

Kidspace: A Participatory Museum

Financial Statements

December 31, 2018
(With Comparative Totals for 2017)



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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, 2018, 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, 2018, 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 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Other Matter

Management has chosen to supplement the basic financial statements with management's discussion and analysis presented on page 3. Such information is not required by accounting standards generally accepted in the United States of America, but management considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited Kidspace: A Participatory Museum's 2017 financial statements, and our report dated May 14, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2018 financial statements, we also audited the adjustments to the 2017 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Ramon, California

June 27, 2019

Kidspace: A Participatory Museum
Management's Discussion and Analysis (Unaudited)
December 31, 2018

Introduction

This management's discussion and analysis of the financial performance of Kidspace: A Participatory Museum ("Kidspace") provides an overview of Kidspace's financial activities for the year ended December 31, 2018. It should be read in conjunction with the accompanying financial statements of Kidspace.

Financial Highlights

- 2018 was another strong year for Kidspace with two major objectives achieved.
 - * The Museum broke another attendance record serving over 378,000 guests, due to residual exhibit improvements put into place by our past capital campaign.
 - * The Museum also increased our low to moderate income access attendance numbers to a total of 90,051, which is an 11% increase from 2017.
- Kidspace shows an increase in net assets from operations of \$412,900 for 2018 after adjusting for \$1,401,750 of non-cash expenses for depreciation and amortization.

Kidspace: A Participatory Museum
Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Cash	\$ 915,806	\$ 495,266
Investments	478,806	513,182
Contributions receivable, net	546,581	719,689
Inventory	44,938	45,074
Prepaid and other current assets	75,039	55,387
Donated use of long lived asset	611,582	632,491
Property and equipment	15,070,082	16,333,502
Total assets	\$ 17,742,834	\$ 18,794,591
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 78,902	\$ 97,730
Accrued expenses	143,807	211,986
Deferred revenue	490,139	466,039
Total liabilities	712,848	775,755
Net assets		
Without donor restrictions	15,356,709	16,079,519
With donor restrictions	1,673,277	1,939,317
Total net assets	17,029,986	18,018,836
Total liabilities and net assets	\$ 17,742,834	\$ 18,794,591

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

Kidspace: A Participatory Museum
Statement of Activities
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenues, gains and other support				
Admissions and memberships, net				
Admissions and memberships	\$ 3,696,562	\$ -	\$ 3,696,562	\$ 3,405,925
Discounted admissions	(804,494)	-	(804,494)	(682,849)
Total admissions and memberships, net	<u>2,892,068</u>	<u>-</u>	<u>2,892,068</u>	<u>2,723,076</u>
Grants and contributions	582,510	150,901	733,411	777,413
Gift store revenue, net	191,025	-	191,025	188,915
Facility rental	30,620	-	30,620	5,730
Other program revenue	276,771	-	276,771	264,352
Cafe loss, net	(54,705)	-	(54,705)	(61,174)
Birthday fee	209,509	-	209,509	249,946
Special events, net	283,132	-	283,132	297,529
Other revenue	24,843	-	24,843	19,696
In-kind contributions	27,265	-	27,265	137,636
Miscellaneous	16,282	-	16,282	48,840
Net assets released from restriction	<u>383,228</u>	<u>(383,228)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>4,862,548</u>	<u>(232,327)</u>	<u>4,630,221</u>	<u>4,651,959</u>
Functional expenses				
Program services	4,715,525	-	4,715,525	4,792,226
Management and general	348,153	-	348,153	444,288
Fundraising	<u>520,757</u>	<u>-</u>	<u>520,757</u>	<u>423,457</u>
Total functional expenses	<u>5,584,435</u>	<u>-</u>	<u>5,584,435</u>	<u>5,659,971</u>
Change in net assets from operations	<u>(721,887)</u>	<u>(232,327)</u>	<u>(954,214)</u>	<u>(1,008,012)</u>
Non-operating activities				
Investment income (loss)	11	(33,713)	(33,702)	233,136
Loss on disposal of property and equipment	<u>(934)</u>	<u>-</u>	<u>(934)</u>	<u>(8,375)</u>
Total non-operating activities	<u>(923)</u>	<u>(33,713)</u>	<u>(34,636)</u>	<u>224,761</u>
Change in net assets	(722,810)	(266,040)	(988,850)	(783,251)
Net assets, beginning of year	<u>16,079,519</u>	<u>1,939,317</u>	<u>18,018,836</u>	<u>18,802,087</u>
Net assets, end of year	<u>\$ 15,356,709</u>	<u>\$ 1,673,277</u>	<u>\$ 17,029,986</u>	<u>\$ 18,018,836</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, 2018
 (With Comparative Totals for 2017)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2018 Total</u>	<u>2017 Total</u>
Personnel expenses					
Salaries and wages	\$ 1,712,590	\$ 227,381	\$ 343,894	\$ 2,283,865	\$ 2,160,543
Employee benefits	169,262	22,473	33,988	225,723	196,048
Payroll taxes	<u>129,341</u>	<u>17,173</u>	<u>25,972</u>	<u>172,486</u>	<u>159,834</u>
Total personnel expenses	2,011,193	267,027	403,854	2,682,074	2,516,425
Outside services	237,893	55,675	10,467	304,035	293,683
Education expenses	307,111	1,113	1,683	309,907	344,344
Utilities and maintenance	218,918	3,239	4,549	226,706	236,933
Fundraising-other	-	-	65,252	65,252	39,086
Marketing	282,159	-	768	282,927	257,843
Office expense and supplies	157,361	12,367	9,820	179,548	164,734
Interest expense	-	-	-	-	67,729
In-kind expenses	-	-	-	-	112,547
Insurance	68,742	221	243	69,206	77,140
Other expenses	41,116	4,103	19,284	64,503	58,041
Depreciation and amortization	1,369,911	4,408	4,837	1,379,156	1,379,836
Travel and conferences	16,596	-	-	16,596	105,142
Gift store expenses	<u>4,525</u>	<u>-</u>	<u>-</u>	<u>4,525</u>	<u>6,488</u>
	<u>\$ 4,715,525</u>	<u>\$ 348,153</u>	<u>\$ 520,757</u>	<u>\$ 5,584,435</u>	<u>\$ 5,659,971</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, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (988,850)	\$ (783,251)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,401,750	1,402,441
Loss on disposal of property and equipment	934	8,375
Net realized and unrealized gains and losses on investments	40,728	(220,819)
Contributed property and equipment	-	(25,089)
Contributions restricted for long-lived assets	(218,330)	(844,007)
Changes in operating assets and liabilities		
Contributions receivable	173,108	405,040
Inventory	136	(2,929)
Prepaid and other current assets	(19,652)	(19,930)
Accounts payable	(18,828)	2,397
Accrued expenses	(68,179)	36,034
Deferred revenue	24,100	29,035
Net cash provided by (used in) operating activities	326,917	(12,703)
Cash flows from investing activities		
Proceeds from sales of investments	50,807	1,490,012
Purchases of investments	(57,159)	(328,042)
Purchase of property and equipment	(118,355)	(186,386)
Net cash provided by (used in) investing activities	(124,707)	975,584
Cash flows from financing activities		
Repayments on notes payable	-	(2,598,167)
Contributions restricted for long-lived assets	218,330	844,007
Net cash provided by (used in) financing activities	218,330	(1,754,160)
Net increase (decrease) in cash	420,540	(791,279)
Cash, beginning of year	495,266	1,286,545
Cash, end of year	\$ 915,806	\$ 495,266

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ -	\$ 67,729
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Supplemental schedule of noncash investing and financing activities

Contributed property and equipment	\$ -	\$ 25,089
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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, 2018

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 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 unrestricted net assets. 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, 2018

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.

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.

Kidspac: A Participatory Museum
Notes to Financial Statements
December 31, 2018

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.
- 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, 2018, Kidspac received in-kind goods and services of \$27,265.

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, 2018

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

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, 2018.

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.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2018 were \$162,263 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.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2018

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, 2018, 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.

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, 2017, from which the summarized information was derived.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principle (continued)

2. Enhancing disclosures about:

- a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
- b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
- c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
- d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
- e. Methods used to allocate costs among program and support functions.
- f. Underwater endowment funds.

3. Reporting investment return net of external and direct internal investment expenses.

4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied to 2017, with the option to omit the statement of functional expenses and disclosures about liquidity and availability of resources for the prior year comparative period.

Subsequent events

Subsequent events have been evaluated through June 27, 2019, the date that these financial statements were issued. There were no subsequent events that would require adjustments to or disclosures in these financial statements, except as noted in Note 9.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2018

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, 2018:

	Level 1	Level 2	Level 3	Fair Value
Equity mutual funds	\$ 378,636	\$ -	\$ -	\$ 378,636
Fixed income	100,170	-	-	100,170
	\$ 478,806	\$ -	\$ -	\$ 478,806

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	\$ 296,012
Receivables in one to five years	268,315
	564,327
Less: unamortized discount	(17,746)
	\$ 546,581

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, 2018 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	(433,858)
	\$ 611,582

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2018

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Buildings	\$ 16,844,384
Exhibits	10,348,352
Furniture and equipment	<u>795,436</u>
	27,988,172
Accumulated depreciation	<u>(12,918,090)</u>
	<u><u>\$ 15,070,082</u></u>

Depreciation expense for the year ended December 31, 2018, was \$1,379,156 (excluding \$22,594 recorded as café expense).

7. LINE OF CREDIT

The Organization 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, 2018. The line of credit expires in February 2021. There was no outstanding balance on the line of credit at December 31, 2018 and no draws on the line of credit during the year ended December 31, 2018.

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, 2018.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Capital campaign	\$ 554,713
Donated use of long-lived asset	611,581
Programs and exhibits	28,177
Investment in perpetuity (net of losses)	<u>478,806</u>
	<u><u>\$ 1,673,277</u></u>

Included within this amount is \$546,581 of contributions receivable as disclosed in Note 4.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2018

9. ENDOWMENT

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

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 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.

Kidspace: A Participatory Museum
Notes to Financial Statements
December 31, 2018

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, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 478,806</u>	<u>\$ 478,806</u>

Changes in endowment net assets for the fiscal year ended December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2017	\$ -	\$ 512,519	\$ 512,519
Investment loss	<u>-</u>	<u>(33,713)</u>	<u>(33,713)</u>
Balance, December 31, 2018	<u>\$ -</u>	<u>\$ 478,806</u>	<u>\$ 478,806</u>

At December 31, 2018, the endowment fair value of \$488,184 was below the original gift value of \$500,000 due to unfavorable market conditions. The amount has been fully recovered as of the date of this report.

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10. COMMITMENTS AND CONTINGENCIES

Leases

The Museum leases property and equipment under non-cancelable operating leases that expire between 2019 and 2021.

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

Year ending December 31,

2019	\$ 12,901
2020	6,513
2021	<u>324</u>
	<u>\$ 19,738</u>

Lease expense for the year ended December 31, 2018 was \$16,451.

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, 2018.

12. RELATED PARTY

The Museum received \$56,875 in contributions from board members and other related parties during the year ended December 31, 2018.

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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. Additionally, contributions receivable consist primarily of amounts due from third parties that have been historically collected within 60 days of the year end. Contributions receivable that are considered current will be collected from donors within one year from the date of the Statement of Financial Position. 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, 2018.

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 60 days of operating expenses during 2019, with the expectation that the Museum will continue to build toward a minimum cash balance to cover 90 days of operating expenses.

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2018 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 915,806
Contributions receivable, current portion	296,012
Investments	<u>478,806</u>
	<u>1,690,624</u>
Less: amounts unavailable for general expenditure within one year	
Donor-restricted investments	<u>(478,806)</u>
	<u>(478,806)</u>
	 <u><u>\$ 1,211,818</u></u>

The Museum has cash available at December 31, 2018 to cover approximately 90 days of operating expenses based on the 2019 monthly budgeted run rate for all program and support services expense of approximately \$393,800, excluding depreciation and amortization.