

**KIDSPACE:
A PARTICIPATORY MUSEUM**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

KIDSPACE: A PARTICIPATORY MUSEUM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kidspace: A Participatory Museum

We have audited the accompanying financial statements of Kidspace: A Participatory Museum (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Kidspace: A Participatory Museum's 2014 financial statements, and our report dated May 20, 2015 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

May 26, 2016
Los Angeles, California

KIDSPACE: A PARTICIPATORY MUSEUM

STATEMENT OF FINANCIAL POSITION December 31, 2015 With Summarized Totals at December 31, 2014

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
ASSETS					
Cash and Cash Equivalents	\$ 674,181	\$ 286,184	\$ -	\$ 960,365	\$ 864,424
Investments	-	1,671,650	500,000	2,171,650	2,928,906
Pledges Receivable (Net)	-	1,357,853	-	1,357,853	1,627,477
Inventory	43,048	-	-	43,048	34,590
Prepaid Expenses and Other Assets	39,330	-	-	39,330	57,724
Donated Use of Long-Lived Asset (Net)	-	674,308	-	674,308	695,217
Property and Equipment (Net)	18,122,295	-	-	18,122,295	18,069,651
TOTAL ASSETS	\$ 18,878,854	\$ 3,989,995	\$ 500,000	\$ 23,368,849	\$ 24,277,989
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	\$ 193,050	\$ -	\$ -	\$ 193,050	\$ 158,916
Accrued Liabilities	143,407	-	-	143,407	131,525
Deferred Revenue	346,646	-	-	346,646	364,605
Notes Payable	2,899,029	-	-	2,899,029	3,200,000
TOTAL LIABILITIES	3,582,132	-	-	3,582,132	3,855,046
NET ASSETS:					
Unrestricted	15,296,722	-	-	15,296,722	15,002,081
Temporarily Restricted	-	3,989,995	-	3,989,995	4,920,862
Permanently Restricted	-	-	500,000	500,000	500,000
TOTAL NET ASSETS	15,296,722	3,989,995	500,000	19,786,717	20,422,943
TOTAL LIABILITIES AND NET ASSETS	\$ 18,878,854	\$ 3,989,995	\$ 500,000	\$ 23,368,849	\$ 24,277,989

The Accompanying Notes are an Integral Part of These Financial Statements

KIDSPACE: A PARTICIPATORY MUSEUM

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE AND SUPPORT:					
Admissions and Memberships	\$ 2,219,940	\$ -	\$ -	\$ 2,219,940	\$ 2,181,121
Contributions	286,372	1,380,060	-	1,666,432	1,208,811
Birthday Fee Revenue	240,226	-	-	240,226	217,983
Other Program Revenue	193,141	-	-	193,141	129,521
In-Kind Goods and Services	41,533	-	-	41,533	69,449
Special Events - Gross Income	494,005	-	-	494,005	433,024
Less: Direct Donor Benefit Costs	(216,978)	-	-	(216,978)	(220,122)
Facility Rental	8,938	-	-	8,938	30,337
Gift Store Revenue (Net of Cost of Goods Sold of \$153,422 in 2015 and \$154,279 in 2014)	165,075	-	-	165,075	167,627
Café Income	42,190	-	-	42,190	43,095
Café Expense	(95,067)	-	-	(95,067)	(92,589)
Investment Income (Net)	25,235	(11,344)	-	13,891	24,224
Loss on Pledge Receivable	-	(500,000)	-	(500,000)	-
Loss on Disposal of Assets	-	-	-	-	(68,569)
Net Assets Released from Restrictions:					
Programs/Exhibits	1,799,583	(1,799,583)	-	-	-
TOTAL REVENUE AND SUPPORT	5,204,193	(930,867)	-	4,273,326	4,123,912
EXPENSES:					
Program Services	4,015,851	-	-	4,015,851	3,725,227
Management and General	439,199	-	-	439,199	456,148
Fundraising	454,502	-	-	454,502	499,618
TOTAL EXPENSES	4,909,552	-	-	4,909,552	4,680,993
CHANGE IN NET ASSETS	294,641	(930,867)	-	(636,226)	(557,081)
Net Assets - Beginning of Year	15,002,081	4,920,862	500,000	20,422,943	20,980,024
NET ASSETS - END OF YEAR	\$ 15,296,722	\$ 3,989,995	\$ 500,000	\$ 19,786,717	\$ 20,422,943

The Accompanying Notes are an Integral Part of These Financial Statements

KIDSPACE: A PARTICIPATORY MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	2015				2014
	Program Services	Management and General	Fundraising	Total	
Salaries	\$ 1,450,987	\$ 182,712	\$ 229,215	\$ 1,862,914	\$ 1,685,513
Employee Benefits	183,582	23,117	29,001	235,700	237,075
Payroll Taxes	107,456	13,531	16,975	137,962	123,690
TOTAL PERSONNEL COSTS	1,742,025	219,360	275,191	2,236,576	2,046,278
Depreciation	1,169,530	3,763	4,129	1,177,422	1,192,541
Outside Services	196,340	66,730	5,744	268,814	251,025
Education Expenses	278,563	1,005	1,260	280,828	235,550
Utilities and Maintenance	178,732	3,266	3,952	185,950	170,977
Fundraising - Other	-	-	152,343	152,343	169,442
Marketing	172,900	-	768	173,668	158,029
Office Expenses and Supplies	114,167	17,369	6,479	138,015	133,720
Interest	-	94,118	-	94,118	103,527
In-Kind Legal Services	-	28,449	-	28,449	64,424
Insurance	65,735	211	232	66,178	59,980
Other Expenses	54,704	4,825	4,332	63,861	51,443
Amortization of Long-Lived Asset	20,434	66	72	20,572	20,572
Travel and Conferences	19,623	-	-	19,623	16,587
Store Expenses	3,098	37	-	3,135	6,898
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 4,015,851	\$ 439,199	\$ 454,502	\$ 4,909,552	
	82%	9%	9%	100%	
TOTAL 2014 FUNCTIONAL EXPENSES	\$ 3,725,227	\$ 456,148	\$ 499,618		\$ 4,680,993
	79%	10%	11%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

KIDSPACE: A PARTICIPATORY MUSEUM

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (636,226)	\$ (557,081)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	1,196,711	1,212,079
Amortization of Long-Lived Asset	20,909	20,909
Realized and Unrealized Gain on Investments	16,602	11,396
Reinvested Interest and Dividends	(30,493)	(35,620)
Loss on Pledge Receivable	500,000	-
Loss on Disposal of Assets	-	68,569
Donated Stock Restricted for Investment in Property and Equipment	(150,029)	(51,819)
Contributions Restricted for Investment in Property and Equipment	(779,681)	(851,978)
(Increase) Decrease in:		
Pledges Receivable	(230,376)	(198,003)
Inventory	(8,458)	3,970
Prepaid Expenses and Other Assets	18,394	20,925
Increase in:		
Accounts Payable	34,134	99,663
Accrued Liabilities	11,882	32,624
Deferred Revenue	(17,959)	38,519
NET CASH USED IN OPERATING ACTIVITIES	(54,590)	(185,847)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	922,064	3,951,291
Purchase of Investments	(150,917)	(3,746,455)
Purchase of Property and Equipment	(1,249,355)	(820,993)
NET CASH USED IN INVESTING ACTIVITIES	(478,208)	(616,157)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Line of Credit	-	-
Proceeds from Notes Payable	-	-
Payments on Notes Payable	(300,971)	(300,000)
Contributions Restricted for Investment in Property and Equipment	929,710	903,797
NET CASH PROVIDED BY FINANCING ACTIVITIES	628,739	603,797
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	95,941	(198,207)
Cash and Cash Equivalents - Beginning of Year	864,424	1,062,631
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 960,365	\$ 864,424
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 94,118	\$ 103,527

The Accompanying Notes are an Integral Part of These Financial Statements

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - DESCRIPTION OF ORGANIZATION

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

Kidspace's mission is to nurture the potential of all children through kid-driven experiences inspiring them to become joyful, active learners. The museum is a social space for children and their families that places a premium on kids as collaborators and co-curators of what Kidspace has to offer. The Kidspace pedagogy is based upon constructivist principles building from the work of Piaget, Vygotsky, Bruner, Gardner, and Falk.

Presenting the arts, sciences and humanities in an informal, age appropriate setting, Kidspace provides a matchless venue for engaging the public, young and old, with the arts, humanities and the processes of science.

Since opening the new Museum campus in December 2004, Kidspace welcomed its four-millionth guest on April 3, 2014. The premier children's museum in Los Angeles County, Kidspace is recognized internationally for its outdoor learning environment, innovative programs and holistic approach to play and learning. Kidspace provides Free Family Nights (free admission to families) on the first Tuesday of each month; and in 2015 provided admittance to over 317,151 guests.

Kidspace began in 1978 as a temporary installation created by Pasadena parents who wanted a place where children could experience art and science in an informal, age-appropriate setting. Their goal: to introduce the children's museum concept to the community. Partnering with Caltech and the Art Center, artists, educators and scientists collaborated to mount their interactive experiment called "Making Senses." The installation ran for six weeks on the Caltech campus and attracted thousands of families. Its popularity confirmed the community's interest and in 1979, Kidspace: A Participatory Museum opened in a Rose Parade staging warehouse.

Working with the City of Pasadena, the Kidspace Board secured a more permanent facility in 1981 at the vacant McKinley School gymnasium on El Molino Avenue.

By the mid-1990s, Kidspace had an active donor base and membership, community volunteers, and more than 70,000 visitors annually, but had outgrown its home. Board and staff envisioned a permanent home with both indoor and outdoor spaces. In 1998, the Board secured a 50-year lease for a space near the Rose Bowl in Brookside Park.

The current 3.4 acre campus resides in the historic Fannie Morrison Horticultural Center that includes three greenhouse structures, a courtyard and garden that were built in 1936. A master plan for the site was developed and in 2003 construction began on Phase One - renovation of the greenhouses to create an entry pavilion, early childhood center, administrative offices, a 5,000 square foot natural sciences pavilion and, unlike any other children's museum in the world, 2.2 acres of fully interactive gardens. In July of 2012, the museum opened the new Galvin Physics Forest exhibition which is composed of thirteen outdoor hands-on physics exhibits. The exhibition, located on 0.6 acres of beautifully landscaped grounds, is a significant addition to the museum's guest experience. In November of 2013, Kidspace welcomed their guests into the new Milias Imagination Workshop, an innovative maker space that intersects art and science. May 2014 saw the newly redesigned S. Mark Taper Foundation Early Childhood Education Learning Center open with great success.

Kidspace has received favorable determination letters indicating it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California franchise taxes under Section 23701d of the California Revenue Taxation Code.

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Kidspace are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** Kidspace reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. Donor restricted contributions, whose restrictions have been met in the same reporting period, are reported as unrestricted support in the statement of activities. Kidspace has \$3,989,995 of temporarily restricted net assets at December 31, 2015.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit Kidspace to expend all of the income (or other economic benefits) derived from the donated assets. Kidspace has \$500,000 of permanently restricted net assets at December 31, 2015.

(c) CASH AND CASH EQUIVALENTS

Kidspace has defined cash and cash equivalents as cash in banks and money market accounts with an original maturity of three months or less. The carrying value of cash and cash equivalents at December 31, 2015 approximates its fair value.

Kidspace places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Kidspace has not incurred losses related to these investments and believes it is not exposed to any significant credit risk on cash and cash equivalents.

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

(e) PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues in the period received. Kidspace reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. A discount rate of 2.5% has been used to calculate the present value of pledges receivable.

Conditional contributions are not included as revenue until such time as the conditions are substantially met as of December 31, 2015. Contributions with donor-imposed restrictions that are met in the same year as received are reported as an increase in unrestricted net assets.

(f) INVENTORY

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

(g) 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, 2015, Kidspace received in-kind goods and services of \$41,533.

(h) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized for all major additions and improvements greater than or equal to \$1,000, with a useful life greater than one year. The estimated useful lives of property and equipment are as follows:

Buildings	40 Years
Exhibits	5 - 40 Years
Furniture and Equipment	3 - 10 Years

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) LONG-LIVED ASSETS

Kidspace 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, 2015.

(j) 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.

(k) ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2015 were \$117,229 and are included in marketing in the statement of functional expenses.

(l) INCOME TAXES

Kidspace is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") as a charitable organization whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. Kidspace currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. Kidspace is also exempt under California Revenue and Taxation Code Section 23701d.

(m) FUNCTIONAL ALLOCATION OF EXPENSES

The direct costs of providing Kidspace'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.

(n) USE OF ESTIMATES

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) COMPARATIVE DATA

The financial statements include certain prior-year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such financial information should be read in conjunction with Kidspace's financial statements for the year ended December 31, 2014 from which the summarized financial information was derived.

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) SUBSEQUENT EVENTS

Kidspace has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 26, 2016, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - INVESTMENTS

Kidspace implemented the fair value measurement accounting standard for those assets that are remeasured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

The following table presents information about Kidspace's assets that are measured at fair value on a recurring basis at December 31, 2015 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds - Index Funds	\$ 2,122,925	\$ 2,122,925	\$ -	\$ -
Money Market Funds	48,725	48,725	-	-
TOTAL INVESTMENTS	\$ 2,171,650	\$ 2,171,650	\$ -	\$ -

The fair values of investments within Level 1 inputs were obtained based on quoted market prices of those investments at the closing of the last business day of the fiscal year.

Investment income (net) for the year ended December 31, 2015 is comprised as follows:

Interest and Dividends	\$ 30,493
Realized and Unrealized Loss	(16,602)
INVESTMENT INCOME (NET)	\$ 13,891

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 4 - PLEDGES RECEIVABLE

At December 31, 2015, pledges receivable are expected to be collected as follows:

In Less than One Year	\$ 750,641
In One to Five Years	<u>632,548</u>
TOTAL	1,383,189
Less: Discount at 2.5%	<u>(25,336)</u>
PLEDGES RECEIVABLE (NET)	<u><u>\$ 1,357,853</u></u>

Management evaluated the collectability of pledges receivable at December 31, 2015 and no allowance for uncollectible pledges was considered necessary.

NOTE 5 - DONATED USE OF LONG-LIVED ASSET

Kidspace 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 is 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.

Donated use of the long-lived asset consists of the following at December 31, 2015:

Long-Term Lease on Property	\$ 1,045,440
Less: Accumulated Amortization	<u>(371,132)</u>
DONATED USE OF LONG-LIVED ASSET (NET)	<u><u>\$ 674,308</u></u>

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, 2015 was \$20,909 (including \$337 recorded as café expense).

Amortization expense for each of the succeeding five years from December 31, 2016 to December 31, 2020 is \$20,909.

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 consist of the following:

Buildings	\$ 16,794,789
Exhibits	8,884,475
Furniture and Equipment	732,249
Construction In Progress	<u>1,563,338</u>
TOTAL	27,974,851
Less: Accumulated Depreciation	<u>(9,852,556)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 18,122,295</u>

Depreciation expense for the year ended December 31, 2015 was \$1,196,711 (including \$19,289 recorded as café expense).

Construction in progress are costs for building plans and exhibits. The estimated costs to complete are \$169,000.

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2015 consist of the following:

Accrued Vacation	\$ 82,074
Accrued Payroll and Payroll Taxes	34,907
Other Accrued Expenses	<u>26,426</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 143,407</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue at December 31, 2015 consists of the following:

Membership Dues	\$ 214,514
Annual Benefit Ticket Sales	74,451
Gift Certificates	34,574
Event Deposits	<u>23,107</u>
TOTAL DEFERRED REVENUE	<u>\$ 346,646</u>

Income from the above is deferred and recognized over the periods to which the income relates.

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 9 - LINE OF CREDIT AND NOTES PAYABLE

During the year ended December 31, 2004, Kidspace procured a line of credit for \$10,000,000 for construction of pavilion expansion and exhibits. On October 2013, Kidspace 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 2.75% at December 31, 2015. The line of credit expires in November 2016. There was no outstanding balance on the line of credit at December 31, 2015.

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.

Notes payable at December 31, 2015 consist of the following:

Notes Payable - Bank, Secured by Kidspace's 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	\$ 1,600,000
Notes Payable - Bank, Secured by Kidspace's Assets, Guaranteed by a Private Foundation Related to a Board Member, One Principal Payment of \$1,500,000 Plus Unpaid Accrued Interest Due November 2018, Monthly Interest Installments at 3.1% per Annum	<u>1,299,029</u>
TOTAL NOTES PAYABLE	<u>\$ 2,899,029</u>

Interest expense of \$94,118 was recognized on the notes payable during the year ended December 31, 2015.

The future maturity of the long-term debt is as follows:

Years Ending December 31	
2016	\$ 200,000
2017	200,000
2018	<u>2,499,029</u>
TOTAL	<u>\$ 2,899,029</u>

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(a) OBLIGATIONS UNDER OPERATING LEASE

Kidspace leases property and equipment under non-cancelable operating leases that expire between 2017 and 2020. The following is a schedule of future minimum lease payments on non-cancelable operating leases:

Years Ending December 31

2016	\$	12,171
2017		11,812
2018		6,977
2019		6,896
2020		2,997
TOTAL	\$	40,853

Lease expense for the year ended December 31, 2015 was \$11,858.

In addition, Kidspace has an operating lease agreement with the City of Pasadena. Under the terms of the lease, Kidspace 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, Kidspace 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.

(b) LEGAL PROCEEDINGS

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

NOTE 11 - EMPLOYEE BENEFIT PLANS

Kidspace 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. Kidspace made no contributions to the plan on behalf of its employees during the year ended December 31, 2015.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 consist of the following:

Capital Campaign	\$	3,157,931
Donated Use of Long-Lived Assets		674,308
Programs and Exhibits		157,756
TOTAL TEMPORARILY		
RESTRICTED NET ASSETS	\$	3,989,995

KIDSPACE: A PARTICIPATORY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 13 - ENDOWMENTS

Kidspace's endowments at December 31, 2015 totaled \$500,000 of contributions restricted by donors for investments in perpetuity. The earnings from the investments are available for Kidspace's programs and operations, as designated by the donor.

Kidspace's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for Kidspace's endowments 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 endowments are 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 Kidspace'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'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 Kidspace'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.

**Endowment Net Asset
Composition by Type of Fund
at December 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ 112,203	\$ 500,000	\$ 612,203

**Changes in Endowment Net
Assets for the Year Ended
December 31, 2015**

Endowment Net Assets - Beginning of Year	\$ -	\$ 123,547	\$ 500,000	\$ 623,547
Loss on Investments	-	(11,344)	-	(11,344)

***ENDOWMENT NET ASSETS -
END OF YEAR***

	\$ -	\$ 112,203	\$ 500,000	\$ 612,203
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