



**CHILDREN'S MUSEUM OF
SANTA BARBARA
dba MOXI, THE WOLF MUSEUM OF
EXPLORATION AND INNOVATION**

FINANCIAL STATEMENTS

December 31, 2017

CHILDREN'S MUSEUM OF SANTA BARBARA
dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children's Museum of Santa Barbara
dba MOXI, The Wolf Museum of Exploration and Innovation

We have audited the accompanying financial statements of Children's Museum of Santa Barbara, dba MOXI, The Wolf Museum of Exploration and Innovation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 Children's Museum of Santa Barbara, dba MOXI, The Wolf Museum of Exploration and Innovation as of December 31, 2017, 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 Children's Museum of Santa Barbara, dba MOXI, The Wolf Museum of Exploration and Innovation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
Santa Barbara, California
April 19, 2018

CHILDREN'S MUSEUM OF SANTA BARBARA
dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION

Statement of Financial Position

December 31, 2017

(With Summarized Comparative Totals for the Year 2016)

<i>Assets</i>	Unrestricted	Temporarily Restricted	Total 2017	2016
Cash and cash equivalents	\$ 2,918,117	\$ -	\$ 2,918,117	\$ 2,495,152
Prepaid expenses	32,961	-	32,961	26,743
Pledges receivable, net	-	2,923,750	2,923,750	5,397,458
Land lease contribution receivable	-	2,032,764	2,032,764	2,049,262
Building, exhibits, and equipment, net	19,827,070	-	19,827,070	39,232
Construction in progress	-	-	-	21,113,673
Total assets	\$ 22,778,148	\$ 4,956,514	\$ 27,734,662	\$ 31,121,520
<i>Liabilities and Net Assets</i>				
Accounts payable	\$ 179,119	\$ -	\$ 179,119	\$ 463,144
Accrued expenses	151,538	-	151,538	2,569,825
Line of credit	-	-	-	475,000
Deferred revenue	80,728	-	80,728	107,965
Total liabilities	411,385	-	411,385	3,615,934
Unrestricted	22,366,763	-	22,366,763	4,183,742
Temporarily restricted	-	4,956,514	4,956,514	23,321,844
Total net assets	22,366,763	4,956,514	27,323,277	27,505,586
	\$ 22,778,148	\$ 4,956,514	\$ 27,734,662	\$ 31,121,520

CHILDREN'S MUSEUM OF SANTA BARBARA
dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION

Statement of Activities

Year Ended December 31, 2017

(With Summarized Comparative Totals for the Year 2016)

	Unrestricted	Temporarily Restricted	Total	
			2017	2016
<i>Support, Revenues, and Gains</i>				
Contributions	\$ 1,210,583	\$ 551,841	\$ 1,762,424	\$ 11,178,988
Admissions	1,028,142	-	1,028,142	-
Memberships	731,873	-	731,873	-
Facilities rental	162,787	-	162,787	-
Miscellaneous revenue	98,260	-	98,260	-
Special events:				
Special events gross proceeds	448,474	-	448,474	-
Direct special event costs	(208,323)	-	(208,323)	-
Net special events proceeds	240,151	-	240,151	-
Investment gain	5,694	-	5,694	6,446
Net assets released from restrictions	18,917,171	(18,917,171)	-	-
<i>Total support, revenues, and gains</i>	22,394,661	(18,365,330)	4,029,331	11,185,434
<i>Expenses</i>				
Program	3,447,501	-	3,447,501	894,936
Management and general	318,580	-	318,580	454,011
Fundraising	445,559	-	445,559	315,495
<i>Total expenses</i>	4,211,640	-	4,211,640	1,664,442
<i>Increase (decrease) in net assets</i>	18,183,021	(18,365,330)	(182,309)	9,520,992
<i>Net assets, beginning of year</i>	4,183,742	23,321,844	27,505,586	17,984,594
<i>Net assets, end of year</i>	\$ 22,366,763	\$ 4,956,514	\$ 27,323,277	\$ 27,505,586

CHILDREN'S MUSEUM OF SANTA BARBARA
dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION

Statement of Functional Expenses

Year Ended December 31, 2017

(With Summarized Comparative Totals for the Year 2016)

	<u>Supporting Services</u>			<u>Total</u>	
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017</u>	<u>2016</u>
<i>Salaries and benefits</i>					
Salaries and wages	\$ 1,142,724	\$ 105,251	\$ 255,609	\$ 1,503,584	\$ 730,749
Payroll taxes	96,530	14,012	21,592	132,134	56,131
Employee benefits	68,658	15,019	23,601	107,278	51,421
<i>Total salaries and benefits</i>	1,307,912	134,282	300,802	1,742,996	838,301
Advertising and marketing	148,700	-	21,871	170,571	235,458
Bank fees	54,603	527	1,689	56,819	4,960
Depreciation	1,166,399	12,025	24,049	1,202,473	2,967
Equipment	24,494	-	11,442	35,936	31,158
Exhibit expenses	90,191	-	-	90,191	-
Insurance	41,585	6,045	4,039	51,669	54,827
Interest	-	63,237	-	63,237	-
Occupancy	90,272	931	1,861	93,064	138,269
Office	54,571	23,069	22,535	100,175	121,617
Professional services	286,197	64,237	51,180	401,614	189,560
Repairs and maintenance	20,160	208	416	20,784	-
Supplies	84,366	13,214	4,066	101,646	47,325
Utilities	78,051	805	1,609	80,465	-
<i>Total expenses</i>	\$ 3,447,501	\$ 318,580	\$ 445,559	\$ 4,211,640	\$ 1,664,442

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

CHILDREN'S MUSEUM OF SANTA BARBARA
dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
<i>Cash flows from operating activities</i>		
Increase (decrease) in net assets	\$ (182,309)	\$ 9,520,992
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	1,202,473	2,967
Realized gain	329	501
Net change in unrealized (gain) loss	953	(788)
Donated securities	(126,578)	(637,275)
In-kind design services and exhibits	-	(1,021,400)
Contributions restricted for long-term purposes	(3,362,695)	(7,277,669)
(Increase) decrease in:		
Prepaid expenses	(6,218)	(14,763)
Investment income receivable	-	1,583
Pledges receivable	2,373,759	(2,877,618)
Deferred revenue	(27,237)	107,965
Land lease contribution receivable	16,498	15,892
Decrease in:		
Accounts payable and accrued expenses	(284,025)	(37,601)
<i>Net cash used by operating activities</i>	(395,050)	(2,217,214)
<i>Cash flows from investing activities</i>		
Proceeds from sales of investments	225,245	1,391,314
Purchase of buildings, exhibits, and equipment	(2,294,925)	(35,999)
Increase in construction in progress	-	(8,439,538)
<i>Net cash used by investing activities</i>	(2,069,680)	(7,084,223)
<i>Cash flows from financing activities</i>		
Proceeds from contributions restricted for investment in museum construction	3,362,695	7,277,669
Proceeds (payment) of line of credit	(475,000)	475,000
<i>Net cash provided by financing activities</i>	2,887,695	7,752,669
Net increase (decrease) in cash and cash equivalents	422,965	(1,548,768)
<i>Cash and cash equivalents, beginning of year</i>	2,495,152	4,043,920
<i>Cash and cash equivalents, end of year</i>	\$ 2,918,117	\$ 2,495,152

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

CHILDREN'S MUSUEM OF SANTA BARBARA
dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION
Notes to Financial Statements
December 31, 2017
(With Summarized Comparative Totals for 2016)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Children's Museum of Santa Barbara, dba MOXI, The Wolf Museum of Exploration and Innovation (the Museum) is presented to assist in understanding the Museum's financial statements. The financial statements and notes are representations of the Museum's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of the Organization

The Museum is a nonprofit organization founded in 1989 as the Children's Museum of Santa Barbara, and its mission is to ignite learning through interactive experiences in science and creativity. The Museum opened to the public doing business as MOXI, The Wolf Museum of Exploration + Innovation on February 25, 2017. MOXI is a vibrant, one-of-a-kind experience that prepares individuals to be creative thinkers and problem-solvers. The exhibits and programs are based on innovative ideas and the best practices of interactive science centers around the globe. The Museum is Santa Barbara's first LEED-certified museum with 25,000 square feet of indoor and outdoor spaces, including a rooftop Sky Garden, Exploration Lab, Innovation Workshop, Museum Store and New Media Theater. The interactive, educational exhibits are aligned with national initiatives designed to boost student engagement in Science, Technology, Engineering, Art and Mathematics (STEAM). The exhibits and programs support the Next Generation Science Standards and Common Core Standards, teaching 21st Century Thinking Skills through active exploration and experimentation. The Museum offers a diverse suite of informal education programs. These include interactive activities and demonstrations, classes and camps, adults-only evening events and more.

Current operations are focused on operating the Museum and its exhibits as well as the design and development of programs for local youth and the community at large in Santa Barbara County, California. The Museum's activities are supported primarily by contributions from the community, admissions, special events and memberships.

The Museum's programs are as follows:

Educational services – Develops and implements Museum program activity, including performances and holiday events, daily interpretive activity in the museum galleries, and activities and programs for school and community groups. This program also implements grant-funded projects, often in conjunctions with schools and other organizations.

Member services – Maintains the Museum's family membership program, including ongoing member benefits, which include member only events.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Other programs – Rentals of Museum space by other organizations and individuals, birthday parties for children, and adults-only events.

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Member services – Maintains the Museum's family membership program, including ongoing member benefits, which include member only events.

Other programs – Rentals of Museum space by other organizations and individuals, birthday parties for children, and adults only events.

Financial Statement Presentation

Information regarding the Museum's financial position and activities is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets generally result from unrestricted contributions and investment income less expenses incurred in fundraising and other administrative expenses.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. Interest, dividends and unrealized gains or losses recognized on such assets are either reported as an increase or decrease to permanently restricted net assets or temporarily restricted net assets in conformance with the donor imposed restrictions. As of December 31, 2017 and 2016, the Museum had no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, and cash in money market funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenue Recognition

Program service revenue is recognized at point of sale or at the time services are provided. In the absence of donor restrictions, contributions are considered to be available for unrestricted use. All income is recognized in the period when the contribution or unconditional promise to give is received. Membership contributions are recorded as revenue when received.

Advertising Costs

The Museum follows the policy of expensing the costs of advertising as incurred. Amounts expensed for advertising costs during the years ended December 31, 2017 and 2016 were approximately \$103,900 and \$76,600, respectively.

Property and Equipment

Office equipment is carried at cost, or if acquired by gift, at the fair market value on the date of donation. In general, the Museum capitalizes assets with a cost of \$2,500 or more and with an expected useful life of greater than one year.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	39
Exhibits	7
Equipment	5
Furniture	5

Promises to Give

Unconditional promises to give are recognized as pledges receivable and as revenues in the period the pledge is received. In accordance with GAAP, conditional promises to give are recognized only when the donor-imposed conditions have been substantially met.

The detail of the unrecognized written conditional promises to give consists of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Conditional upon completion of fundraising and construction milestones	\$ -	\$ 340,000

Pledges Receivable

As of December 31, 2017 and 2016 management determined that no reserve for uncollectible pledges was required. The determination is based on management's evaluation of the current status of existing pledges receivable, evaluation of factors surrounding the credit risk of specific donors, historical trends, and other information.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Contributed Services

The Museum recognizes contribution revenue for specialized services that would otherwise be purchased by the Museum in an amount equal to the fair value of those services. The following amounts were contributed and recognized as revenue:

<u>Service Donated</u>	<u>2017</u> <u>Fair Value</u>	<u>2016</u> <u>Fair Value</u>	<u>Purpose</u>
Construction	\$ -	\$ 617,600	Construction
Exhibit related	-	292,200	Exhibits
Information technology	-	92,300	General
Advertising	10,000	50,000	General
Campaign events	75,500	23,100	Fundraising
Landscape planning	-	19,300	Construction
Accounting	16,400	15,600	General
Legal consulting	6,600	-	General
Investment advisory	2,200	-	General

Tax Exempt Status

The Museum is an exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

Uncertain Tax Positions

The Museum's tax returns are subject to review and examination by Federal and state authorities. The Museum is not aware of any activities that would jeopardize its tax-exempt status. The Museum is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes. The Museum's tax returns from the year 2014 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2013 to the present remain subject to examination by the state of California.

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not broken out by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Reclassifications

Certain items in the 2016 financial statements were reclassified in order to conform to the 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through April 19, 2018, the date that the financial statements were available to be issued.

2. PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2017, at face value, are estimated to be received as follows:

Year ending December 31,	
2018	\$ 1,702,850
2019	595,200
2020	477,200
2021	127,200
2022 and later	<u>52,700</u>
	2,995,150
Less unamortized discount	<u>(31,400)</u>
	<u>\$ 2,923,750</u>

Pledges receivable due after one year are recorded at the present value of estimated future cash flows using a discount rate of 1.5% per annum. The present value discount is amortized to contribution revenue over the terms of the pledges receivable.

3. LAND LEASE CONTRIBUTION RECEIVABLE

In August 2013, the Museum entered into a fifty year lease agreement with the City of Santa Barbara for undeveloped land. The lease agreement provides for annual lease payment of one dollar and the use of the land is restricted to the construction and on-going operations of a children's museum. The lease agreement requires that the City of Santa Barbara approve the design of the Museum and contains certain other restrictions. The difference between the fair value of the lease and the lease payment by the Museum represents an in-kind donation for the value of the use of the leased land during the lease term. The value of the donation cannot exceed the appraised fair value of the land at the date of contribution.

3. LAND LEASE CONTRIBUTION RECEIVABLE (Cont.)

The fair value of the land was approximately \$2,100,000 and the Museum recorded contribution income and a net contribution receivable in this amount at the date of the contribution.

During the years ended December 31, 2017 and 2016, the Museum recognized annual lease expense of approximately \$93,100, which was recorded as a reduction of the contribution receivable amount and a release from restrictions. In addition, contribution revenue of approximately \$76,600 and \$77,200 was recorded due to the amortization of the contribution receivable discount, which was calculated using an interest rate of 3.75%.

4. PROPERTY AND EQUIPMENT

The Museum has the following assets and the assets are summarized by major classifications as follows at December 31:

	<u>2017</u>	<u>2016</u>
Building	\$13,360,795	\$ -
Exhibits	7,629,516	-
Furniture	11,005	11,005
Computer equipment	34,545	34,545
Construction in progress	-	<u>21,113,673</u>
	<u>21,035,861</u>	21,159,223
Less accumulated depreciation	<u>(1,208,791)</u>	<u>(6,318)</u>
	<u>\$19,827,070</u>	<u>\$21,152,905</u>

Depreciation expense related to property and equipment for the years ended December 31, 2017 and 2016, was \$1,202,473 and \$2,967, respectively

5. CONSTRUCTION IN PROGRESS

For the year ended December 31, 2016, construction in progress consisted of costs incurred for the construction of a children's museum and includes costs for architect fees, design fees, exhibits, engineering, contractors, permits and other costs.

6. LOAN AGREEMENT

On May 6, 2016 (closing date), the Museum entered into a loan agreement, which provides for a maximum of \$6,000,000 in borrowings. The loan is non-revolving bridge financing and will convert to a term loan to support remaining construction expenses, direct expenses incurred for the acquisition and installation of exhibits for the Museum, and the costs of the capital campaign. The loan agreement provides for an interest rate of Prime Rate plus 1%, with a minimum interest rate floor of 5.25%, which will be reduced to 4.75% upon the completion of construction, opening of the Museum, and the achievement of certain pledge thresholds.

6. LOAN AGREEMENT (Cont.)

The loan was secured by certain Museum assets, an assignment of certain pledges receivable, and an assignment in the land lease with the City of Santa Barbara (Note 5). Advances were limited by the amounts of certain pledges receivable. The loan had a term of five years and has been paid off as of December 31, 2017.

7. TEMPORARILY RESTRICTED NET ASSETS

Funds were temporarily restricted by donors for the following purposes as of December 31:

	<u>2017</u>	<u>2016</u>
Construction of museum	\$ 2,431,450	\$ 21,180,282
Education programs	400,000	-
Land lease contribution receivable	2,032,764	2,049,262
In-kind services receivable	<u>92,300</u>	<u>92,300</u>
Total temporarily restricted net assets	<u>\$ 4,956,514</u>	<u>\$ 23,321,844</u>

8. RELATED PARTY TRANSACTIONS

For the years ended December 31, 2017 and 2016, board members contributed approximately \$51,400 and \$2,847,900 to the Museum. As of December 31, 2017 and 2016, pledges receivable from board members were approximately \$216,500 and \$1,845,000. A board member is a principal in an accounting firm that contributed approximately \$5,700 of accounting services for the year ended December 31, 2016. The accounting firm also sponsored \$10,000 of advertising. Another board member is a financial advisor in a wealth management firm that contributed services in the amount of \$2,200 for the year ended December 31, 2017.

9. CASH FLOW INFORMATION

Non-cash operating activities during the years ended December 31, 2017 and 2016 consisted of receipts of common stock as payment of a pledge receivable valued at approximately \$126,600 and \$637,000, respectively.

10. CONCENTRATIONS

Financial instruments that potentially subject the Museum's to concentrations of credit risk consist principally of cash and cash equivalents. As of December 31, 2017, all of the Museum's cash was maintained in financial institutions. Cash balances held in the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Uninsured cash balances at December 31, 2017 were approximately \$2,496,700. Approximately 7% and 34% of pledges receivable were from board members as of December 31, 2017 and 2016, respectively.

11. SUBSEQUENT EVENT

On February 15, 2018, the Museum's board of directors voted to designate \$2,500,000 of unrestricted funds as a board-designated endowment fund. The board of directors intends to make additional designations of unrestricted funds as board-designated endowment as such funds are available.