



CHILDREN'S CREATIVITY MUSEUM

Financial Statements

June 30, 2017 and 2016

With Independent Auditors' Report

CHILDREN'S CREATIVITY MUSEUM

(A California Not-For-Profit Corporation)
June 30, 2017

The Children's Creativity Museum (CCM) is a hands-on, interactive arts and technology experience. Our mission is to nurture creativity and collaboration in all children and families. We believe that creative expression, innovation, and critical thinking are core to fostering the next generation.

Located in the Yerba Buena cultural district in the heart of San Francisco, the museum was originally named Zeum. In 2011 the name was changed to the Children's Creativity Museum. During the fiscal year 2016-2017 we served more than 123,000 youth and their families ranging in age from 2 to 12, through our general admission experience, school and summer field trips, camps, workshops and our Creativity Theatre. This surpassed our previous attendance of 115,000 +/-.

As the neighborhood continues to develop and the Yerba Buena/Moscone Center Central Subway stop opens an additional public transit option directly across from the museum, we look forward to continued growth. We work closely with our cultural neighbors through the Yerba Buena Alliance and our greater business and residential neighbors through the Yerba Buena Community Benefit District to make certain we are a known and vital resource.

Fiscal Year 2016-2017 Board of Directors and Staff

Name	Office
Andy Proehl	Chair
Jon Deane	Vice Chair
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Carol Tang

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INDEPENDENT AUDITORS' REPORT

The Board of Directors Children's Creativity Museum

We have audited the accompanying financial statements of Children's Creativity Museum (a California nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities and changes in net assets and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Creativity Museum as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have previously audited Children's Creativity Museum's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

December 29, 2017
Danville, California

Regalia & Associates

CHILDREN'S CREATIVITY MUSEUM

Statement of Financial Position June 30, 2017 and 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	2017	2016
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 147,949	\$ 48,109	\$ 196,058	\$ 202,244
Cash reserves	181,899	-	181,899	192,463
Accounts receivable	7,073	-	7,073	18,064
Pledges and grants receivable	2,500	-	2,500	2,500
Inventory	17,856	-	17,856	6,593
Prepaid expenses and other assets	36,917	-	36,917	25,571
Total current assets	394,194	48,109	442,303	447,435
Noncurrent assets:				
Property and equipment, net	176,979	-	176,979	43,714
Total assets	\$ 571,173	\$ 48,109	\$ 619,282	\$ 491,149
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 98,437	\$ -	\$ 98,437	\$ 95,335
Unearned revenue	154,536	-	154,536	117,588
Borrowings	23,445	-	23,445	21,734
Security deposits payable	500	-	500	1,500
Total current liabilities	276,918	-	276,918	236,157
Noncurrent liabilities:				
Borrowings	58,002	-	58,002	81,447
Net assets:				
Unrestricted:				
Board-designated for cash reserves	181,899	-	181,899	192,463
Undesignated	54,354	-	54,354	(18,918)
Temporarily restricted	-	48,109	48,109	-
Total net assets	236,253	48,109	284,362	173,545
Total liabilities and net assets	\$ 571,173	\$ 48,109	\$ 619,282	\$ 491,149

CHILDREN'S CREATIVITY MUSEUM

Statement of Activities and Changes in Net Assets Year Ended June 30, 2017

(with Summarized Financial Information for the Year Ended June 30, 2016)

<i>Changes in net assets:</i>	Unrestricted Net Assets	Temporarily Restricted Net Assets	2017	2016
Revenue and support:				
<i>Contributions, donations and grants:</i>				
Foundation and corporate grants	\$ 40,165	\$ 122,000	\$ 162,165	\$ 103,730
Government - SFOCII	600,000	-	600,000	600,000
Individual contributions	87,872	-	87,872	122,430
In-kind donations	84,084	-	84,084	39,441
<i>Net assets released from restrictions:</i>				
Satisfaction of temporary restrictions	73,891	(73,891)	-	-
Total contributions, donations and grants	886,012	48,109	934,121	866,368
<i>Earned revenue:</i>				
Memberships	167,897	-	167,897	165,117
Admissions	686,522	-	686,522	579,362
Facility rentals	331,334	-	331,334	460,547
Museum store	20,833	-	20,833	92,655
Other income	16,799	-	16,799	21
Investment income	266	-	266	712
Total earned revenue	1,223,651	-	1,223,651	1,298,414
Total revenue and support	2,109,663	48,109	2,157,772	2,164,782
Expenses:				
<i>Programs:</i>				
Education	382,085	-	382,085	262,878
Exhibits	257,469	-	257,469	270,211
Marketing and outreach	188,425	-	188,425	110,302
Visitor experience	619,842	-	619,842	858,886
Total programs and experience	1,447,821	-	1,447,821	1,502,277
Administration	431,633	-	431,633	403,507
Fundraising	167,501	-	167,501	255,852
Total expenses	2,046,955	-	2,046,955	2,161,636
Increase in net assets	62,708	48,109	110,817	3,146
Net assets at beginning of year	173,545	-	173,545	170,399
Net assets at end of year	\$ 236,253	\$ 48,109	\$ 284,362	\$ 173,545

CHILDREN'S CREATIVITY MUSEUM

Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
<i>Operating activities:</i>		
Increase in net assets	\$ 110,817	\$ 3,146
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	16,777	16,269
<i>Changes in:</i>		
Accounts receivable	10,991	3,024
Pledges and grants receivable	-	6,298
Inventory	(11,263)	13,288
Prepaid expenses and other assets	(11,346)	678
Accounts payable and accrued liabilities	3,102	26,772
Unearned revenue	36,948	20,619
Security deposits payable	(1,000)	-
Cash provided by operating activities	155,026	90,094
 <i>Investing activities:</i>		
Acquisition of property and equipment	(150,042)	(3,559)
Cash used for investing activities	(150,042)	(3,559)
 <i>Financing activities:</i>		
Transfers from restricted cash reserves	10,564	8,578
Principal payments made to reduce borrowings	(21,734)	(96,819)
Cash used for financing activities	(11,170)	(88,241)
Net decrease in cash and cash equivalents	(6,186)	(1,706)
Cash and cash equivalents at beginning of year	202,244	203,950
Cash and cash equivalents at end of year	\$ 196,058	\$ 202,244
 <i>Additional cash flow information:</i>		
California registration fee paid	\$ 150	\$ 150
Interest paid	\$ 7,103	\$ 13,275

Notes to Financial Statements June 30, 2017 and 2016

1. Organization

Children's Creativity Museum (CCM) is a nonprofit, hands-on, interactive arts and technology experience for kids located in the Yerba Buena cultural district in San Francisco. The museum opened in 1998 as "Zeum" and was renamed to Children's Creativity Museum in 2011. CCM's mission is to nurture creativity and collaboration in all children and families. CCM believes that creative expression, innovation, and critical thinking are core to fostering the next generation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of CCM have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, CCM is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Support and Revenue Recognition

CCM records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities and changes in net assets as net assets released from restrictions. As permitted under ASC 958.605, donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Contributions of donated noncash assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. *(continued)*

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Inventory

CCM store inventory is carried at lower of cost or market utilizing the first-in, first-out method and consists of educational toys, games, books and materials to encourage creative expression.

Receivables

Accounts receivable of \$7,073 and \$18,064 at June 30, 2017 and 2016, respectively, consist of amounts principally due from carousel operations and are stated at net realizable value. Pledges and grants receivable are recorded when the pledges and grants are made and are stated at estimated net realizable value and amounted to \$2,500 and \$2,500 at June 30, 2017 and 2016, respectively. Management has not established an allowance for doubtful accounts because it believes all amounts will be fully realized.

Property and Equipment

Property and equipment purchased by CCM is stated at cost. Property and equipment donated to CCM is recorded at estimated fair value as of the date of the gift. The cost of additions and major improvements is capitalized, while maintenance and repairs are charged to expense as incurred. Equipment, furnishings and leasehold improvements are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment and exhibits	3 years
Multimedia equipment	5 years
Office furniture and fixtures	7 years
Theater equipment	10 years
Leasehold improvements	Life of the lease

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, CCM is required to report information regarding its exposure to various tax positions taken by the organization and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that CCM has adequately evaluated its current tax positions and has concluded that as of June 30, 2017 and 2016, CCM does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

CCM has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. This exemption is subject to periodic review by the federal and state taxing authorities and management is confident that the organization continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. CCM may periodically receive unrelated business income requiring the organization to file separate tax returns under federal and state statutes. Under such conditions, CCM calculates and accrues the applicable taxes payable.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order to conform to the presentation used in 2017.

CHILDREN'S CREATIVITY MUSEUM

Notes to Financial Statements

3. Cash and Concentration of Credit Risk

Cash and cash equivalents of \$196,058 and \$202,244 at June 30, 2017 and 2016, respectively, include all funds in various depository accounts. CCM considers all highly liquid accounts with a deposit commitment period of three months or less to be cash equivalents. Cash reserves amounted to \$181,899 and \$192,463 at June 30, 2017 and 2016, respectively, and consist of amounts on deposit at Citibank earning interest at 0.13% interest per annum. CCM operates a deposit bank account which contains funds that, from time to time, may not be covered with insurance provided by the federal government. Such financial instrument(s) potentially subject CCM to concentrations of credit risk. It is the opinion of management that the solvency of the referenced financial institution is satisfactorily strong and that CCM's financial position will not be compromised.

4. Property and Equipment

Property and equipment consist of the following at June 30, 2017 and 2016:

	2017	2016
Computers and Software	\$ 99,893	\$ 112,506
Exhibits	283,769	220,379
Furniture and Fixtures	32,866	32,124
Leasehold improvements	38,027	50,314
Multimedia Equipment	14,221	64,956
Theater Equipment	50,313	38,026
Less: accumulated depreciation	(377,702)	(474,591)
Property and equipment, net	<u>\$ 176,979</u>	<u>\$ 43,714</u>

Depreciation expense amounted to \$16,777 and \$16,269 for the years ended June 30, 2017 and 2016, respectively. During the year ended June 30, 2017, CCM disposed of property and equipment totaling \$113,666. There were no disposals during the year ended June 30, 2016.

5. San Francisco Office of Community Investment and Infrastructure (SFOCII)

CCM runs its operations under an operating agreement with the San Francisco Office of Community Investment and Infrastructure (SFOCII) under a long-term arrangement. SFOCII owns the facilities of CCM, which consist of the premises occupied by CCM, the Cafe and the Carousel. CCM operates and maintains the premises for and on behalf of SFOCII during the term of the agreement. The agreement charges CCM with the security, operations and maintenance of a youth arts and cultural facility for the City's youth and families on behalf of San Francisco.

SFOCII distributes quarterly payments to CCM during the months of July, October, February and May. SFOCII is aware that CCM may need to draw upon reserves during times of tight cash flow and replenish the reserves later. During the fiscal years ended June 30, 2017 and 2016, CCM received \$600,000 and \$600,000, respectively, from SFOCII for operational funding needs.

CHILDREN'S CREATIVITY MUSEUM

Notes to Financial Statements

6. Borrowings

The Northern California Community Loan Fund: The total outstanding loan balance of \$81,447 at June 30, 2017 represents a long-term loan (72 months) from The Northern California Community Loan Fund bearing interest at the fixed rate of 7.50% per annum. The loan repayment terms are as follows: (a) interest only during the first twelve months; and (b) principal and interest payments beginning with the thirteenth month and continuing through the 72nd month. As of June 30, 2017, estimated future principal payments are as follows: **Year ending June 30, 2018: \$23,445; Year ending June 30, 2019: \$25,292; Year ending June 30, 2020: \$27,283; and Year ending June 30, 2021: \$5,427.**

Interest expense amounted to \$7,103 and \$13,275 for the years ended June 30, 2017 and 2016, respectively, and is included in administration expenses on the statement of activities and changes in net assets.

7. Lease

CCM is obligated under a long-term equipment lease which requires a monthly remittance of \$1,411. Minimum annual payments extending beyond one year are as follows: **Year ending June 30, 2018: \$9,965; and Year ending June 30, 2019: \$3,344.**

8. Net Assets

CCM recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. A reconciliation of beginning and ending temporarily restricted net assets is summarized as follows:

Donor	June 30, 2016		June 30, 2017	
	Beginning		Released to	Ending
	Balance	Additions	Unrestricted	Balance
Capital One	\$ -	\$ 20,000	\$ 1,220	\$ 18,780
Genentech Inc	-	15,000	15,000	-
Gordon & Betty Moore Found	-	35,000	35,000	-
Target	-	40,000	20,000	20,000
Yerba Buena Community Benefit District	-	12,000	2,671	9,329
Totals	\$ -	\$ 122,000	\$ 73,891	\$ 48,109

Contributions to temporarily restricted net assets amounted to \$122,000 and \$15,000 for the years ended June 30, 2017 and 2016, respectively. During the years ended June 30, 2017 and 2016, \$73,891 and \$22,000, respectively, in temporarily restricted net assets were released from restriction and transferred to unrestricted net assets. Total unrestricted net assets of \$236,253 and \$173,545 at June 30, 2017 and 2016, respectively, represent cumulative unrestricted earnings since the organization's inception.

In connection with its agreement with SFOCII (see Note 5 above), CCM is required to set aside certain amounts as a special reserve fund to be held in a manner and place and subject to controls enforced by SFOCII. These reserves are reflected as Board-designated for cash reserves on the statements of financial position and amounted to \$181,899 and \$192,463 at June 30, 2017 and 2016, respectively.

CHILDREN'S CREATIVITY MUSEUM

Notes to Financial Statements

9. In-kind Contributions (Donated Services, Materials and Facilities)

CCM recognizes donated services which create and enhance non-financial assets or that require specialized skills (such as professional services which would otherwise need to be purchased if not provided by donation). There are also unpaid volunteers who have made significant contributions of time to various departments or programs of CCM. The value of this contributed time is not reflected in the financial statements because it is not susceptible to objective measurement or valuation and therefore did not meet the criteria for recognition under ASC 958.605.30-11 "*Revenue Recognition of Not-For-Profit Entities.*"

During the years ended June 30, 2017 and 2016, CCM was the recipient of certain in-kind contributions which satisfied the provisions of ASC 958.605.30-11 and these donated services, materials and facilities were recorded at their estimated fair market values as program and supporting revenues and expenses. The values of these contributions as reflected on the statement of activities and changes in net assets are as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Exhibit, workshop and inventory items	\$ 23,357	\$ 23,815
Dues, Membership	-	2,845
Events	-	4,000
Supplies and equipment	60,170	2,475
Miscellaneous	557	675
Professional services	-	5,630
Total in-kind contributions received	\$ 84,084	\$ 39,440

10. Functional Allocation of Expenses

The costs of providing CCM's various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

11. Unearned Revenue

Unearned revenue of \$154,536 and \$117,588 at June 30, 2017 and 2016, respectively, represents funds received in advance of facility rentals, summer camps, group sales, and other program activities for the following fiscal year. Such amounts have been reflected as short-term liabilities and will be reported as program and activity revenue on the statement of activities and changes in net assets in the subsequent fiscal period.

12. Security Deposits Payable

Security deposits payable of \$500 and \$1,500 at June 30, 2017 and 2016, respectively, represent payments received from third parties under facility usage agreements. CCM retains the funds as security and either refunds or retains the deposits in accordance with the terms of the agreements.

Notes to Financial Statements

13. 403(b) Annuity Plan

CCM has a 403(b) tax-deferred retirement plan administered by Lincoln Financial Advisors. Employees are permitted to make contributions to the retirement plan under a pre-tax arrangement. There were no employer contributions (matching or otherwise) for the years ended June 30, 2017 and 2016. Distributions from the 403(b) plan are made only pursuant to all applicable laws and regulations.

14. Commitments and Contingencies

CCM leases certain office equipment under month-to-month and short-term rental contracts which require monthly remittances in accordance with the terms of the agreements. In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and to engage in future projects, which are not entirely reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate CCM to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond CCM's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management and consulting personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting organizations.

15. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, CCM is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on hourly rates for the subsequent fiscal year. Accrued vacation payable amounted to \$44,482 and \$39,553 as of June 30, 2017 and 2016, respectively, and these amounts are included with accounts payable and accrued liabilities on the statement of financial position.

16. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, CCM has evaluated subsequent events through December 29, 2017, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.