throughout its history, the Museum has been ahead of the curve in the museum field, from pioneering hands-on, participatory experiences to embracing the unique power of outdoor learning. In recent years, the Museum has seen a record-breaking upswing in attendance through the opening of one-of-a-kind experiences such as the Galvin Physics Forest, the Imagination Workshop, Early Childhood Education Center, and the Arroyo Adventure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements and accompanying notes of the Museum have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Museum's financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Net assets and changes therein are classified as follows:

- *Unrestricted net assets* - net assets not subject to donor-imposed restrictions.
- *Temporarily restricted net assets* - net assets subject to donor-imposed restrictions that will be met by actions of the Museum and/or the passage of time.
- *Permanently restricted net assets* - net assets subject to donor-imposed restrictions that they be maintained in perpetuity by the Museum.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give

Contributions received are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions, if any.

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable.

Cash and cash equivalents

The Museum maintains cash and cash equivalents with major financial institutions. The Museum considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Museum places its cash and investments with high-credit, quality financial institutions. At times, such cash may be in excess of the FDIC insurance limit. Concentration of credit risk for contributions receivable are generally limited due to the dispersion of these items over a wide donor base. The Museum continually monitors its receivables and establishes valuation reserves as considered appropriate.

Investments

Investment transactions are recorded on trade date. Realized gains and losses on sales of investments are determined on the specific identification basis. Unrealized gains or losses on investments resulting from gain value fluctuations are recorded in the statement of activities during the year.

Fair value measurements

The Museum determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Kidspac: A Participatory Museum
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 1* - Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.
- *Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- *Level 3* - Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of assets and liabilities:

- Investments (Level 1). Investments in equity and debt securities are valued at their fair values as determined primarily by quoted market prices. Investments without quoted market prices, including real estate investments, are valued at fair value as determined by third-party appraisals, management's estimates or a combination of both.
- Contributions receivable (Level 3). Contributions receivable are valued based on unobservable inputs that are developed based on the best information available in the circumstances. Contributions receivable are not measured at fair value on a recurring basis subsequent to initial recognition.

Contributed goods and services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended December 31, 2016, Kidspac received in-kind goods and services of \$83,743.

The Museum receives a significant amount of donated services from unpaid volunteers who assist in fund-raising and special projects. No donated services have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

The Museum capitalizes all property and equipment with a cost greater than \$1,000 with an estimated useful life in excess of one year. Property and equipment is carried at cost or, if donated, at the estimated fair value on the date of the contribution. Minor repairs and maintenance are charged against earnings as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized.

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Exhibits	5 - 40 years
Furniture and equipment	3 - 10 years

Inventory

Inventory consists of products such as educational books, toys, games and crafts. Inventory is valued at the lower of cost or market. The Museum utilizes the weighted average method of inventory valuation.

Deferred revenue

Fees for services, which are paid for in advance, are deferred and recognized as revenue in the period when the services are rendered.

Long lived assets

The Museum reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. No impairment losses were recognized during the year ended December 31, 2016.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Museum management to make estimates and assumptions that affect certain reported amounts and disclosures. Uses of estimates include, but are not limited to, accounting for fair value of investments, the allowance for doubtful accounts and contributions receivable and depreciation. Actual results could differ from those estimates.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

The Museum is a qualified charitable organization exempt from federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

The Museum has evaluated its current tax positions and has concluded that as of December 31, 2016, the Museum does not have any significant uncertain tax positions for which a reserve would be necessary.

Functional expenses

The direct costs of providing the Museum's programs and other activities which are identifiable have been allocated to the related programs or supporting services. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2016 were \$213,667 and are included in marketing in the statement of functional expenses.

Subsequent events

Subsequent events have been evaluated through June 22, 2017, the date that these financial statements were issued. There were no subsequent events that would require adjustments to or disclosures in these financial statements.

3. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity mutual funds	\$ 910,515	\$ -	\$ -	\$ 910,515
Fixed income	<u>543,818</u>	<u>-</u>	<u>-</u>	<u>543,818</u>
	<u>\$ 1,454,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,454,333</u>

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

3. INVESTMENTS (continued)

Investment earnings (losses) during the year consist of the following:

Net realized and unrealized gains	\$ 48,728
Interest and dividend income	<u>24,646</u>
	<u><u>\$ 73,374</u></u>

4. CONTRIBUTIONS RECEIVABLE

A discount rate of 2.5% has been used to calculate the present value of pledges receivable.

Contributions receivable consist of the following:

Receivables in less than one year	\$ 519,873
Receivables in one to five years	<u>629,515</u>
	1,149,388
Less: unamortized discount	<u>(24,659)</u>
	<u><u>\$ 1,124,729</u></u>

5. DONATED USE OF LONG-LIVED ASSET

The Museum leases the property that the museum is located on from the City of Pasadena for a lease cost of \$1 per year. The term of the lease was for fifty years through 2048. The fair market value of this lease was recorded as revenue in the period the property was contributed and the related assets will be expensed as rent over the fifty-year term of the lease. Kidspace is responsible for the renovation, operation and maintenance of the premises.

The terms of the lease stipulate that the property will be returned to the City of Pasadena at the end of the lease. Accordingly, the asset has been classified as temporarily restricted in the accompanying financial statements. The amortization expense of donated use of long-lived asset for the year ended December 31, 2016 was \$20,909. Amortization expense of \$20,909 will be recorded each year through the end of the lease.

Donated use of the long-lived asset consists of the following:

Long lived asset	\$ 1,045,440
Accumulated amortization	<u>(392,040)</u>
	<u><u>\$ 653,400</u></u>

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Buildings	\$ 16,794,789
Exhibits	10,180,509
Furniture and equipment	<u>766,237</u>
	27,741,535
Accumulated depreciation	<u>(10,229,601)</u>
	<u>\$ 17,511,934</u>

Depreciation expense for the year ended December 31, 2016, was \$1,310,712 including \$21,464 recorded as café expense).

7. LINE OF CREDIT

During the year ended December 31, 2004, the Museum procured a line of credit for \$10,000,000 for construction of pavilion expansion and exhibits. In October 2013, the Museum converted the line of credit into long-term debt and obtained a line of credit agreement with a bank for a maximum facility of \$300,000. Interest on the line of credit is variable based on the lender's reference rate less 0.5% and due monthly. The Bank's rate was 3.25% at December 31, 2016. The line of credit expires in August 2017. There was no outstanding balance on the line of credit at December 31, 2016.

The line of credit is secured by substantially all of the assets and personal property of Kidspace. The line of credit contains various covenants and restrictions which include, among others, (i) a debt service coverage ratio; (ii) a maximum debt to unrestricted net assets ratio; (iii) minimum unrestricted net assets; and (iv) a minimum bank depository balance requirement. The Museum is in compliance with all covenants as of December 31, 2016.

8. NOTES PAYABLE

Notes payable are detailed as follows:

Notes payable - secured by Museum assets, quarterly principal installments of \$50,000 plus accrued interest at 3.1% per annum, final principal and interest payment of \$1,052,803 due November 2018	\$ 1,400,000
Notes payable - secured by Museum assets, guaranteed by a private foundation related to a board member, one principal payment of all outstanding principal plus unpaid accrued interest due November 2018, monthly interest installments at 3.1% per annum	<u>1,198,167</u>
	<u>\$ 2,598,167</u>

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

8. NOTES PAYABLE (continued)

The future maturities of the notes payable are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 200,000
2018	<u>2,398,167</u>
	<u>\$ 2,598,167</u>

Interest expense of \$84,948 was recognized on the notes payable during the year ended December 31, 2016.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Capital campaign	\$ 2,435,373
Donated use of long-lived asset	653,400
Programs and exhibits	29,994
Unexpended endowment earnings	<u>133,674</u>
	<u>\$ 3,252,441</u>

Included within this amount is \$1,124,729 of contributions receivable as disclosed in Note 4.

10. ENDOWMENT

The Museum's endowment consists of \$500,000 of contributions restricted by donors for investments in perpetuity. Its endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The primary long-term financial objective for the Museum's endowment is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. The endowment is also managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the Museum's existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the Consumer Price Index).

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

10. ENDOWMENT (continued)

The Museum's Board of Directors is in the process of developing a spending policy that will distribute a specific payout rate of the endowment base to support the Museum's programs. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term.

Interpretation of relevant law

The Museum's Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment composition

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 133,674	\$ 500,000	\$ 633,674

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

10. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ -	\$ 112,203	\$ 500,000	\$ 612,203
Investment return				
Investment income	<u>-</u>	<u>21,471</u>	<u>-</u>	<u>21,471</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 133,674</u>	<u>\$ 500,000</u>	<u>\$ 633,674</u>

11. COMMITMENTS AND CONTINGENCIES

The Museum leases property and equipment under non-cancelable operating leases that expire between 2017 and 2020.

The future maturities of the notes payable are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 11,812
2018	6,977
2019	6,896
2020	<u>2,299</u>
	<u>\$ 27,984</u>

Lease expense for the year ended December 31, 2016 was \$12,171.

In addition, the Museum has an operating lease agreement with the City of Pasadena for the intended purpose of the museum. Under the terms of the lease, the Museum pays rent of \$1 per year over the initial fifty-year term which expires in 2048 (See Note 5). In consideration of the favorable lease terms, the Museum has agreed to numerous provisions and covenants with the City of Pasadena, which include hours of operations, displacement events, fees and admission and ownership of improvements.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2016

11. COMMITMENTS AND CONTINGENCIES (continued)

Legal proceedings

In the ordinary course of conducting business, the Museum becomes involved in various lawsuits. Some of these proceedings may result in judgements being assessed against the Museum which, from time to time, may have an impact on changes in net assets. The Museum believes that these proceedings, individually or in the aggregate, would not have a material effect on the accompanying financial statements.

12. EMPLOYEE BENEFIT PLANS

The Museum offers its employees a 403(b) savings plan administered by Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), which covers substantially all of the employees to which the Museum may contribute at its discretion. The Museum made no contributions to the plan on behalf of its employees during the year ended December 31, 2016.

13. RELATED PARTY

The Museum received approximately \$201,250 in contributions from board members and other related parties during the year ended December 31, 2016.