

# **Kidspace: A Participatory Museum**

Financial Statements

December 31, 2020  
(With Comparative Totals for 2019)



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Kidspace: A Participatory Museum  
Pasadena, California

We have audited the accompanying financial statements of Kidspace: A Participatory Museum (a California nonprofit corporation) (the "Museum"), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kidspace: A Participatory Museum as of December 31, 2020, 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.

**Emphasis of Matter**

As described in Note 3 to the financial statements, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic on March 11, 2020 and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to the matter.

**Report on Summarized Comparative Information**

We have previously audited Kidspace: A Participatory Museum's 2019 financial statements, and our report dated July 14, 2020 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Ramon, California

July 23, 2021

Kidspace: A Participatory Museum  
Statement of Financial Position  
December 31, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 1,016,993	\$ 751,563
Investments	1,170,986	1,156,064
Contributions receivable, net	54,680	104,656
Inventory	57,346	45,191
Prepaid and other current assets	31,391	105,030
Donated use of long lived asset	569,764	590,673
Property and equipment	<u>12,668,138</u>	<u>13,790,231</u>
Total assets	<u>\$ 15,569,298</u>	<u>\$ 16,543,408</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 166,886	\$ 129,206
Accrued expenses	239,961	145,992
Deferred revenue	571,009	596,163
Line of credit	<u>1,000,000</u>	<u>-</u>
Total liabilities	<u>1,977,856</u>	<u>871,361</u>
Net assets		
Without donor restrictions	12,358,415	14,378,408
With donor restrictions	<u>1,233,027</u>	<u>1,293,639</u>
Total net assets	<u>13,591,442</u>	<u>15,672,047</u>
Total liabilities and net assets	<u>\$ 15,569,298</u>	<u>\$ 16,543,408</u>

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

Kidspace: A Participatory Museum  
Statement of Activities  
For the Year Ended December 31, 2020  
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenues, gains (losses) and other support				
Admissions and memberships, net				
Admissions and memberships	\$ 638,041	\$ -	\$ 638,041	\$ 3,704,832
Discounted admissions	<u>(205,630)</u>	<u>-</u>	<u>(205,630)</u>	<u>(710,120)</u>
Total admissions and memberships, net	432,411	-	432,411	2,994,712
Grants and contributions	1,000,913	45,000	1,045,913	396,550
Government contribution (Paycheck Protection Program)	528,762	-	528,762	-
Gift store revenue, net	23,515	-	23,515	179,716
Facility rental	1,645	-	1,645	23,345
Other program revenue	27,986	-	27,986	195,507
Cafe loss, net	(41,302)	-	(41,302)	(12,990)
Birthday fee	39,062	-	39,062	163,350
Special events, net	235,665	-	235,665	352,737
Other revenue	6,442	-	6,442	23,716
In-kind contributions	-	-	-	158,483
Miscellaneous	-	-	-	15,902
Net assets released from restriction	<u>152,260</u>	<u>(152,260)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>2,407,359</u>	<u>(107,260)</u>	<u>2,300,099</u>	<u>4,491,028</u>
Functional expenses				
Program services	3,518,661	-	3,518,661	4,694,777
Management and general	414,171	-	414,171	752,382
Fundraising	<u>508,148</u>	<u>-</u>	<u>508,148</u>	<u>480,989</u>
Total functional expenses	<u>4,440,980</u>	<u>-</u>	<u>4,440,980</u>	<u>5,928,148</u>
Change in net assets from operations	<u>(2,033,621)</u>	<u>(107,260)</u>	<u>(2,140,881)</u>	<u>(1,437,120)</u>
Non-operating activities				
Investment income, net	11,628	46,648	58,276	118,154
Gain (loss) on disposal of property and equipment	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>(38,973)</u>
Total non-operating activities	<u>13,628</u>	<u>46,648</u>	<u>60,276</u>	<u>79,181</u>
Change in net assets	(2,019,993)	(60,612)	(2,080,605)	(1,357,939)
Net assets, beginning of year	<u>14,378,408</u>	<u>1,293,639</u>	<u>15,672,047</u>	<u>17,029,986</u>
Net assets, end of year	<u>\$ 12,358,415</u>	<u>\$ 1,233,027</u>	<u>\$ 13,591,442</u>	<u>\$ 15,672,047</u>

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

Kidspace: A Participatory Museum  
Statement of Functional Expenses  
For the Year Ended December 31, 2020  
(With Comparative Totals for 2019)

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
Personnel expenses					
Salaries and wages	\$ 1,326,109	\$ 150,540	\$ 359,674	\$ 1,836,323	\$ 2,456,710
Employee benefits	239,988	27,373	65,401	332,762	232,269
Payroll taxes	95,908	10,939	26,137	132,984	184,775
Total personnel expenses	<u>1,662,005</u>	<u>188,852</u>	<u>451,212</u>	<u>2,302,069</u>	<u>2,873,754</u>
Outside services	45,259	74,042	368	119,669	313,398
Education expenses	174,382	334	797	175,513	277,170
Utilities and maintenance	149,956	3,022	6,706	159,684	251,721
Printing, postage and other	-	-	34,332	34,332	45,440
Marketing	-	85,253	-	85,253	457,207
Office expense and supplies	73,371	31,899	6,157	111,427	190,813
Interest expense	-	22,333	-	22,333	-
In-kind expenses	1,887	-	-	1,887	-
Insurance	75,326	242	266	75,834	69,201
Other expenses	60,285	4,088	3,804	68,177	46,676
Depreciation and amortization	1,276,190	4,106	4,506	1,284,802	1,378,429
Travel and conferences	-	-	-	-	17,926
Gift store expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,413</u>
	<u>\$ 3,518,661</u>	<u>\$ 414,171</u>	<u>\$ 508,148</u>	<u>\$ 4,440,980</u>	<u>\$ 5,928,148</u>

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

Kidspace: A Participatory Museum  
Statement of Cash Flows  
For the Year Ended December 31, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (2,080,605)	\$ (1,357,939)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,305,850	1,401,011
(Gain) loss on disposal of property and equipment	(2,000)	38,973
Net realized and unrealized gains on investments	(58,276)	(102,920)
Contributions restricted for long-lived assets	(41,351)	(333,243)
Changes in operating assets and liabilities		
Contributions receivable, net	49,976	432,469
Inventory	(12,155)	(253)
Prepaid and other current assets	73,639	(20,535)
Accounts payable	37,680	50,304
Accrued expenses	93,969	2,185
Deferred revenue	(25,154)	106,024
Net cash provided by (used in) operating activities	<u>(658,427)</u>	<u>216,076</u>
Cash flows from investing activities		
Proceeds from sales of investments	90,000	1,046,160
Purchases of investments	(46,646)	(1,620,498)
Proceeds from the sale of property and equipment	2,000	-
Purchases of property and equipment	(162,848)	(139,224)
Net cash used in investing activities	<u>(117,494)</u>	<u>(713,562)</u>
Cash flows from financing activities		
Borrowings on line of credit	1,000,000	-
Contributions restricted for long-lived assets	41,351	333,243
Net cash provided by financing activities	<u>1,041,351</u>	<u>333,243</u>
Net increase (decrease) in cash	265,430	(164,243)
Cash, beginning of year	<u>751,563</u>	<u>915,806</u>
Cash, end of year	<u><u>\$ 1,016,993</u></u>	<u><u>\$ 751,563</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 22,333	\$ -
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The accompanying notes are an integral part of these financial statements.



Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2020

1. NATURE OF OPERATIONS

Kidspace: A Participatory Museum (the "Museum" or "Kidspace") is a nonprofit corporation which operates a children's museum in Pasadena, California.

The vision of Kidspace is an evolution of the Museum's innovative activities that began over 35 years ago. The focus on kid-driven experiences descends directly from the Museum's early ideal of "A Participatory Museum." The many major and minor accomplishments of the Museum provide a rich background for what is to come.

As the premier children's museum in Southern California, Kidspace is putting plans in place to remain so for years to come. Throughout its history, the Museum has been ahead of the curve in the museum field, from pioneering hands-on, participatory experiences to embracing the unique power of outdoor learning. In recent years, the Museum has seen a record-breaking upswing in attendance through the opening of one-of-a-kind experiences such as the Galvin Physics Forest, the Imagination Workshop, Early Childhood Learning Center, and the Arroyo Adventure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements and accompanying notes of the Museum have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Museum's financial statements are presented on the basis of net assets without donor restrictions and net assets with donor restrictions.

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - net assets not subject to donor-imposed restrictions.
- *Net assets with donor restrictions* - net assets subject to donor-imposed restrictions that will be met by actions of the Museum and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where resources be maintained in perpetuity by the Museum.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law.

Contributions and promises to give

Contributions received are reported as with or without donor restrictions depending upon donor restrictions, if any.

Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give (continued)

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. As of December 31, 2020, the Museum considers all contributions receivable to be fully collectible; accordingly no allowance for doubtful accounts has been recorded.

Cash and cash equivalents

The Museum maintains cash and cash equivalents with major financial institutions. The Museum considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Museum places its cash and investments with high-credit, quality financial institutions. At times, such cash may be in excess of the FDIC insurance limit. Concentration of credit risk for contributions receivable are generally limited due to the dispersion of these items over a wide donor base. The Museum continually monitors its receivables and establishes valuation reserves as considered appropriate.

Investments

Investment transactions are recorded on trade date. Realized gains and losses on sales of investments are determined on the specific identification basis. Unrealized gains or losses on investments resulting from gain value fluctuations are recorded in the statement of activities during the year.

Fair value measurements

The Museum determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- *Level 1* - Quoted market prices are available in active markets for identical assets or liabilities as of the reporting date.

Kidspace: A Participatory Museum  
Notes to Financial Statements  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- *Level 3* - Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of assets and liabilities:

- Investments (Level 1). Investments in equity and debt securities are valued at their fair values as determined primarily by quoted market prices. Investments without quoted market prices, including real estate investments, are valued at fair value as determined by third-party appraisals, management's estimates or a combination of both.

Contributed goods and services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Kidspace did not receive in-kind goods and services during the year ended December 31, 2020.

The Museum receives a significant amount of donated services from unpaid volunteers who assist in fund-raising and special projects. No donated services have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

Property and equipment

The Museum capitalizes all property and equipment with a cost greater than \$1,000 with an estimated useful life in excess of one year. Property and equipment is carried at cost or, if donated, at the estimated fair value on the date of the contribution. Minor repairs and maintenance are charged against earnings as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized.

Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Exhibits	5 - 40 years
Furniture and equipment	3 - 10 years

Long-lived assets

The Museum reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. No impairment losses were recognized during the year ended December 31, 2020.

Inventory

Inventory consists of products such as educational books, toys, games and crafts. Inventory is valued at the lower of cost or net realizable value. The Museum utilizes the weighted average method of inventory valuation.

Revenue recognition

Revenue, other than from contributions, bequests, and unconditional grants, is recognized in the period in which the service has been provided.

The management of the Museum estimates that the cost of memberships equals the fair value of goods and services received by members. Accordingly, the Museum recognizes membership sales as revenue over the membership period, using the straight-line basis. Virtually all memberships sold cover a period of one year.

The Museum recognizes revenue from admissions and discounted admissions coupons upon the visit to the Museum.

The Museum earns revenue from its various programs, including school and community partnerships, camps, and birthday parties. The Museum recognizes program revenue when the related activity occurs.

The Museum recognizes store revenue upon sale of the merchandise. Estimated returns are not material.

Kidspace: A Participatory Museum  
Notes to Financial Statements  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue

Deferred revenue relates to membership fees, program revenues and gift cards where cash has been received, but services have not yet been performed. These revenues are recognized in the period when the services are rendered and performance obligations met.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2020 were \$50,083 and are included in marketing in the statement of functional expenses.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Expenses, such as payroll and benefits, have been allocated among program services and supporting services based upon employees' time spent by function. Facility related costs such as depreciation and maintenance have been allocated based on estimated square footage used by various departments.

Income tax status

The Museum is a qualified charitable organization exempt from federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

The Museum has evaluated its current tax positions and has concluded that as of December 31, 2020, the Museum does not have any significant uncertain tax positions for which a reserve would be necessary.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires Museum management to make estimates and assumptions that affect certain reported amounts and disclosures. Uses of estimates include, but are not limited to, accounting for fair value of investments, the allowance for doubtful accounts and contributions receivable and depreciation. Actual results could differ from those estimates.

Summarized financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. 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.

Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2020

3. RISKS AND UNCERTAINTIES

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 COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of business and shelter-in-place orders. The Museum has taken several measures to monitor and mitigate the effects of COVID-19, including safety and health measures for its employees, such as social distancing and working from home. The Museum closed to the general public beginning March 16, 2020 to comply with mandated shelter-in-place orders, and did not reopen to the public until April 22, 2021. While the Museum was able to reopen, it was required to do so at a reduced capacity to comply with state and local governmental authorities. As a result of the shutdown, the Museum was forced to reduce or furlough a portion of its staff. As noted in Note 9, the Museum took advantage of the government relief programs available and has explored various liquidity options. It is probable that this matter will negatively impact the museum. However, the ultimate impact and duration cannot be reasonably estimated at this time.

4. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity mutual funds	\$ 345,677	\$ -	\$ -	\$ 345,677
Fixed income	<u>825,309</u>	<u>-</u>	<u>-</u>	<u>825,309</u>
	<u>\$ 1,170,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,170,986</u>

5. CONTRIBUTIONS RECEIVABLE

A discount rate of 2.5% has been used to calculate the present value of contributions receivable.

Contributions receivable consisted of the following:

Receivables in less than one year	\$ 25,483
Receivables in one to five years	<u>29,878</u>
	55,361
Less: unamortized discount	<u>(681)</u>
	<u>\$ 54,680</u>

Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2020

6. DONATED USE OF LONG-LIVED ASSET

The Museum leases the property where it is located from the City of Pasadena for a lease cost of \$1 per year. The term of the lease was for fifty years through 2048. The fair market value of this lease was recorded as revenue in the period the property was contributed and the related assets will be expensed as rent over the fifty-year term of the lease. Kidspace is responsible for the renovation, operation and maintenance of the premises.

The terms of the lease stipulate that the property will be returned to the City of Pasadena at the end of the lease. Accordingly, the asset has been classified as with donor restrictions in the accompanying financial statements. The amortization expense of donated use of long-lived asset for the year ended December 31, 2020 was \$20,909. Amortization expense of \$20,909 will be recorded each year through the end of the lease.

Donated use of the long-lived asset consisted of the following:

Long lived asset	\$ 1,045,440
Accumulated amortization	<u>(475,676)</u>
	<u>\$ 569,764</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Buildings	\$ 16,976,137
Exhibits	10,317,766
Furniture and equipment	<u>863,917</u>
	28,157,820
Accumulated depreciation	<u>(15,489,682)</u>
	<u>\$ 12,668,138</u>

Depreciation expense for the year ended December 31, 2020, was \$1,263,893 (excluding \$21,048 included as café loss, net on the statement of activities).

8. LINE OF CREDIT

The Museum maintains a line of credit in the amount of \$1,000,000. Interest on the line of credit is variable based on the prime rate less 0.25% and due monthly. The Bank's rate was 3.00% at December 31, 2020. The line of credit expired in February 2021 and was subsequently extended through June 2021. The Museum is currently in discussion to extend the maturity date as of the date of the audit report. The outstanding balance on the line of credit at December 31, 2020 was \$1,000,000.

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8. LINE OF CREDIT (continued)

The line of credit is secured by substantially all of the assets and personal property of Kidspace. The line of credit contains various covenants and restrictions which include, among others, (i) a debt service coverage ratio; (ii) a maximum debt to unrestricted net assets ratio; (iii) minimum unrestricted net assets; and (iv) a minimum bank depository balance requirement. The Museum was not in compliance with all covenants as of December 31, 2020. However, the line of credit was extended subsequent to year end.

9. CONTRIBUTION REVENUE (PAYCHECK PROTECTION PROGRAM)

In April 2020, the Museum received \$528,762 in loan funding from the Paycheck Protection Program (the "PPP"), established pursuant to the recently enacted Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and administered by the U.S. Small Business Administration ("SBA"). The unsecured loan (the "PPP Loan") is evidenced by a promissory note of the Museum dated April 20, 2020 (the "Note") in the principal amount of \$528,762 with a bank, the lender. Under the terms of the Note and the PPP Loan, interest accrues on the outstanding principal at the rate of 1.0% per annum. Payments of principal and interest are deferred for borrowers who apply for loan forgiveness until the SBA remits the borrower's loan forgiveness amount to the lender. In May 2021, the SBA granted full forgiveness of the loan and accordingly, the Museum has accounted for the PPP loan as a conditional contribution. Proceeds received under the PPP loan are recognized as revenue when the Museum has incurred expenditures in compliance with the promissory note provisions and when the conditions have been substantially met. The Museum recognized grant revenue totaling \$528,762 during the year ended December 31, 2020 based on qualifying expenditures made under the PPP that were subsequently forgiven.

In March 2021, the Museum received a second draw PPP Loan in the amount of \$528,337. The second draw PPP Loan is evidenced by a promissory note. Under the terms of the second draw PPP Loan, interest accrues on the outstanding principal at the rate of 1.0% per annum. The second draw PPP Loan matures in March 2026, though it may be payable sooner in connection with an event of default. To the extent the loan amount is not forgiven under the PPP, the Museum is obligated to make equal monthly payments of principal and interest beginning up to sixteen months after the loan had been disbursed, July 2022.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Capital campaign	\$ 55,988
Donated use of long-lived asset	569,764
Programs and exhibits	57,491
Investment in perpetuity	<u>549,784</u>
	<u>\$ 1,233,027</u>

Included within this amount is \$54,680 of contributions receivable as disclosed in Note 5.



Kidspace: A Participatory Museum  
Notes to Financial Statements  
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10. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets without donor restrictions released from restriction during the year were as follows:

Passage of time	\$ 41,351
Amortization of long-lived asset	20,909
Endowment earnings appropriation	<u>90,000</u>
	<u>\$ 152,260</u>

11. ENDOWMENT

The Museum's endowment consists of donor-restricted endowment funds. The donor-restricted endowment consists of \$500,000 of original corpus gifts. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The primary long-term financial objective for the Museum's endowment is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. The endowment is also managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the Museum's existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the Consumer Price Index).

The Museum's Board of Directors is in the process of developing a spending policy that will distribute a specific payout rate of the endowment base to support the Museum's programs. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term. During the year ended December 31, 2020, the Board of Directors made a discretionary appropriation from the endowment of \$90,000 for cash flow purposes.

Interpretation of relevant law

The Museum's Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as net assets with donor restriction (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as without donor restrictions once the amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

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11. ENDOWMENT (continued)

Interpretation of relevant law (continued)

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum

Endowment composition

Endowment net asset composition by type of fund as of December 31, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 549,784	\$ 549,784

Changes in endowment net assets for the fiscal year ended December 31, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2019	\$ -	\$ 593,136	\$ 593,136
Investment income, net	-	46,648	46,648
Appropriations of endowment earnings	-	(90,000)	(90,000)
Balance, December 31, 2020	\$ -	\$ 549,784	\$ 549,784

12. COMMITMENTS AND CONTINGENCIES

Leases

The Museum leases property and equipment under non-cancelable operating leases that expire at various dates through September 2024.

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12. COMMITMENTS AND CONTINGENCIES (continued)

Leases (continued)

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

Year ending December 31,

2021	\$ 4,060
2022	4,060
2023	4,060
2024	<u>535</u>
	<u>\$ 12,715</u>

Lease expense for the year ended December 31, 2020 was \$12,474.

In addition, the Museum has an operating lease agreement with the City of Pasadena for the intended purpose of the museum. Under the terms of the lease, the Museum pays rent of \$1 per year over the initial fifty-year term which expires in 2048 (See Note 6). In consideration of the favorable lease terms, the Museum has agreed to numerous provisions and covenants with the City of Pasadena, which include hours of operations, displacement events, fees and admission and ownership of improvements.

Legal proceedings

In the ordinary course of conducting business, the Museum becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Museum which, from time to time, may have an impact on changes in net assets. The Museum believes that these proceedings, individually or in the aggregate, would not have a material effect on the accompanying financial statements.

13. EMPLOYEE BENEFIT PLANS

The Museum offers its employees a 403(b) savings plan administered by Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), which covers substantially all of the employees to which the Museum may contribute at its discretion. The Museum made no contributions to the plan on behalf of its employees during the year ended December 31, 2020.

14. RELATED PARTY

The Museum received \$113,913 in contributions from board members and other related parties during the year ended December 31, 2020.

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15. LIQUIDITY AND FUNDS AVAILABLE

As part of the Museum's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, the Museum has cash available. Contributions receivable that are considered current will be collected from donors within one year from the date of the statement of financial position and will be available for general expenditures. Additionally, the Museum has a line of credit of \$1,000,000 that is available should there be an unanticipated liquidity event. The outstanding balance on the line of credit as of December 31, 2020 is \$1,000,000.

The Executive Committee of the Board of Directors reviews the Museum's Statement of Financial Position and monitors cash balances on a monthly basis. The Executive Committee expects to maintain a minimum cash balance to cover 90 days of operating expenses during 2021.

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2020 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 1,016,993
Contributions receivable, current portion	25,483
Investments	<u>1,170,986</u>
	2,213,462
Donor-restricted investments	<u>(549,784)</u>
	<u>\$ 1,663,678</u>

The Museum has financial assets available at December 31, 2020 to cover approximately 192 days of operating expenses based on the 2021 monthly budgeted run rate for all program and support services expense of approximately \$260,149, excluding depreciation and amortization.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 23, 2021, the date that these financial statements were issued. There were no subsequent events that would require adjustments to or disclosures in these financial statements, other than the matters described below.

As discussed in Note 8, the line of credit expired in February 2021 and was subsequently extended through June 2021. The Museum is currently in discussion to extend the maturity date as of the date of the audit report.

As discussed in Note 9, in March 2021, the Museum received a second draw PPP Loan in the amount of \$528,337.

As discussed in Note 9, in May 2021, the SBA granted full forgiveness of the first draw PPP loan and accordingly, the Museum has accounted for the PPP loan as a conditional contribution during the year ended December 31, 2020.

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16. SUBSEQUENT EVENTS (continued)

As discussed in Note 3, the Museum was able to reopen to the public on April 22, 2021 at a reduced capacity to comply with state and local governmental authorities.

In July 2021, the Museum was approved for a grant under the Shuttered Venue Operators Grant program as established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and later amended by the American Rescue Plan Act. The approved grant amount is \$879,831.