



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

**FINANCIAL STATEMENTS**

**December 31, 2019**

**CHILDREN'S MUSEUM OF SANTA BARBARA**  
**dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION**  
**TABLE OF CONTENTS**  
**December 31, 2019**

Independent Auditor's Report.....	1-2
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7-19

*DAMITZ*

*BROOKS*

*NIGHTINGALE*

*TURNER*

*MORRISSET*



## 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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant



accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Museum of Santa Barbara, dba MOXI, The Wolf Museum of Exploration and Innovation as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Subsequent Events and Uncertainties**

As discussed in Note 15 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Children's Museum of Santa Barbara, dba MOXI, The Wolf Museum of Exploration and Innovation closed the museum on March 13, 2020 based on the recommendations provided by the Center for Disease Control. Our opinion is not modified with respect to this matter.

## **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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Damitz, Brooks, Nightingale, Turner & Morrisset*

Damitz, Brooks, Nightingale,  
Turner & Morrisset  
Santa Barbara, California  
April 28, 2020

**CHILDREN'S MUSEUM OF SANTA BARBARA**  
**dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION**  
**Statement of Financial Position**  
December 31, 2019  
(With Summarized Comparative Totals for the Year 2018)

<b>Assets</b>	<b>Without Donor</b>	<b>With Donor</b>	<b>Total</b>	
	<b>Restrictions</b>	<b>Restrictions</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,420,176	\$ 59,481	\$ 1,479,657	\$ 1,873,263
Prepaid expenses	23,059	-	23,059	21,237
Investments	4,364,420	-	4,364,420	2,757,759
Contributions receivable, net	-	591,130	591,130	1,128,695
Land lease contribution receivable	-	1,997,855	1,997,855	2,015,636
Building, exhibits, and equipment, net	16,957,657	-	16,957,657	18,385,873
<b>Total assets</b>	<b>\$ 22,765,312</b>	<b>\$ 2,648,466</b>	<b>\$ 25,413,778</b>	<b>\$ 26,182,463</b>

***Liabilities and Net Assets***

Accounts payable	\$ 197,506	\$ -	\$ 197,506	\$ 167,802
Accrued expenses	151,538	-	151,538	151,538
Deferred revenue	108,933	-	108,933	96,851
<b>Total liabilities</b>	<b>457,977</b>	<b>-</b>	<b>457,977</b>	<b>416,191</b>
Without donor restrictions	22,307,335	-	22,307,335	22,505,244
With donor restrictions	-	2,648,466	2,648,466	3,261,028
<b>Total net assets</b>	<b>22,307,335</b>	<b>2,648,466</b>	<b>24,955,801</b>	<b>25,766,272</b>
	<b>\$ 22,765,312</b>	<b>\$ 2,648,466</b>	<b>\$ 25,413,778</b>	<b>\$ 26,182,463</b>

**CHILDREN'S MUSEUM OF SANTA BARBARA**  
**dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION**  
**Statement of Activities**  
Year Ended December 31, 2019  
(With Summarized Comparative Totals for the Year 2018)

	Without Donor Restrictions	With Donor Restrictions	<b>Total</b>	
			<b>2019</b>	<b>2018</b>
<b><i>Support, Revenues, and Gains</i></b>				
Contributions	\$ 1,112,737	\$ 96,685	\$ 1,209,422	\$ 1,334,775
Admissions	1,116,341	-	1,116,341	1,086,838
Memberships	436,628	-	436,628	503,956
Facilities rental	235,810	-	235,810	259,043
Miscellaneous revenue	219,412	-	219,412	111,486
Special events:				
Special events gross proceeds	405,130	-	405,130	399,488
Direct special event costs	(205,119)	-	(205,119)	(159,479)
Net special events proceeds	<u>200,011</u>	<u>-</u>	<u>200,011</u>	<u>240,009</u>
Investment gain (loss), net	584,304	-	584,304	(165,701)
Net assets released from restrictions	<u>709,247</u>	<u>(709,247)</u>	<u>-</u>	<u>-</u>
<b>Total support, revenues, and gains</b>	<b><u>4,614,490</u></b>	<b><u>(612,562)</u></b>	<b><u>4,001,928</u></b>	<b><u>3,370,406</u></b>
<b><i>Expenses</i></b>				
Program services	3,913,224	-	3,913,224	3,764,109
Management and general	311,494	-	311,494	610,994
Fundraising	<u>587,681</u>	<u>-</u>	<u>587,681</u>	<u>552,308</u>
<b>Total expenses</b>	<b><u>4,812,399</u></b>	<b><u>-</u></b>	<b><u>4,812,399</u></b>	<b><u>4,927,411</u></b>
<b>Decrease in net assets</b>	<b><u>(197,909)</u></b>	<b><u>(612,562)</u></b>	<b><u>(810,471)</u></b>	<b><u>(1,557,005)</u></b>
<b>Net assets, beginning of year</b>	<b><u>22,505,244</u></b>	<b><u>3,261,028</u></b>	<b><u>25,766,272</u></b>	<b><u>27,323,277</u></b>
<b>Net assets, end of year</b>	<b><u>\$ 22,307,335</u></b>	<b><u>\$ 2,648,466</u></b>	<b><u>\$ 24,955,801</u></b>	<b><u>\$ 25,766,272</u></b>

**CHILDREN'S MUSEUM OF SANTA BARBARA**  
**dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION**  
**Statement of Functional Expenses**  
Year Ended December 31, 2019  
(With Summarized Comparative Totals for the Year 2018)

<b>Salaries and benefits</b>	<b>Supporting Services</b>			<b>Total</b>	
	<b>Management and</b>			<b>2019</b>	
	<b>Program Services</b>	<b>General</b>	<b>Fundraising</b>	<b>2018</b>	
Salaries and wages	\$ 1,268,815	\$ 113,001	\$ 424,237	\$ 1,806,053	\$ 1,664,314
Payroll taxes	103,926	15,114	34,443	153,483	137,221
Employee benefits	101,226	22,495	16,871	140,592	123,804
<b>Total salaries and benefits by function</b>	<b>1,473,967</b>	<b>150,610</b>	<b>475,551</b>	<b>2,100,128</b>	<b>1,925,339</b>
Advertising and marketing	188,488	-	28,685	217,173	186,519
Bank fees	49,279	1,021	1,524	51,824	52,031
Uncollectible contribution expense	-	26,600	-	26,600	300,000
Depreciation	1,397,701	14,409	28,819	1,440,929	1,441,197
Equipment	5,517	-	4,699	10,216	6,215
Exhibit expenses	2,572	-	-	2,572	7,038
Insurance	48,649	6,910	6,256	61,815	50,416
Interest	-	-	-	-	204
Occupancy	90,272	931	1,861	93,064	93,064
Office	95,391	25,261	30,163	150,815	122,520
Special event catering and other expenses	-	-	146,780	146,780	159,479
Professional and other services	250,191	71,859	19,459	341,509	360,874
Repairs and maintenance	155,661	1,605	3,210	160,476	160,253
Supplies	80,613	11,516	44,248	136,377	133,958
Utilities	74,923	772	1,545	77,240	87,783
<b>Total expenses by function</b>	<b>3,913,224</b>	<b>311,494</b>	<b>792,800</b>	<b>5,017,518</b>	<b>5,086,890</b>
<b>Less expenses included with revenues on the statement of activities</b>					
Events expenses	-	-	(205,119)	(205,119)	(159,479)
<b>2019 Total expenses</b>	<b>3,913,224</b>	<b>311,494</b>	<b>587,681</b>	<b>4,812,399</b>	
<b>2018 Total expenses</b>	<b>\$ 3,764,109</b>	<b>\$ 610,994</b>	<b>\$ 711,787</b>		<b>\$ 4,927,411</b>

**CHILDREN'S MUSEUM OF SANTA BARBARA**  
**dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION**  
**Statements of Cash Flows**  
Years Ended December 31, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b><i>Cash flows from operating activities</i></b>		
Decrease in net assets	\$ (810,471)	\$ (1,557,005)
Adjustments to reconcile decrease in net assets to net cash used by operating activities		
Depreciation	1,440,929	1,441,197
Realized gain	-	171
Net change in unrealized loss (gain)	(500,857)	207,596
(AIncrease) decrease in:		
Prepaid expenses	(1,822)	11,724
Contributions receivable	537,565	1,753,531
Land lease contribution receivable	17,781	17,128
Increase (decrease) in:		
Deferred revenue	12,082	16,123
Accounts payable and accrued expenses	20,787	(11,317)
<b><i>Net cash provided by operating activities</i></b>	<b>715,994</b>	<b>1,879,148</b>
<b><i>Cash flows from investing activities</i></b>		
Proceeds from sales of investments	4,059,982	3,692,534
Purchase of investments	(5,165,785)	(6,616,536)
Purchase of buildings, exhibits, and equipment	(3,797)	-
<b><i>Net cash used by investing activities</i></b>	<b>(1,109,600)</b>	<b>(2,924,002)</b>
Net decrease in cash and cash equivalents	(393,606)	(1,044,854)
<b><i>Cash and cash equivalents, beginning of year</i></b>	<b>1,873,263</b>	<b>2,918,117</b>
<b><i>Cash and cash equivalents, end of year</i></b>	<b>\$ 1,479,657</b>	<b>\$ 1,873,263</b>

**CHILDREN'S MUSEUM OF SANTA BARBARA**  
**dba MOXI, THE WOLF MUSEUM OF EXPLORATION AND INNOVATION**  
**Notes to Financial Statements**  
December 31, 2019  
(With Summarized Comparative Totals for 2018)

**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.

### *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.

*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, 2019 and 2018, there were no donor restricted funds 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 fixed income securities:* 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, 2019 and 2018 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, 2019 was not necessary. As of December 31, 2018 management determined that a \$300,000 reserve for uncollectible pledges was required. During the year ended December 31, 2019, a \$300,000 fully reserved pledge was written-off as well as two pledges totaling \$26,600, as there was no possibility of collection. 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>	2019		2018	
	<u>Fair Value</u>		<u>Fair Value</u>	<u>Purpose</u>
Information technology	\$ 16,800		\$ 29,200	General
Campaign events	52,500		18,800	Fundraising
Accounting	12,800		18,200	General
Special events	61,200		35,900	Fundraising

### *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 2016 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2015 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, 2019 from which the summarized information was derived.

### *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year presentation.

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

### *Subsequent Events*

Management has evaluated subsequent events through April 28, 2020, the date that the financial statements were available to be issued. Also refer to Note 15, Subsequent Events.

## **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, 2019:

Cash and cash equivalents	\$ 1,479,657
Investments	4,364,420
Contribution receivable	436,700
Less board designated operating reserve	(518,757)
Less board-designated endowment	<u>(3,634,754)</u>
	<u>\$ 2,127,266</u>

As part of the liquidity management plan, the Museum will keep an operating reserve of approximately \$500,000. Additional funds are expected to be received from contributions, admissions, memberships, and rental income. These funds combined with available funds are expected to exceed the amounts needed to fund the operations of the Museum for 2020.

During the year ended December 31, 2018, a board-designated endowment fund was established. Although the Museum does not intend to spend from the board-designated endowment, these amounts could be made available if necessary. Also refer to Note 15, Subsequent Events.

## **3. CONTRIBUTIONS RECEIVABLE**

Contributions receivable as of December 31, 2019, are estimated to be received as follows:

Year ending December 31,

2020	\$ 411,700
2021	130,200
2022	<u>52,700</u>
	594,600
Less unamortized discount	<u>(3,470)</u>
	<u>\$ 591,130</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. Contributions receivable consist of promises from individuals and foundations within the Southern California area.

#### 4. INVESTMENTS

As of December 31, 2019 without donor restriction investments consist of the following:

<u>December 31, 2019</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Excess (Deficit) of Fair Value Over Cost</u>
Cash and cash equivalents	\$ 1,018,464	\$ 1,026,873	\$ 8,409
U.S. equity securities	785,514	869,771	84,257
International equity securities	500,369	521,389	21,020
Exchange traded funds	1,338,752	1,518,469	179,717
Fixed income securities	188,074	187,502	(572)
U.S. government obligations	<u>240,178</u>	<u>240,416</u>	<u>238</u>
	<u>\$ 4,071,351</u>	<u>\$ 4,364,420</u>	<u>\$ 293,069</u>

<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)
Exchange traded 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, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 83,447	\$ 41,724
Net realized gain	-	171
Net change in unrealized gain (loss)	<u>500,857</u>	<u>(207,596)</u>
Total investment income (loss)	<u>\$ 584,304</u>	<u>\$ (165,701)</u>

## 5. FAIR VALUE MEASUREMENTS

The following sets forth by level, within the fair value hierarchy, the Museum's assets measured at fair value on a recurring basis as of December 31, 2019:

	Fair Value (Level 1)	Fair Value (Level 2)	Fair Value (Level 3)
Cash equivalents	\$ 1,026,873	\$ -	\$ -
Mutual funds:			
U.S. equity	1,518,469	-	-
Equity securities:			
U.S. common stock	869,771	-	-
Int'l common stock	521,389	-	-
Fixed income securities		187,502	-
U.S. government securities	-	240,416	-
	<u>\$ 3,936,502</u>	<u>\$ 427,918</u>	<u>\$ -</u>

The following sets forth by level, within the fair value hierarchy, the Museum's assets measured at fair value on a recurring basis 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 required 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.

## **6. LAND LEASE CONTRIBUTION RECEIVABLE (Cont.)**

During the years ended December 31, 2019 and 2018, 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 \$75,300 and \$75,900 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>2019</u>	<u>2018</u>
Building	\$13,364,591	\$13,360,795
Exhibits	7,638,433	7,629,516
Furniture	11,005	11,005
Computer equipment	<u>34,545</u>	<u>34,545</u>
	21,048,574	21,035,861
Less accumulated depreciation	<u>(4,090,917)</u>	<u>(2,649,988)</u>
	<u><u>\$16,957,657</u></u>	<u><u>\$18,385,873</u></u>

Depreciation expense related to property and equipment for the years ended December 31, 2019 and 2018, was \$1,440,929 and \$1,441,197, respectively

## **8. LINE OF CREDIT**

The Museum maintains a line of credit of \$1,000,000 with a maturity date of September 2020. Interest is payable monthly at the Prime Rate as published in the Wall Street Journal and the interest rate at December 31, 2019 was 5.345%. As of December 31, 2019 and 2018, there were no amounts outstanding on the line of credit.

## **9. 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.

## 9. ENDOWMENT FUNDS (Cont.)

### *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.

As of December 31, 2019 and 2018, the Museum did not hold any donor restricted endowment funds.

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

Endowment net asset composition by type of fund as of December 31, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ -	\$ -
Board-restricted	<u>3,634,754</u>	<u>-</u>	<u>3,634,754</u>
Total endowment funds	<u>\$ 3,634,754</u>	<u>\$ -</u>	<u>\$ 3,634,754</u>

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>

## 9. ENDOWMENT FUNDS (Cont.)

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,796,259	\$ -	\$ 2,796,259
Net investment return	339,579	-	339,579
Contributions/additions	498,916	-	498,916
Releases from restriction	-	-	-
Endowment net assets, end of year	<u>\$ 3,634,754</u>	<u>\$ -</u>	<u>\$ 3,634,754</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	(169,287)	-	(169,287)
Contributions/additions	2,965,546	-	2,965,546
Releases from restriction	-	-	-
Endowment net assets, end of year	<u>\$ 2,796,259</u>	<u>\$ -</u>	<u>\$ 2,796,259</u>

## **10. NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
General Operating	\$ 1,196,167	\$ 323,112
Net assets represented by building, exhibits and equipment	16,957,657	18,385,873
Board designated:		
Operating Reserve	518,757	1,000,000
Operating Endowment	3,634,754	2,796,259
Total net assets without donor restrictions	<u>\$ 22,307,335</u>	<u>\$ 22,505,244</u>

## **11. NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2019</u>	<u>2018</u>
Unrestricted upon collection	\$ 512,030	\$ 961,395
Education programs	59,481	191,697
Land lease contribution receivable	1,997,855	2,015,636
In-kind services receivable	79,100	92,300
Total net assets with donor restrictions	<u>\$ 2,648,466</u>	<u>\$ 3,261,028</u>

## **12. RELATED PARTY TRANSACTIONS**

For the years ended December 31, 2019 and 2018, board members contributed approximately \$225,400 and \$625,200 to the Museum. As of December 31, 2019 and 2018, contributions receivable from board members were approximately \$142,500 and \$44,500. A board member is a principal in an accounting firm that contributed approximately \$5,700 of accounting services for the year ended December 31, 2018, respectively.

## **13. RETIREMENT PLAN**

The Museum has adopted a 403(b) retirement plan and allows eligible employees the option to contribute a portion of their compensation to the plan. For the years ended December 31, 2019 and 2018, there were no employer contributions.

## **14. 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, 2019, 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, 2019 were approximately \$1,147,700. Approximately 23% and 4% of contributions receivable were from board members as of December 31, 2019 and 2018, respectively.

## **15. SUBSEQUENT EVENTS**

### ***Museum Closure***

As of March 13, 2020, the Museum was closed in consideration of the Center for Disease Control guidance related to the COVID-19 pandemic. As of April 28, 2020, the Museum remained closed and a date to open to the public is not yet known. In addition, the financial markets have been adversely impacted due to the concerns from the pandemic. As of April 28, 2020, the Museum's investments had lost approximately \$219,800 or 5% of their market value as of December 31, 2019. The Museum believes it has the financial resources necessary to address the financial impacts of the pandemic.

### ***Payroll Protection Program Loan***

On April 3, 2020, the Museum applied for a loan of \$333,779 under the Small Business Administration Payroll Protection Program and received the funds on April 17, 2020. Loans received under this program are eligible for forgiveness as documented in the regulations. Any amounts not forgiven will have an annual interest rate of 1% and principal and interest will be due two years from the date of the loan.