

# **Kidspace: A Participatory Museum**

Financial Statements

December 31, 2022  
(With Comparative Totals for 2021)



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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2022, 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.

### **Basis of Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kidspace: A Participatory Museum and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Report on Summarized Comparative Information**

We have previously audited Kidspace: A Participatory Museum's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Responsibilities of Management 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, and for 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.



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kidspace: A Participatory Museum's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kidspace: A Participatory Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kidspace: A Participatory Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



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

May 12, 2023

Kidspace: A Participatory Museum  
Statement of Financial Position  
December 31, 2022  
(With Comparative Totals for 2021)

	2022	2021
ASSETS		
Cash	\$ 930,322	\$ 2,027,990
Operating investments	164,068	173,220
Contributions and grants receivable, net	8,189	38,435
Employee retention tax credit receivable	-	183,909
Inventory	51,149	42,552
Prepaid and other current assets	258,151	134,301
Endowment investments	516,187	585,517
Donated use of long-lived asset	527,946	548,855
Property and equipment, net	11,958,692	11,991,202
Total assets	\$ 14,414,704	\$ 15,725,981
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 240,563	\$ 36,979
Accrued expenses	156,425	233,965
Deferred revenue	784,745	499,947
Total liabilities	1,181,733	770,891
Net assets		
Without donor restrictions	12,141,846	13,724,984
With donor restrictions	1,091,125	1,230,106
Total net assets	13,232,971	14,955,090
Total liabilities and net assets	\$ 14,414,704	\$ 15,725,981

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

Kidspace: A Participatory Museum  
Statement of Activities  
For the Year Ended December 31, 2022  
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenues, gains (losses), and other support				
Admissions and memberships, net				
Admissions and memberships	\$ 3,518,938	\$ -	\$ 3,518,938	\$ 2,330,127
Discounted admissions	(390,506)	-	(390,506)	(245,614)
Total admissions and memberships, net	<u>3,128,432</u>	<u>-</u>	<u>3,128,432</u>	<u>2,084,513</u>
Grants and contributions	935,091	29,500	964,591	1,376,024
Government contribution (Paycheck Protection Program)	-	-	-	528,337
Shuttered venue operators grant	-	-	-	2,114,323
Employee retention tax credit	-	-	-	321,551
Gift store revenue, net	211,421	-	211,421	122,325
Other program revenue	217,541	-	217,541	127,565
Cafe loss, net	(15,070)	-	(15,070)	(55,003)
Birthday fee	74,314	-	74,314	-
Special events, net	186,885	-	186,885	32,215
Other revenue	14,674	-	14,674	4,277
Net assets released from restriction	<u>99,151</u>	<u>(99,151)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>4,852,439</u>	<u>(69,651)</u>	<u>4,782,788</u>	<u>6,656,127</u>
Functional expenses				
Program services	4,524,734	-	4,524,734	4,124,730
Management and general	1,509,642	-	1,509,642	942,012
Fundraising	<u>391,932</u>	<u>-</u>	<u>391,932</u>	<u>254,300</u>
Total functional expenses	<u>6,426,308</u>	<u>-</u>	<u>6,426,308</u>	<u>5,321,042</u>
Change in net assets from operations	<u>(1,573,869)</u>	<u>(69,651)</u>	<u>(1,643,520)</u>	<u>1,335,085</u>
Non-operating activities				
Investment income (loss), net	(9,044)	(69,330)	(78,374)	38,199
Loss on disposal of property and equipment	<u>(225)</u>	<u>-</u>	<u>(225)</u>	<u>(9,636)</u>
Total non-operating activities	<u>(9,269)</u>	<u>(69,330)</u>	<u>(78,599)</u>	<u>28,563</u>
Change in net assets	(1,583,138)	(138,981)	(1,722,119)	1,363,648
Net assets, beginning of year	<u>13,724,984</u>	<u>1,230,106</u>	<u>14,955,090</u>	<u>13,591,442</u>
Net assets, end of year	<u>\$ 12,141,846</u>	<u>\$ 1,091,125</u>	<u>\$ 13,232,971</u>	<u>\$ 14,955,090</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, 2022  
(With Comparative Totals for 2021)

	Program Services	Management and General	Fundraising	2022 Total	2021 Total
Personnel expenses					
Salaries and wages	\$ 1,768,852	\$ 544,817	\$ 153,358	\$ 2,467,027	\$ 1,874,183
Employee benefits	161,013	41,412	13,960	216,385	235,670
Payroll taxes	139,230	35,809	12,071	187,110	135,615
Total personnel expenses	<u>2,069,095</u>	<u>622,038</u>	<u>179,389</u>	<u>2,870,522</u>	<u>2,245,468</u>
Depreciation and amortization	1,174,339	3,783	4,152	1,182,274	1,281,077
Outside services	107,515	526,850	96,163	730,528	309,366
Education expenses	413,014	3,487	1,176	417,677	563,609
Utilities and maintenance	296,930	3,775	1,872	302,577	212,600
Office expense and supplies	106,557	184,680	5,656	296,893	269,824
Marketing	-	147,419	-	147,419	117,055
Insurance	99,952	322	353	100,627	84,172
Fundraising	-	-	92,133	92,133	-
Travel and conferences	24,596	-	-	24,596	19,413
Interest expense	-	1,201	-	1,201	25,146
Other expenses	<u>232,736</u>	<u>16,087</u>	<u>11,038</u>	<u>259,861</u>	<u>193,312</u>
	<u>\$ 4,524,734</u>	<u>\$ 1,509,642</u>	<u>\$ 391,932</u>	<u>\$ 6,426,308</u>	<u>\$ 5,321,042</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, 2022  
(With Comparative Totals for 2021)

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (1,722,119)	\$ 1,363,648
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,203,183	1,302,064
Loss on disposal of property and equipment	225	9,636
Net realized and unrealized (gains) losses on investments	90,056	(27,814)
Contributions restricted for long-lived assets	(10,004)	(46,863)
Changes in operating assets and liabilities		
Contributions and grants receivable, net	26,746	16,245
Employee retention tax credit receivable	183,909	(183,909)
Inventory	(8,597)	14,794
Prepaid and other current assets	(123,850)	(102,910)
Accounts payable	203,584	(129,907)
Accrued expenses	(77,540)	(5,996)
Deferred revenue	284,798	(71,062)
Net cash provided by operating activities	50,391	2,137,926
Cash flows from investing activities		
Proceeds from sales of investments	-	500,148
Purchases of investments	(11,574)	(60,085)
Purchases of property and equipment	(1,149,989)	(613,855)
Net cash used in investing activities	(1,161,563)	(173,792)
Cash flows from financing activities		
Repayments on the line of credit	-	(1,000,000)
Cash collected from contributions restricted for long-lived assets	13,504	46,863
Net cash provided by (used in) financing activities	13,504	(953,137)
Net increase (decrease) in cash	(1,097,668)	1,010,997
Cash, beginning of year	2,027,990	1,016,993
Cash, end of year	\$ 930,322	\$ 2,027,990

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 5,268	\$ 25,146
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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, 2022

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 the 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.

Kidspac: A Participatory Museum  
Notes to Financial Statements  
December 31, 2022

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, 2022, 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. The museum held no cash equivalents at December 31, 2022.

Concentration of credit risk

The Museum places its cash and investments with high-credit and quality financial institutions. At times, such cash may be in excess of the FDIC insurance limit. The 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 the trade date. Realized gains and losses on sales of investments are determined on a specific identification basis. Unrealized gains or losses on investments resulting from 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 received approximately \$231,782 in pro-bono legal services during the year ended December 31, 2022. These services were valued at standard hourly rates for similar services and are included in outside services on the statement of functional expenses.

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, 2022

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, 2022.

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 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 the sale of the merchandise. Estimated returns are not material.

Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2022

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 are met.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2022, were \$89,261 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' estimated 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, 2022, 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 the fair value of investments, the allowance for doubtful accounts, 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, 2021, from which the summarized information was derived.

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

Subsequent events

Subsequent events have been evaluated through May 12, 2023, the date that these financial statements were issued. There were no subsequent events that would require adjustments to or disclosures in these financial statements.

3. INVESTMENTS

Investments consisted of the following:

Operating investments	\$ 164,068
Endowment investments	<u>516,187</u>
	<u>\$ 680,255</u>

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity mutual funds	\$ 278,007	\$ -	\$ -	\$ 278,007
Fixed income	<u>402,248</u>	<u>-</u>	<u>-</u>	<u>402,248</u>
	<u>\$ 680,255</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 680,255</u>

4. CONTRIBUTIONS AND GRANTS RECEIVABLE

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

Contributions and grants receivable, net consisted of the following:

Receivables in less than one year	\$ 5,750
Receivables in one to five years	<u>2,500</u>
	8,250
Less: unamortized discount	<u>(61)</u>
	<u>\$ 8,189</u>

Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2022

5. 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, 2022, was \$20,909. The 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>(517,494)</u>
	<u>\$ 527,946</u>

6. PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following:

Buildings	\$ 17,663,290
Exhibits	10,905,704
Furniture and equipment	<u>1,064,390</u>
	29,633,384
Accumulated depreciation	<u>(17,674,692)</u>
	<u>\$ 11,958,692</u>

Depreciation expense for the year ended December 31, 2022, was \$1,182,274 (excluding \$20,909 included as café loss, net on the statement of activities).

7. LINE OF CREDIT

The Museum had a line of credit in the amount of \$1,000,000. Interest on the line of credit was variable based on the prime rate less 0.25% and due monthly. The line of credit expired in February 2022 and was not renewed.

Kidspace: A Participatory Museum  
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8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donated use of long-lived asset	\$ 527,946
Investment in perpetuity	516,187
Programs and exhibits	28,742
Capital campaign	15,000
Restricted by time	<u>3,250</u>
	<u><u>\$ 1,091,125</u></u>

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

Passage of time	\$ 4,123
Amortization of long-lived asset	20,909
Various programs	<u>74,119</u>
	<u><u>\$ 99,151</u></u>

9. 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.

Return objectives and risk parameters

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).

Spending policy

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 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. There were no appropriations from the endowment during the year ended December 31, 2022.



Kidspace: A Participatory Museum  
Notes to Financial Statements  
December 31, 2022

9. ENDOWMENT (continued)

Interpretation of relevant law

The Museum's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("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 endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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.

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 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 composition

Endowment net asset composition by type of fund as of December 31, 2022, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 516,187</u>	<u>\$ 516,187</u>

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9. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended December 31, 2022, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2021	\$ -	\$ 585,517	\$ 585,517
Investment loss, net	<u>-</u>	<u>(69,330)</u>	<u>(69,330)</u>
Balance, December 31, 2022	<u><u>\$ -</u></u>	<u><u>\$ 516,187</u></u>	<u><u>\$ 516,187</u></u>

10. EMPLOYEE RETENTION TAX CREDIT

The Employee Retention Tax Credit ("ERC"), a refundable tax credit against certain employment taxes allowed to an eligible employer for qualifying wages, was established by the CARES Act and was subsequently amended through additional legislation. The tax credit is equal to 50% of the qualified wages, up to \$10,000 per employee, an employer whose business has been financially impacted by COVID-19 pays to employees after March 12, 2020, and before January 1, 2022. The Museum determined it was eligible to apply for the ERC and calculated a total ERC of \$321,551 for the wages paid during the period January 1, 2021 through December 31, 2021. As the ERC refund related to salaries and wages paid during 2021 and as the Museum had satisfied all conditions of the program, the Museum recognized income for the calculated ERC during the year ended December 31, 2021. The Museum received \$137,642 during the year ended December 31, 2021 and received the remaining \$183,909 during the year ended December 31, 2022.

11. COMMITMENTS AND CONTINGENCIES

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.

12. CONCENTRATIONS

Two donors accounted for 29% of the grants and contributions revenue received during the year ended December 31, 2022.

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13. EMPLOYEE BENEFIT PLAN

The Museum has established a defined contribution retirement plan, sponsored by the Museum (the "Plan"). The Plan covers all full-time employees. Once an employee reaches one year of service, the Museum will match employee contributions, up to 4% of eligible wages. During the year ended December 31, 2022, the Museum contributed \$25,095 to the Plan.

14. RELATED PARTIES

The Museum received \$37,500 in contributions from members of the Board of Directors and other related parties during the year ended December 31, 2022.

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.

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 60 days of operating expenses during 2023, with the expectation that the Museum will continue to build toward a minimum cash balance to cover 90 days of operating expenses.

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2022 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 930,322
Contributions and grants receivable, current portion	5,750
Investments	<u>680,255</u>
	<u>1,616,327</u>
Less: amounts unavailable for general expenditure within one year	
Donor-restricted investments	<u>(516,187)</u>
	<u>(516,187)</u>
	<u>\$ 1,100,140</u>

The Museum has financial assets available at December 31, 2022, to cover approximately 66 days of operating expenses based on the 2023 monthly budgeted run rate for all program and support services expenses of approximately \$507,284, excluding depreciation and amortization.