

**SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND
SUBSIDIARY**

Consolidated Financial Statements

Year ended June 30, 2020

(With Independent Auditor's Report Thereon)

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Financial Statements

Year ended June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Children's Discovery Museum and Subsidiary
Escondido, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of the San Diego Children's Discovery Museum and Subsidiary as of and for year ended June 30, 2020, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended and related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the San Diego Children's Discovery Museum and Subsidiary as of June 30, 2020, and the respective changes in financial position 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 the San Diego Children's Discovery Museum and Subsidiary's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter

As described further in note 12 to the consolidated financial statements, the San Diego Children's Discovery Museum and Subsidiary's operations have been impacted by the COVID-19 pandemic. Our opinion is not modified with respect to these matters.

DavisFarrLLP

Irvine, California
September 16, 2020

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 2020

(with comparative totals as of June 30, 2019)

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 259,303	\$ 130,319
Accounts receivable	113	14,079
Grants receivable	5,480	4,800
Pledges receivable, net (note 3)	295,392	375,276
Inventory	8,500	13,332
Prepaid expenses	17,340	15,438
Land, buildings and equipment, net (note 4)	<u>1,921,238</u>	<u>1,955,908</u>
 Total assets	 <u>\$ 2,507,366</u>	 <u>\$ 2,509,152</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 20,568	\$ 63,537
Accrued vacation payable	29,856	27,204
Accrued expenses - other	38,300	59,982
Deferred revenue	68,413	75,379
Line of credit payable (note 5)	99,373	65,484
Payroll Protection Program (PPP) loan (note 6)	201,023	-
Advances payable - LRDF (note 7)	<u>200,000</u>	<u>230,000</u>
 Total liabilities	 <u>657,533</u>	 <u>521,586</u>
Net assets: (note 9)		
Without donor restrictions	1,398,779	1,575,094
With donor restrictions	<u>451,054</u>	<u>412,472</u>
 Total net assets	 <u>1,849,833</u>	 <u>1,987,566</u>
 Total liabilities and net assets	 <u>\$ 2,507,366</u>	 <u>\$ 2,509,152</u>

See accompanying notes to the consolidated financial statements

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Activities

Year ended June 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2020	2019
Support and Revenue:				
Earned revenue	\$ 415,988	\$ -	\$ 415,988	\$ 671,237
Grants	271,625	-	271,625	323,775
Gifts-in-kind	228,501	-	228,501	198,638
Contributions	194,719	211,305	406,024	345,620
Memberships	121,524	-	121,524	154,339
Forgiveness of debt	30,000	-	30,000	70,000
Fundraising events	75,425	-	75,425	74,030
Less: Direct costs of fundraising events	<u>(12,974)</u>	<u>-</u>	<u>(12,974)</u>	<u>(27,589)</u>
Net fundraising revenue	<u>62,451</u>	<u>-</u>	<u>62,451</u>	<u>46,441</u>
Sales	30,147	-	30,147	60,784
Less: Cost of good sold	<u>(15,852)</u>	<u>-</u>	<u>(15,852)</u>	<u>(32,351)</u>
Net sales revenue	<u>14,295</u>	<u>-</u>	<u>14,295</u>	<u>28,433</u>
Support provided by expiring restrictions	<u>172,723</u>	<u>(172,723)</u>	<u>-</u>	<u>-</u>
 Total support and revenues	 <u>1,511,826</u>	 <u>38,582</u>	 <u>1,550,408</u>	 <u>1,838,483</u>
Expenses:				
Program services	1,345,798	-	1,345,798	1,604,157
Supporting services:				
General and administrative	82,344	-	82,344	103,867
Fundraising	<u>259,999</u>	<u>-</u>	<u>259,999</u>	<u>270,944</u>
Total supporting services expenses	<u>342,343</u>	<u>-</u>	<u>342,343</u>	<u>374,811</u>
Total expenses	<u>1,688,141</u>	<u>-</u>	<u>1,688,141</u>	<u>1,978,968</u>
Change in net assets	(176,315)	38,582	(137,733)	(140,485)
Net assets at beginning of year	<u>1,575,094</u>	<u>412,472</u>	<u>1,987,566</u>	<u>2,128,051</u>
Net assets at end of year	<u>\$ 1,398,779</u>	<u>\$ 451,054</u>	<u>\$ 1,849,833</u>	<u>\$ 1,987,566</u>

See accompanying notes to the consolidated financial statements

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year ended June 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Program	Supporting Services			Totals	
		General and Administrative	Fundraising	Subtotal	2020	2019
Salaries and wages	\$ 638,935	\$ 34,691	\$ 167,898	\$ 202,589	\$ 841,524	\$ 1,038,204
Payroll taxes	57,629	2,947	13,753	16,700	74,329	91,949
Employee benefits	34,054	1,304	12,248	13,552	47,606	55,385
Service fees	20,081	793	2,891	3,684	23,765	34,506
Workers' compensation insurance	12,928	578	2,978	3,556	16,484	21,977
Subtotal	763,627	40,313	199,768	240,081	1,003,708	1,242,021
Advertising and marketing:						
In-Kind	199,623	-	-	-	199,623	139,445
Other	41,694	214	2,497	2,711	44,405	67,801
Bad Debt	6,000				6,000	-
Bank and credit card charges	16,365	120	-	120	16,485	23,188
Computer service	16,447	3,698	3,582	7,280	23,727	27,869
Contract services	47,128	5,567	28,396	33,963	81,091	66,792
Depreciation	76,063	1,443	361	1,804	77,867	83,068
Events	-	-	18,231	18,231	18,231	20,963
Exhibits and maintenance	46,129	421	-	421	46,550	61,202
Fundraising	3,962	-	13,012	13,012	16,974	50,714
Interest	-	11,751	-	11,751	11,751	14,795
Insurance	9,048	3,468	2,564	6,032	15,080	11,908
Meetings and meals	1,229	62	1,028	1,090	2,319	3,337
Occupancy	58,399	3,962	289	4,251	62,650	80,892
Office	18,835	6,669	2,546	9,215	28,050	28,253
Outreach and special programs	24,469	-	-	-	24,469	41,895
Staff development	3,450	2,273	-	2,273	5,723	11,830
Transportation	10,434	283	-	283	10,717	21,694
Other	2,896	2,100	699	2,799	5,695	8,890
Total expenses	1,345,798	82,344	272,973	355,317	1,701,115	2,006,557
Less expenses included in revenue section of the statement of activities	-	-	(12,974)	-	(12,974)	(27,589)
Total expenses included in expense section of the statement of activities	<u>\$ 1,345,798</u>	<u>\$ 82,344</u>	<u>\$ 259,999</u>	<u>\$ 355,317</u>	<u>\$ 1,688,141</u>	<u>\$ 1,978,968</u>

See accompanying notes to the consolidated financial statements

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Consolidated Statement of Cash Flows

Year ended June 30, 2020

(with comparative totals for the year ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (137,733)	\$ (140,485)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	77,867	83,068
Forgiveness of advances payable	(30,000)	(70,000)
(Increase) decrease in accounts receivable	13,966	78,341
(Increase) decrease in unconditional promises to give	79,884	(59,467)
(Increase) decrease in grants receivable	(680)	21,200
(Increase) decrease in inventory	4,832	(1,197)
(Increase) decrease in prepaid expenses	(1,902)	(22)
Increase (decrease) in accounts payable	(42,969)	17,303
Increase (decrease) in deferred revenue	(6,966)	(2,715)
Increase (decrease) in accrued vacation payable	2,652	(764)
Increase (decrease) in accrued expenses - other	<u>(21,682)</u>	<u>7,412</u>
Net cash used by operating activities	<u>(62,731)</u>	<u>(67,326)</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(43,197)</u>	<u>(25,388)</u>
Net cash flows used by investing activities	<u>(43,197)</u>	<u>(25,388)</u>
Cash flows from financing activities:		
Proceeds from PPP loan	201,023	-
Proceeds from line of credit	99,373	65,484
Payments to line of credit	<u>(65,484)</u>	<u>-</u>
Net cash flows provided by financing activities	<u>234,912</u>	<u>65,484</u>
Net increase (decrease) in cash and cash equivalents	128,984	(27,230)
Cash and cash equivalents at beginning of year	<u>130,319</u>	<u>157,549</u>
Cash and cash equivalents at end of year	<u>\$ 259,303</u>	<u>\$ 130,319</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	<u>\$ 7,816</u>	<u>\$ 4,979</u>

There were no significant noncash investing or financing activities.

See accompanying notes to the consolidated financial statements

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(1) Nature of Organization

San Diego Children's Discovery Museum (SDCDM) was incorporated as a non-profit corporation in January 2000. The mission of SDCCDM is to inspire children to learn about our world through exploration, imagination, and experimentation. The Museum fills a community need by offering a wholesome, educational, and appealing gathering place and mobile experience for families, schools, libraries, and other groups that serve children. Programs and exhibits cultivate lifelong learning and develop diverse understandings of the world. As a result of the COVID-19 virus, SDCCDM has been closed to the public since March 13, 2020 and has been providing online experiences for its consumers. See note 12 for additional information.

The Children's Discovery Museum Holdings, LLC (Holdings) was incorporated as a single-member LLC in July 2011 to hold SDCCDM land, building, and improvements located at 320 North Broadway in Escondido, California.

The consolidated financial statements include the accounts of SDCCDM and Holdings. SDCCDM and Holdings are collectively referred to as the Museum. All significant inter-entity balances and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The consolidated financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the consolidated financial statements. On an ongoing basis, the Museum's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Museum's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The Museum considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount of the Museum's cash and cash equivalents approximates fair value due to the short maturity of these investments. The Museum maintains cash balances at two financial institutions. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(d) Accounts Receivable

Accounts receivable are primarily amounts due from local school districts and other entities for Museum related programs. Management believes that all outstanding accounts receivable are collectible.

(e) Pledges Receivable

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises. Management has determined that no allowance for doubtful accounts is deemed necessary as of June 30, 2020.

(f) Grants Receivable

Grants receivable are primarily unsecured non-interest-bearing amounts due from grantors on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full; therefore, there is no allowance for uncollectible grants receivable recorded.

(g) Fair Value Measurements

Certain assets and liabilities are reported at fair value based on a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Museum's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Museum's consolidated financial statements.

(h) Inventory

Inventory consists primarily of items for resale in the gift shop and is valued at the lower of cost (first-in, first-out method) and net realizable value.

(i) Property and Equipment

Property and equipment owned by the Museum are recorded at cost, or in the case of donated items, at estimated fair value at the date of the gift. Maintenance and repairs are expensed when incurred and betterments are capitalized. Property and equipment are depreciated using the straight-line method over their estimated useful lives of five to thirty-nine years. It is the policy of the Museum to capitalize assets with cost of \$1,000 and greater with a useful life of more than one year.

Property and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the consolidated financial statements for the year ended June 30, 2020.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(j) Net Assets

The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Museum, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Museum must continue to use the resources in accordance with the donor's instructions.

The Museum's unspent contributions are included in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

(k) Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the consolidated statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(l) Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions.

Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

(m) Gifts-in-Kind Contributions

The Museum receives contributions in a form other than cash or investments. Most are advertising, which are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed. If the Museum receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Museum's capitalization policy.

The Museum benefits from advertising services provided by KPBS, a local public television system. Accounting standards allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

Aggregate donated services with an estimated fair value of \$228,501 met those criteria and are included in in-kind contributions in the consolidated statement of activities.

(n) Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(o) Expense Recognition and Allocation

The cost of providing the Museum's programs and other activities is summarized on a functional basis in the consolidated statement of activities and consolidated statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Occupancy, depreciation, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.
- Telephone and internet services, insurance, and supplies and miscellaneous expenses that cannot be directly identified are allocated on the basis of employee headcount for each program and supporting activity.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Museum.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Museum generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

(p) Tax Status

SDCDM is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State Revenue and Taxation Code, respectively. Holdings is a single-member LLC.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

The Museum remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. In the opinion of management, there is no unrelated business income for the year ended June 30, 2020.

The Museum follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions as part of the consolidated statement of activities, when applicable. Management has determined that the Museum has no uncertain tax positions at June 30, 2020 and, therefore, no amounts have been accrued.

Contributions to the Museum are tax deductible to donors under Section 170 of the IRC. The Museum is not classified as a private foundation.

(q) Prior Year Data

Selected information regarding the prior year has been included in the accompanying consolidated financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's prior year consolidated financial statements, from which this selected financial data was derived.

(3) Pledges Receivable

Pledges receivable at June 30, 2020 are expected to be collected as follows:

Less than one year	\$ 86,183
One to five years	193,334
More than five years	<u>70,000</u>
	349,517
Less reduction for present value	<u>(54,125)</u>
Total	<u>\$ 295,392</u>

Changes in pledges receivable for the year ended June 30, 2020 were as follows:

Pledges receivable at beginning of year	\$ 375,276
Payments received	(96,622)
Change in present value	<u>16,738</u>
Pledges receivable at year end	<u>\$ 295,392</u>

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(3) Pledges Receivable (Continued)

No allowance for doubtful accounts was considered necessary at June 30, 2020 because management believes that all amounts are collectible. The present value discount was imputed for long-term pledges at rates at 6% based on the deemed credit worthiness of the donor.

(4) Property and Equipment

Property and equipment at June 30, 2020 are summarized as follows:

Building and Improvements	\$ 1,234,769
Land	749,240
Exhibits	235,194
Furniture and Equipment	141,933
Vehicles	<u>68,162</u>
	2,429,298
Less: Accumulated depreciation	<u>(508,060)</u>
Net property and equipment	<u>\$ 1,921,238</u>

Depreciation expense was \$77,867 for the year ended June 30, 2020.

(5) Line of Credit

The Museum has a \$250,000 unsecured revolving local bank line of credit, with an annual interest rate of prime plus 1.00%, which has an expiration date of November 15, 2022. As of June 30, 2020, the outstanding balance was \$99,373. Interest expense incurred during the year ended June 30, 2020 was \$7,816.

(6) Paycheck Protection Program (PPP) Loan

In April 2020, the Museum received loan proceeds in the amount of \$201,023 from the U.S. Small Business Administration (SBA) pursuant to the Paycheck Protection Program (PPP) and an additional advanced grant of \$10,000. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after up to 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24-week period.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(6) Paycheck Protection Program Loan (Continued)

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Museum has used the proceeds for purposes consistent with the PPP. The Museum currently believes that its use of the loan proceeds will meet the conditions for substantial forgiveness of the loan, however, the Museum has not yet applied for forgiveness. The balance of the loan at June 30, 2020 is \$201,023.

(7) Advances Payable – LRDF

The Linden Root Dickinson Foundation (LRDF) provided the Museum non-interest-bearing cash advances totaling \$600,000 in prior years, which were used to fund leasehold improvements and operating expenses. Since the initial Advance Agreement, dated July 19, 2011, LRDF has provided loan forgiveness in the amount of \$400,000, leaving a principal balance due of \$200,000 at June 30, 2020. While, the unsecured advances of \$200,000 are payable on July 19, 2021, LRDF has expressed its willingness to extend the due date as necessary. Contributed interest of \$3,935 for the year ended June 30, 2020 was calculated using the AFR mid-term quarterly rates ranging from 1.01%-2.47%.

(8) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2020 are as follows:

Financial assets:	
Cash and cash equivalents	\$ 259,303
Accounts receivable, net	113
Grants receivable	5,480
Pledges receivable, net	<u>295,392</u>
Total financial assets	<u>560,288</u>
Less financial assets held to meet donor-imposed restrictions:	
Purpose restricted net assets	(155,662)
Less financial assets not available within one year:	
Pledges receivable	<u>(209,209)</u>
Amount available for general expenditures within one year	<u>\$ 195,417</u>

As part of the Museum's liquidity management plan the Museum maintains a revolving line of credit of \$250,000 to cover short-term cash needs.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(9) Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30, 2020:

Purpose restrictions, available for spending	\$ 155,662
Time restrictions:	
Pledges receivable, which are unavailable for spending until due, some of which are also purpose restricted	<u>295,392</u>
Total net assets with donor restrictions	<u>\$ 451,054</u>

(10) Concentrations of Risk

The Museum relies on contributions and grants and is subject to the economic risks that affect donors and grantors abilities to support the Museum. As of June 30, 2020, four entities accounted for approximately 76% of total pledges and grants receivable. For the year ended June 30, 2020, four entities accounted for approximately 73% of total revenue and support.

(11) Decrease in Net Assets

The year ended June 30, 2020 and 2019 reported a decrease in net assets of \$137,733 and \$140,485, respectively. The PPP loan proceeds of \$201,023 received in April 2020 covered qualifying expenses of approximately \$150,000 incurred prior to June 30, 2020. However, the loan proceeds are included as a liability at June 30, 2020. Management believes the criteria required to meet the terms of substantial forgiveness have been met for the fiscal year ending June 30, 2021.

(12) Subsequent Events

Subsequent events have been evaluated by management through September 16, 2020, which is the date the consolidated financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the consolidated financial statements would be required.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which negatively impacted the Museum including the temporary closure of the Museum to the public on March 13, 2020 and related furloughs of certain Museum staff. With evolving State and County requirements as well as vaccine and other medical developments, Management is not presently able to determine the potential outcome or impairment to the Museum as of the date of the issuance of the consolidated financial statements.

SAN DIEGO CHILDREN'S DISCOVERY MUSEUM AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Year ended June 30, 2020

(Continued)

(12) Subsequent Events (Continued)

While management has pivoted to provide online activities for its members and guests and expects to resume onsite operations in due course, the Museum has not included any contingencies in the consolidated financial statements specific to the COVID-19 pandemic.