

Kidspace: A Participatory Museum

Financial Statements

December 31, 2019
(With Comparative Totals for 2018)



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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, 2019, 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 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, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Museum has adopted ASU 2014-09, *Revenue from Contracts with Customers*, and ASU 2014-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 14 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to the matter.

Report on Summarized Comparative Information

We have previously audited Kidspace: A Participatory Museum's 2018 financial statements, and our report dated June 27, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Ramon, California

July 14, 2020

Kidspace: A Participatory Museum
 Statement of Financial Position
 December 31, 2019
 (With Comparative Totals for 2018)

	2019	2018
ASSETS		
Cash	\$ 751,563	\$ 915,806
Investments	1,156,064	478,806
Contributions receivable, net	104,656	537,125
Inventory	45,191	44,938
Prepaid and other current assets	105,030	84,495
Donated use of long lived asset	590,673	611,582
Property and equipment	13,790,231	15,070,082
Total assets	\$ 16,543,408	\$ 17,742,834
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 129,206	\$ 78,902
Accrued expenses	145,992	143,807
Deferred revenue	596,163	490,139
Total liabilities	871,361	712,848
Net assets		
Without donor restrictions	14,378,408	15,356,709
With donor restrictions	1,293,639	1,673,277
Total net assets	15,672,047	17,029,986
Total liabilities and net assets	\$ 16,543,408	\$ 17,742,834

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

Kidspace: A Participatory Museum
Statement of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenues, gains and other support				
Admissions and memberships, net				
Admissions and memberships	\$ 3,704,832	\$ -	\$ 3,704,832	\$ 3,696,562
Discounted admissions	(710,120)	-	(710,120)	(804,494)
Total admissions and memberships, net	<u>2,994,712</u>	<u>-</u>	<u>2,994,712</u>	<u>2,892,068</u>
Grants and contributions	371,550	25,000	396,550	733,411
Gift store revenue, net	179,716	-	179,716	191,025
Facility rental	23,345	-	23,345	30,620
Other program revenue	195,507	-	195,507	276,771
Cafe loss, net	(12,990)	-	(12,990)	(54,705)
Birthday fee	163,350	-	163,350	209,509
Special events, net	352,737	-	352,737	283,132
Other revenue	23,716	-	23,716	24,843
In-kind contributions	158,483	-	158,483	27,265
Miscellaneous	15,902	-	15,902	16,282
Net assets released from restriction	<u>518,968</u>	<u>(518,968)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>4,984,996</u>	<u>(493,968)</u>	<u>4,491,028</u>	<u>4,630,221</u>
Functional expenses				
Program services	4,694,777	-	4,694,777	4,715,525
Management and general	752,382	-	752,382	348,153
Fundraising	<u>480,989</u>	<u>-</u>	<u>480,989</u>	<u>520,757</u>
Total functional expenses	<u>5,928,148</u>	<u>-</u>	<u>5,928,148</u>	<u>5,584,435</u>
Change in net assets from operations	<u>(943,152)</u>	<u>(493,968)</u>	<u>(1,437,120)</u>	<u>(954,214)</u>
Non-operating activities				
Investment income (loss), net	3,824	114,330	118,154	(33,702)
Loss on disposal of property and equipment	<u>(38,973)</u>	<u>-</u>	<u>(38,973)</u>	<u>(934)</u>
Total non-operating activities	<u>(35,149)</u>	<u>114,330</u>	<u>79,181</u>	<u>(34,636)</u>
Change in net assets	(978,301)	(379,638)	(1,357,939)	(988,850)
Net assets, beginning of year	<u>15,356,709</u>	<u>1,673,277</u>	<u>17,029,986</u>	<u>18,018,836</u>
Net assets, end of year	<u>\$ 14,378,408</u>	<u>\$ 1,293,639</u>	<u>\$ 15,672,047</u>	<u>\$ 17,029,986</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, 2019
(With Comparative Totals for 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2019 Total</u>	<u>2018 Total</u>
Personnel expenses					
Salaries and wages	\$ 1,919,825	\$ 193,486	\$ 343,399	\$ 2,456,710	\$ 2,283,865
Employee benefits	181,316	18,363	32,590	232,269	225,723
Payroll taxes	<u>144,241</u>	<u>14,608</u>	<u>25,926</u>	<u>184,775</u>	<u>172,486</u>
Total personnel expenses	2,245,382	226,457	401,915	2,873,754	2,682,074
Outside services	254,312	48,166	10,920	313,398	304,035
Education expenses	274,464	975	1,731	277,170	309,907
Utilities and maintenance	245,881	2,338	3,502	251,721	226,706
Printing, postage and other	-	-	45,440	45,440	65,252
Marketing	-	457,207	-	457,207	282,927
Office expense and supplies	173,373	8,187	9,253	190,813	179,548
Insurance	68,737	221	243	69,201	69,206
Other expenses	40,877	2,648	3,151	46,676	64,503
Depreciation and amortization	1,369,190	4,405	4,834	1,378,429	1,379,156
Travel and conferences	17,926	-	-	17,926	16,596
Gift store expenses	<u>4,635</u>	<u>1,778</u>	<u>-</u>	<u>6,413</u>	<u>4,525</u>
	<u>\$ 4,694,777</u>	<u>\$ 752,382</u>	<u>\$ 480,989</u>	<u>\$ 5,928,148</u>	<u>\$ 5,584,435</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, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (1,357,939)	\$ (988,850)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,401,011	1,401,750
Loss on disposal of property and equipment	38,973	934
Net realized and unrealized (gains) losses on investments	(102,920)	40,728
Contributions restricted for long-lived assets	(333,243)	(218,330)
Changes in operating assets and liabilities		
Contributions receivable, net	432,469	173,108
Inventory	(253)	136
Prepaid and other current assets	(20,535)	(19,652)
Accounts payable	50,304	(18,828)
Accrued expenses	2,185	(68,179)
Deferred revenue	106,024	24,100
Net cash provided by operating activities	216,076	326,917
Cash flows from investing activities		
Proceeds from sales of investments	1,046,160	50,807
Purchases of investments	(1,620,498)	(57,159)
Purchases of property and equipment	(139,224)	(118,355)
Net cash used in investing activities	(713,562)	(124,707)
Cash flows from financing activities		
Contributions restricted for long-lived assets	333,243	218,330
Net cash provided by financing activities	333,243	218,330
Net increase (decrease) in cash	(164,243)	420,540
Cash, beginning of year	915,806	495,266
Cash, end of year	\$ 751,563	\$ 915,806

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

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2019

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 Learning 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 net assets without donor restrictions and net assets with donor restrictions.

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - net assets not subject to donor-imposed restrictions.
- *Net assets with donor restrictions* - net assets subject to donor-imposed restrictions that will be met by actions of the Museum and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where resources be maintained in perpetuity by the Museum.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law.

Contributions and promises to give

Contributions received are reported as with or without donor restrictions depending upon donor restrictions, if any.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give (continued)

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. As of December 31, 2019, the Museum considers all contributions receivable to be fully collectible; accordingly no allowance for doubtful accounts has been recorded.

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:

- *Level 1* - Quoted market prices are available in active markets for identical assets or liabilities as of the reporting date.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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.

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, 2019, Kidspace received in-kind goods and services of \$158,483.

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.

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.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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, 2019.

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.

Revenue recognition

Revenue, other than from contributions, bequests, and unconditional grants, is recognized in the period in which the service has been provided.

The management of the Museum estimates that the cost of memberships equals the fair value of goods and services received by members. Accordingly, the Museum recognizes membership sales as revenue over the membership period, using the straight-line basis. Virtually all memberships sold cover a period of one year.

The Museum recognizes revenue from admissions and discounted admissions coupons upon the visit to the Museum.

The Museum earns revenue from its various programs, including school and community partnerships, camps, and birthday parties. The Museum recognizes program revenue when the related activity occurs.

The Museum recognizes store revenue upon sale of the merchandise. Estimated returns are not material.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue

Deferred revenue relates to membership fees, program revenues and gift cards where cash has been received, but services have not yet been performed. These revenues are recognized in the period when the services are rendered and performance obligations met.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2019 were \$327,907 and are included in marketing in the statement of functional expenses.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Expenses, such as payroll and benefits, have been allocated among program services and supporting services based upon employees' time spent by function. Facility related costs such as depreciation and maintenance have been allocated based on estimated square footage used by various departments.

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, 2019, the Museum does not have any significant uncertain tax positions for which a reserve would be necessary.

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.

Kidspage: A Participatory Museum
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 financial statement presentation.

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenues from Contracts with Customers (Topic 606). The standard's core principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. In effect, entities are required to exercise further judgment and make more estimates prospectively. This may include identifying performance obligations in the contract, estimated the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. The Museum adopted ASC 606 with a date of the initial application of January 1, 2019 under the modified retrospective method. The Museum has evaluated the new guidance and determined that the pattern of revenue recognition would not materially change. Therefore, the Museum did not record any adjustment to net assets as of January 1, 2019.

In June 2018, the FASB issued ASU No. 2014-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made (Topic 958), which is a clarifying standard. The accounting for contributions has been modified to make it more clear and distinguish whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third-party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. ASU No. 2014-08 was effective January 1, 2019 for the Museum. The Museum has evaluated the guidance and determined the adoption of ASU No. 2014-08 did not have a material impact on the Museum's financial statements.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2019

3. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Museum's investments at fair value as of December 31, 2019:

	Level 1	Level 2	Level 3	Fair Value
Equity mutual funds	\$ 542,000	\$ -	\$ -	\$ 542,000
Fixed income	614,064	-	-	614,064
	<u>\$ 1,156,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,156,064</u>

4. CONTRIBUTIONS RECEIVABLE

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

Contributions receivable consisted of the following:

Receivables in less than one year	\$ 79,572
Receivables in one to five years	25,711
	105,283
Less: unamortized discount	(627)
	<u>\$ 104,656</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 with donor restrictions in the accompanying financial statements. The amortization expense of donated use of long-lived asset for the year ended December 31, 2019 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 consisted of the following:

Long lived asset	\$ 1,045,440
Accumulated amortization	(454,767)
	<u>\$ 590,673</u>

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6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Buildings	\$ 16,929,777
Exhibits	10,317,768
Furniture and equipment	<u>758,066</u>
	28,005,611
Accumulated depreciation	<u>(14,215,380)</u>
	<u>\$ 13,790,231</u>

Depreciation expense for the year ended December 31, 2019, was \$1,357,520 (excluding \$22,582 included as café loss, net on the statement of activities).

7. LINE OF CREDIT

The Museum maintains a line of credit in the amount of \$1,000,000. Interest on the line of credit is variable based on the lender's reference rate less 0.75% and due monthly. The Bank's rate was 4.75% at December 31, 2019. The line of credit expires in February 2021. There was no outstanding balance on the line of credit at December 31, 2019 and no draws on the line of credit during the year ended December 31, 2019.

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 was in compliance with all covenants as of December 31, 2019.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Capital campaign	\$ 97,339
Donated use of long-lived asset	590,673
Programs and exhibits	12,491
Investment in perpetuity	<u>593,136</u>
	<u>\$ 1,293,639</u>

Included within this amount is \$104,656 of contributions receivable as disclosed in Note 4.

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9. ENDOWMENT

The Museum's endowment consists of donor-restricted endowment funds. The donor-restricted endowment consists of \$500,000 of original corpus gifts. 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).

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 net assets with donor restriction (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 is classified as without donor restrictions once the amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Notes to Financial Statements
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9. ENDOWMENT (continued)

Interpretation of relevant law (continued)

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, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 593,136	\$ 593,136

Changes in endowment net assets for the fiscal year ended December 31, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2018	\$ -	\$ 478,806	\$ 478,806
Investment income	-	114,330	114,330
Balance, December 31, 2019	<u>\$ -</u>	<u>\$ 593,136</u>	<u>\$ 593,136</u>

10. COMMITMENTS AND CONTINGENCIES

Leases

The Museum leases property and equipment under non-cancelable operating leases that expire at various dates through April 2021.

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10. COMMITMENTS AND CONTINGENCIES (continued)

Leases (continued)

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,

2020	\$	6,513
2021		<u>324</u>
	\$	<u><u>6,837</u></u>

Lease expense for the year ended December 31, 2019 was \$12,901.

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.

Legal proceedings

In the ordinary course of conducting business, the Museum becomes involved in various lawsuits. Some of these proceedings may result in judgments 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.

11. 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, 2019.

12. RELATED PARTY

The Museum received \$38,934 in contributions from board members and other related parties during the year ended December 31, 2019.

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13. LIQUIDITY AND FUNDS AVAILABLE

As part of the Museum's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, the Museum has cash available. Contributions receivable that are considered current will be collected from donors within one year from the date of the statement of financial position and will be available for general expenditures. Additionally, the Museum has a line of credit of \$1,000,000 that is available should there be an unanticipated liquidity event. There is no outstanding balance on the line of credit as of December 31, 2019.

The Executive Committee of the Board of Directors reviews the Museum's Statement of Financial Position and monitors cash balances on a monthly basis. The Executive Committee expects to maintain a minimum cash balance to cover 90 days of operating expenses during 2020.

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 751,563
Contributions receivable, current portion	79,572
Investments	<u>1,156,064</u>
	<u>1,987,199</u>
Less: amounts unavailable for general expenditure within one year	
Donor-restricted investments	<u>(593,136)</u>
	<u>(593,136)</u>
	 <u>\$ 1,394,063</u>

The Museum has financial assets available at December 31, 2019 to cover approximately 99 days of operating expenses based on the 2020 monthly budgeted run rate for all program and support services expense of approximately \$398,400, excluding depreciation and amortization.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 14, 2020, the date that these financial statements were issued. There were no subsequent events that would require adjustments to or disclosures in these financial statements, other than the matters described below.

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14. SUBSEQUENT EVENTS (continued)

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. The Museum closed to the general public beginning March 16, 2020 to comply with mandated shelter in place orders. At this time it is not known when the Museum will be able to reopen. As a result, the Museum has been forced to reduce or furlough a portion of its staff. The Museum is taking advantage of the government relief programs available and has actively explored various liquidity options. It is probable that this matter will negatively impact the Museum. However, the ultimate financial impact and duration cannot be reasonably estimated at this time.

In April 2020, the Museum received \$528,762 in loan funding from the Paycheck Protection Program (the "PPP"), established pursuant to the recently enacted Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and administered by the U.S. Small Business Administration ("SBA"). The unsecured loan is evidenced by a promissory note dated April 20, 2020 (the "Note"). The Note will be forgiven in full if the Museum complies with all applicable requirements of the PPP.

Under the terms of the Note, interest accrues on the outstanding principal at the rate of 1.0% per annum. The term of the Note is two years, though it may be payable sooner in connection with an event of default under the Note. To the extent the loan amount is not forgiven under the PPP, the Museum is obligated to make equal monthly payments of principal and interest, beginning seven months from the date of the Note, until the maturity date.