



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

**FINANCIAL STATEMENTS**

December 31, 2018

**CHILDREN'S MUSEUM OF SANTA BARBARA**  
**dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION**  
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**December 31, 2018**

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

### **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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 23, 2019

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

**Statement of Financial Position**

December 31, 2018

(With Summarized Comparative Totals for the Year 2017)

<i>Assets</i>	Without Donor	With Donor	<b>Total</b>	
	Restrictions	Restrictions	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 1,756,566	\$ 116,697	\$ 1,873,263	\$ 2,918,117
Prepaid expenses	21,237	-	21,237	32,961
Investments	2,757,759	-	2,757,759	-
Contributions receivable, net	-	1,128,695	1,128,695	2,923,750
Land lease contribution receivable	-	2,015,636	2,015,636	2,032,764
Building, exhibits, and equipment, net	18,385,873	-	18,385,873	19,827,070
<b><i>Total assets</i></b>	<b>\$ 22,921,435</b>	<b>\$ 3,261,028</b>	<b>\$ 26,182,463</b>	<b>\$ 27,734,662</b>
<i>Liabilities and Net Assets</i>				
Accounts payable	\$ 167,802	\$ -	\$ 167,802	\$ 179,119
Accrued expenses	151,538	-	151,538	151,538
Deferred revenue	96,851	-	96,851	80,728
<b><i>Total liabilities</i></b>	<b>416,191</b>	<b>-</b>	<b>416,191</b>	<b>411,385</b>
Without donor restrictions	22,505,244	-	22,505,244	22,366,763
With donor restrictions	-	3,261,028	3,261,028	4,956,514
<b><i>Total net assets</i></b>	<b>22,505,244</b>	<b>3,261,028</b>	<b>25,766,272</b>	<b>27,323,277</b>
	<b>\$ 22,921,435</b>	<b>\$ 3,261,028</b>	<b>\$ 26,182,463</b>	<b>\$ 27,734,662</b>

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

**Statement of Activities**

Year Ended December 31, 2018

(With Summarized Comparative Totals for the Year 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	2017
<b><i>Support, Revenues, and Gains</i></b>				
Contributions	\$ 1,285,295	\$ 49,480	\$ 1,334,775	\$ 1,762,424
Admissions	1,086,838	-	1,086,838	1,028,142
Memberships	503,956	-	503,956	731,873
Facilities rental	259,043	-	259,043	162,787
Miscellaneous revenue	111,486	-	111,486	98,260
Special events:				
Special events gross proceeds	399,488	-	399,488	448,474
Direct special event costs	(159,479)	-	(159,479)	(208,323)
Net special events proceeds	240,009	-	240,009	240,151
Investment gain (loss)	(165,701)	-	(165,701)	5,694
Net assets released from restrictions	1,744,966	(1,744,966)	-	-
<b><i>Total support, revenues, and gains</i></b>	5,065,892	(1,695,486)	3,370,406	4,029,331
<b><i>Expenses</i></b>				
Program services	3,764,109	-	3,764,109	3,447,501
Management and general	610,994	-	610,994	318,580
Fundraising	552,308	-	552,308	445,559
<b><i>Total expenses</i></b>	4,927,411	-	4,927,411	4,211,640
<b><i>Increase (decrease) in net assets</i></b>	138,481	(1,695,486)	(1,557,005)	(182,309)
<b><i>Net assets, beginning of year</i></b>	22,366,763	4,956,514	27,323,277	27,505,586
<b><i>Net assets, end of year</i></b>	\$ 22,505,244	\$ 3,261,028	\$ 25,766,272	\$ 27,323,277

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**

**Statement of Functional Expenses**

Year Ended December 31, 2018

(With Summarized Comparative Totals for the Year 2017)

	<u>Supporting Services</u>			<u>Total</u>	
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2018</u>	<u>2017</u>
<i>Salaries and benefits</i>					
Salaries and wages	\$ 1,181,663	\$ 116,502	\$ 366,149	\$ 1,664,314	\$ 1,503,584
Payroll taxes	93,499	14,750	28,972	137,221	132,134
Employee benefits	89,139	19,809	14,856	123,804	107,278
<i>Total salaries and benefits</i>	1,364,301	151,061	409,977	1,925,339	1,742,996
Advertising and marketing	161,348	-	25,171	186,519	170,571
Bank fees	49,886	602	1,543	52,031	56,819
Bad debt expense	-	300,000	-	300,000	-
Depreciation	1,397,961	14,412	28,824	1,441,197	1,202,473
Equipment	6,215	-	-	6,215	35,936
Exhibit expenses	7,038	-	-	7,038	90,191
Insurance	40,042	6,353	4,021	50,416	51,669
Interest	-	204	-	204	63,237
Occupancy	90,272	931	1,861	93,064	93,064
Office	66,652	22,286	33,582	122,520	100,175
Professional services	221,777	100,655	38,441	360,874	401,614
Repairs and maintenance	155,584	1,556	3,113	160,253	20,784
Supplies	117,883	12,056	4,019	133,958	101,646
Utilities	85,150	878	1,756	87,783	80,465
<i>Total expenses</i>	<u>\$ 3,764,109</u>	<u>\$ 610,994</u>	<u>\$ 552,308</u>	<u>\$ 4,927,411</u>	<u>\$ 4,211,640</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><i>Cash flows from operating activities</i></b>		
Decrease in net assets	\$ (1,557,005)	\$ (182,309)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation	1,441,197	1,202,473
Realized gain	171	329
Net change in unrealized loss	207,596	953
Donated securities	(162,458)	(126,578)
Contributions restricted for long-term purposes	-	(3,362,695)
(Increase) decrease in:		
Prepaid expenses	11,724	(6,218)
Contributions receivable	1,753,531	2,373,759
Land lease contribution receivable	17,128	16,498
Increase (decrease) in:		
Deferred revenue	16,123	(27,237)
Accounts payable and accrued expenses	(11,317)	(284,025)
<b><i>Net cash provided (used) by operating activities</i></b>	<u>1,716,690</u>	<u>(395,050)</u>
<b><i>Cash flows from investing activities</i></b>		
Proceeds from sales of investments	3,854,992	225,245
Purchase of investments	(6,616,536)	-
Purchase of buildings, exhibits, and equipment	-	(2,294,925)
<b><i>Net cash used by investing activities</i></b>	<u>(2,761,544)</u>	<u>(2,069,680)</u>
<b><i>Cash flows from financing activities</i></b>		
Proceeds from contributions restricted for investment in museum construction	-	3,362,695
Payment of line of credit	-	(475,000)
<b><i>Net cash provided by financing activities</i></b>	<u>-</u>	<u>2,887,695</u>
Net increase (decrease) in cash and cash equivalents	(1,044,854)	422,965
<b><i>Cash and cash equivalents, beginning of year</i></b>	<u>2,918,117</u>	<u>2,495,152</u>
<b><i>Cash and cash equivalents, end of year</i></b>	<u><u>\$ 1,873,263</u></u>	<u><u>\$ 2,918,117</u></u>

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**  
**Notes to Financial Statements**  
December 31, 2018  
(With Summarized Comparative Totals for 2017)

**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 21<sup>st</sup> 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.

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.

### *Financial Statement Presentation*

Information regarding the Museum's financial position and activities are based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. These net assets may be used at the discretion of management and the board of directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are permanent in nature, where by the donor has stipulated the funds be maintained in perpetuity. As of December 31, 2018 there were no donor restricted fund that were permanent in nature.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

### *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.

### *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.

### *Investments*

In accordance with GAAP, the Museum accounts for its marketable equity securities at fair value. Information about the unrealized gains and losses are presented in Note 4. Information about fair value of investments is discussed in Note 5.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Fair Value Measurements*

The Museum follows Accounting Standard Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*, issued by the Financial Accounting Standards Board (FASB). This standard defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. Pursuant to ASC No. 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC No. 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange 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 for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment, estimation, or other unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

*Cash and cash equivalents:* Valued at face value. (Level 1)

*Equity securities, mutual and exchange traded funds:* Valued utilizing quoted prices available in active markets for identical investments as of the reporting date. (Level 1)

*U.S. government obligations and corporate bonds:* Valued utilizing benchmark yields, reported trades or broker dealer quotes. (Level 2)

### *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, 2018 and 2017 were approximately \$107,300 and \$103,900, respectively.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Functional Allocation of Expenses*

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses allocated on a square footage basis include occupancy, depreciation, repairs and maintenance, utilities, and insurance. Expenses allocated on the basis of estimates of time and effort include salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, and interest.

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

### *Contributions Receivable*

Management determined that the reserve for uncollectible contributions as of December 31, 2018 should be \$300,000. As of December 31, 2017 management determined that no reserve for uncollectible pledges was required. The determination is based on management's evaluation of the current status of existing contributions 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>2018</u> <u>Fair Value</u>	<u>2017</u> <u>Fair Value</u>	<u>Purpose</u>
Information technology	\$ 29,200	\$ -	General
Advertising	-	10,000	General
Campaign events	54,700	75,500	Fundraising
Landscape planning	-	-	Construction
Accounting	18,200	16,400	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 2015 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2014 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 assets with and without donor restrictions. 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.)

### *New Accounting Pronouncement*

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Museum implemented ASU 2016-14 and adjusted the presentation of the financial statements accordingly.

### *Subsequent Events*

Management has evaluated subsequent events through April 23, 2019, the date that the financial statements were available to be issued.

## 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of December 31, 2018:

Cash and cash equivalents	\$ 1,873,263
Investments	2,757,759
Contribution receivable	698,967
Less board designated operating reserve	(1,000,000)
Less board-designated endowment	<u>(2,796,259)</u>
	<u>\$ 1,533,730</u>

As part of the liquidity management plan, the Museum keeps a three month cash operating reserve of approximately \$1 million.

During the year ended December 31, 2018, a board-designated endowment fund of approximately \$2.8 million was established. Although the Museum does not intend to spend from the board-designated endowment, these amounts could be made available if necessary.

### 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable, shown net of the reserve for uncollectible contributions, as of December 31, 2018, at face value, are estimated to be received as follows:

Year ending December 31,

2019	\$ 698,967
2020	259,700
2021	127,200
2022	<u>52,700</u>
	1,138,567
Less unamortized discount	<u>(9,872)</u>
	<u>\$ 1,128,695</u>

Contributions 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 contributions receivable.

### 4. INVESTMENTS

As of December 31, 2018 without donor restriction investments consist of the following:

<u>December 31, 2018</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Excess (Deficit) of Fair Value Over Cost</u>
Cash and cash equivalents	\$ 1,183	\$ 1,183	\$ -
U.S. equity securities	589,628	516,278	(73,350)
International equity securities	396,525	351,565	(44,960)
Mutual Funds	978,318	884,680	(93,638)
U.S. government obligations	<u>999,893</u>	<u>1,004,053</u>	<u>4,160</u>
	<u>\$ 2,965,547</u>	<u>\$ 2,757,759</u>	<u>\$ (207,788)</u>

Investment income (loss) as of December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 41,724	\$ 6,976
Net realized gain (loss)	171	(329)
Net change in unrealized loss	<u>(207,596)</u>	<u>(953)</u>
	(165,701)	5,694
Less investment fees	<u>-</u>	<u>-</u>
Total investment income (loss)	<u>\$ (165,701)</u>	<u>\$ 5,694</u>

## 5. FAIR VALUE MEASUREMENTS

The following sets forth by level, within the fair value hierarchy, the Foundation's assets as of December 31, 2018:

	Fair Value (Level 1)	Fair Value (Level 2)	Fair Value (Level 3)
Cash equivalents	\$ 1,183	\$ -	\$ -
Mutual funds:			
U.S. equity	884,680	-	-
Equity securities:			
U.S. common stock	516,278	-	-
Int'l common stock	351,565	-	-
U.S. government securities	-	1,004,053	-
	<u>\$ 1,753,706</u>	<u>\$ 1,004,053</u>	<u>\$ -</u>

## 6. 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.

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, 2018 and 2017, 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 \$75,900 and \$76,600 was recorded due to the amortization of the contribution receivable discount, which was calculated using an interest rate of 3.75%.



## 7. BUILDING, EXHIBITS, AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Building	\$13,360,795	\$13,360,795
Exhibits	7,629,516	7,629,516
Furniture	11,005	11,005
Computer equipment	<u>34,545</u>	<u>34,545</u>
	21,035,861	21,035,861
Less accumulated depreciation	<u>(2,649,988)</u>	<u>(1,208,791)</u>
	<u>\$18,385,873</u>	<u>\$19,827,070</u>

Depreciation expense related to property and equipment for the years ended December 31, 2018 and 2017, was \$1,441,197 and \$1,202,473, respectively

## 8. ENDOWMENT FUNDS

The Museum's has one board-designated endowment that is used to generate investment income. The Museum does not intend to spend from the board-designated endowment, but these amounts could be made available if necessary. As required by generally accepted accounting principles, 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.

### *Interpretation of Relevant Law*

The Board of Directors of the Museum has interpreted the California adopted 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 endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the donor gift instrument.

In accordance with California 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 Museum 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

## 8. ENDOWMENT FUNDS (Cont.)

As of December 31, 2018 the Museum did not hold any donor restricted endowment funds.

Endowment net asset composition by type of fund as of December 31, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ -	\$ -
Board-restricted	<u>2,796,259</u>	<u>-</u>	<u>2,796,259</u>
Total endowment funds	<u>\$ 2,796,259</u>	<u>\$ -</u>	<u>\$ 2,796,259</u>

Changes in endowment net assets for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Net investment return (investment income, realized and unrealized loss)	(169,287)	-	(169,287)
Contributions/additions	2,965,546	-	2,965,546
Releases from restriction	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,796,259</u>	<u>\$ -</u>	<u>\$ 2,796,259</u>

## 9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	2018	2017
Construction of museum	\$ 961,395	\$ 2,431,450
Education programs	191,697	400,000
Land lease contribution receivable	2,015,636	2,032,764
In-kind services receivable	<u>92,300</u>	<u>92,300</u>
Total net assets with donor restrictions	<u>\$ 3,261,028</u>	<u>\$ 4,956,514</u>

## **10. RELATED PARTY TRANSACTIONS**

For the years ended December 31, 2018 and 2017, board members contributed approximately \$625,200 and \$51,400 to the Museum. As of December 31, 2018 and 2017, contributions receivable from board members were approximately \$44,500 and \$216,500. A board member is a principal in an accounting firm that contributed approximately \$5,700 of accounting services for the year ended December 31, 2017.

## **11. CASH FLOW INFORMATION**

Non-cash operating activities during the years ended December 31, 2018 and 2017 consisted of receipts of common stock as payment of a pledge receivable valued at approximately \$41,500 and \$126,600, respectively.

## **12. 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, 2018, 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, 2018 were approximately \$1,390,800. Approximately 4% and 7% of contributions receivable were from board members as of December 31, 2018 and 2017, respectively.