

DISCOVERY CHILDREN'S MUSEUM

FINANCIAL STATEMENTS

JUNE 30, 2018

**DISCOVERY CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
JUNE 30, 2018**

Table of Contents

Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-13

Independent Auditor's Report

To the Board of Directors of
DISCOVERY Children's Museum

We have audited the accompanying financial statements of DISCOVERY Children's Museum (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 DISCOVERY Children's Museum as of June 30, 2018, 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.

Ellsworth & Stout, LLC

Las Vegas, Nevada
October 23, 2018



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**DISCOVERY CHILDREN'S MUSEUM
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 2,276,136
Cash and cash equivalents - restricted	330,535
Certificates of deposit, restricted	1,082,506
Pledges receivable, net	107,997
Other receivables, net	90,038
Inventory	26,921
Prepaid expenses	236,221
	<hr/>
Total current assets	4,150,354
	<hr/>

Property and Equipment, net

36,037,807

Other Asset:

Investments, restricted	2,954,961
Certificates of deposit, restricted	738,886
	<hr/>
Total other assets	3,693,847
	<hr/>

Total Assets

\$ 43,882,008

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 97,604
Accrued expenses	142,817
Refundable deposit	1,006,019
	<hr/>
Total current liabilities	1,246,440
	<hr/>

Net Assets:

Unrestricted	9,164,178
Temporarily restricted	32,436,330
Permanently restricted	1,035,060
	<hr/>
Total net assets	42,635,568
	<hr/>

Total Liabilities and Net Assets

\$ 43,882,008

See accompanying notes to the financial statements.

**DISCOVERY CHILDREN'S MUSEUM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Unrestricted Net Assets

Unrestricted revenue and other support:

Contributions	\$ 329,639
Admissions	1,495,520
Membership dues	437,712
Ancillary revenue, net of expenses of \$99,433	344,056
In-kind donations	333,435
Special events, net of expenses of \$159,359	312,951
Investment income	108,619
Other income	15,684
Net assets released from donor restrictions	<u>661,054</u>
	<u>4,038,670</u>

Expenses:

Program services	4,108,953
Supporting Services:	
Management and general	1,441,516
Fundraising	<u>395,218</u>
	<u>5,945,687</u>
Decrease in unrestricted net assets	<u>(1,907,017)</u>

Temporarily Restricted Net Assets

Contributions	426,584
Net assets released from donor restrictions	<u>(661,054)</u>
Decrease in temporarily restricted net assets	<u>(234,470)</u>

Permanently Restricted Net Assets

Contributions	<u>50,000</u>
Increase in temporarily restricted net assets	<u>50,000</u>

Decrease in Net Assets	<u>(2,091,487)</u>
Net Assets, Beginning of Year, as previously reported	44,979,911
Prior Period Adjustment (Note 9)	<u>(252,856)</u>
Net Assets, Beginning of Year, as restated	<u>44,727,055</u>
Net Assets, End of Year	<u><u>\$ 42,635,568</u></u>

See accompanying notes to the financial statements.

**DISCOVERY CHILDREN'S MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services	Management and General	Fundraising	Total
Advertising	\$ -	\$ 725,226	\$ 7,500	\$ 732,726
Bad debt expense	-	-	74,675	74,675
Depreciation	1,846,356	-	-	1,846,356
Employee benefits	91,331	20,458	7,000	118,789
Insurance	1,117	37,110	-	38,227
Office expense and miscellaneous	204,534	50,264	32,526	287,324
Professional fees	776	180,084	145,886	326,746
Repair and maintenance	543,392	9,191	20,230	572,813
Salaries, taxes, and related	1,114,694	409,378	97,288	1,621,360
Travel, meals, and entertainment	6,595	9,805	10,113	26,513
Traveling exhibits	189,505	-	-	189,505
Utilities	110,653	-	-	110,653
	<u>\$ 4,108,953</u>	<u>\$ 1,441,516</u>	<u>\$ 395,218</u>	<u>\$ 5,945,687</u>

See accompanying notes to the financial statements.

**DISCOVERY CHILDREN'S MUSEUM
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018**

Cash Flows from Operating Activities:

Decrease in net assets	\$ (2,091,487)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Bad debt expense	74,675
Depreciation	1,846,356
Net realized and unrealized gain on investments	(108,619)
Changes in operating assets and liabilities:	
(Increase) decrease in pledges receivable	(41,483)
(Increase) decrease in other receivables	(55,169)
(Increase) decrease in inventory	(3,676)
(Increase) decrease in prepaid expenses	(70,641)
Increase (decrease) in accounts payable	25,165
Increase (decrease) in accrued expenses	33,860
Increase (decrease) in refundable deposit	1,005,376
Net cash provided by operating activities	<u>614,357</u>

Cash Flows from Investing Activities:

Purchase of property and equipment	(30,770)
Purchase of certificates of deposit	(1,821,392)
Proceeds from sales of investments	3,355,677
Net cash provided by investing activities	<u>1,503,515</u>

Net Change in Cash and Cash Equivalents 2,117,872

Cash and Cash Equivalents, Beginning of Year 488,799

Cash and Cash Equivalents, End of Year \$ 2,606,671

Cash and Cash Equivalents, Unrestricted \$ 2,276,136

Cash and Cash Equivalents, Restricted 330,535

\$ 2,606,671

See accompanying notes to the financial statements.

**DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – NATURE OF ACTIVITIES

DISCOVERY Children's Museum (the Museum) is a private, nonprofit organization designed to provide learning experiences for southern Nevada residents and visitors. The Museum was formally incorporated on January 1, 1985 and was opened to the public in September 1990. A significant portion of the operating costs of the Museum are funded from non-operating sources such as contributions, in-kind donations, and monies raised from special events and various grants.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Museum is presented to assist in understanding the Museum's financial statements. The financial statements and notes are representations of the Museum's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The accounts of the Museum are maintained, and the financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

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 judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The accompanying financial statements have been presented in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations, principally Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the Museum is required to report information regarding its financial position and changes in financial position according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Museum considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents.

At various times throughout the year, the Museum maintained deposits in financial institutions which exceeded federally insured amounts. The Museum has not experienced any losses in these accounts.

Investments

Investments in marketable securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the reporting period earned.

DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Unconditional promises to give that are expected to be collected are recorded at their net realizable value as an increase in net assets. Conditional promises to give are not included as support until such time as the conditions are substantially met. Management periodically evaluates the collectability of promises to give. As of June 30, 2018, the Museum recorded an allowance of \$110,000, which has been netted against unconditional promises to give. All pledges receivable have been discounted to reflect their approximate fair value.

Other Receivables

Other receivables are stated at the amount management expects to collect from outstanding balances. It is the Museum's policy to charge off uncollectible receivables when management determines the receivable will not be collected. As of June 30, 2018, no estimated allowance for uncollectible receivables was deemed necessary.

Inventory

Inventory consists of retail merchandise held for sale and is valued at the lower of cost or market value using the first-in first-out method. Items donated to the Museum are valued at their estimated fair value.

Property and Equipment

The Museum capitalizes significant expenditures for property and equipment at cost. Property and equipment that are contributed to the Museum are recorded at the approximate fair value at the date of donation. The Museum has a capitalization threshold of \$2,500. Depreciation is computed using straight line over the estimated useful lives of the assets.

Contributed Services, Materials and Facilities

Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses, capitalized in property and equipment, or an increase in inventory. The Museum recognized the following in-kind donations for the year:

Advertising	\$ 8,435
Professional fees	<u>325,000</u>
	<u>\$ 333,435</u>

In addition, unpaid volunteers donated their time to the Museum. The value of such services has not been reflected in the financial statements since the volunteers' time does not meet the criteria for recognition as contributed services.

DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor 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 by a stipulated time restriction lapsing or by the purpose of the restriction having been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same period received are reported as unrestricted support.

Membership dues, which are essentially contributions, are recognized as revenue when such income is received. Admission revenues are recognized when received upon guest entry. Special event revenue is recognized when the event occurs. All other ancillary revenue is recognized when earned.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on management's estimates.

Income Taxes

The Museum has received notification from the Internal Revenue Service that the Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as a public charity under Sections 509(a)(1) and 170(b)(1)(A)(vi). As such, the Museum is exempt from federal income tax. Therefore, no provision for income taxes is made in the accompanying financial statements.

As defined by Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 740, Income Taxes, no provision or liability for materially uncertain tax positions was deemed necessary by management. Therefore, no provision or liability for uncertain tax positions has been included in these financial statements.

As of June 30, 2018, the tax years that remain subject to potential examination by taxing authorities begin with 2015.

Advertising

The production costs of advertising are expensed as incurred. Advertising expense for year ended June 30, 2018 was \$732,726. Of this total, \$325,000 was made via in-kind donations.

DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 3 – PROPERTY AND EQUIPMENT

As of June 30, 2018 property and equipment consists of the following:

Building and improvements	\$ 38,226,008
Exhibits	8,135,991
Furniture and equipment	812,061
	<u>47,174,060</u>
Less accumulated depreciation	<u>(11,136,253)</u>
	<u>\$ 36,037,807</u>

For the year ended June 30, 2018 depreciation expense totaled \$1,846,356.

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The company utilizes a three-level valuation hierarchy for disclosures of fair value measurements, defined as follows:

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

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value.

The following table provides information by level on the fair value of investments as of June 30, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Recurring fair value measurements:</u>				
Corporate Fixed Income	\$ 2,197,168	\$ 2,197,168	\$ -	\$ -
ETFs & CEFs	736,670	736,670	-	-
Government Securities	1,189	1,189	-	-
Municipal Bonds	19,934	19,934	-	-
	<u>\$ 2,954,961</u>	<u>\$ 2,954,961</u>	<u>\$ -</u>	<u>\$ -</u>

DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Donated building	\$ 28,364,502
Capital campaign - Operations	2,938,044
Capital campaign - Youthworks	994,828
Education	76,046
Outreach	62,910
	<u>\$ 32,436,330</u>

Temporarily restricted net assets consist of cash and cash equivalents of \$330,535, certificates of deposit of \$1,821,392, investments of \$1,919,901, and net property and equipment of \$28,364,502 as of June 30, 2018.

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowment funds established for the long-term financial security of the Museum, which are held in investment accounts. The income from the assets can be used to support the Museum's various programs as determined by the donor(s) of the endowment funds. The balance as of June 30, 2018, was \$1,035,060.

NOTE 7 – ENDOWMENT

The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (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.

Interpretation of Relevant Law

The Board of Directors of the Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the 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 that is not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in accordance with the standard of prudence prescribed by SPMIFA.

DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 7 – ENDOWMENT (Continued)

Interpretation of Relevant Law (Continued)

In accordance with SPMIFA, 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

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results while assuming a low level of investment risk. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with U.S. GAAP, there were no deficiencies of this nature reported in unrestricted net assets as of June 30, 2018.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum has a policy described in Note 6. In establishing this policy, the Museum considered the long-term expected return on its investment assets, the nature and duration of the individual endowment fund, of which a portion must be maintained in perpetuity because of donor-restrictions, and the effects of inflation. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 7 – ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ -	\$ 1,035,060	\$ 1,035,060

Changes in endowment net assets as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	\$ -	\$ 22,825	\$ 985,060	\$ 1,007,885
Contributions	-	-	50,000	50,000
Investment income	-	31,481	-	31,481
Net depreciation	-	(24,384)	-	(24,384)
Appropriation of endowment assets for expenditure	-	(29,922)	-	(29,922)
Endowment net assets, ending	\$ -	\$ -	\$ 1,035,060	\$ 1,035,060

NOTE 8 – OPERATING LEASES

In July 2012, the Museum entered into a “sublease” agreement with The Smith Center (TSC), whereby TSC will sublease space to the Museum for a period of 30 years at \$1 per year, plus common area maintenance fees. TSC and the Museum have the option to extend the lease for six periods of 10 years each under the same terms and conditions as the initial lease. In accordance with ASC Topic 958-605, Not-For-Profit Entities Revenue Recognition, the Museum recorded a donated building of approximately \$30,756,000 based on the fair value of the land and building, with a corresponding offset to contribution revenue during the year ended June 30, 2013.

The building is being depreciated over the lease term of 90 years. Accumulated depreciation for the building totaled \$2,050,446 for the year ended June 30, 2018. At June 30, 2018, the book value of the donated building is \$28,364,502. In addition, in accordance with the terms of the lease, the contribution is recorded as temporarily restricted (for both time and purpose), with the restriction expiring over the lease term. Future minimum lease payments are as follows for the years ending June 30:

2019	\$ 341,741
2020	341,741
2021	341,741
2022	341,741
2023	341,741
Thereafter	26,655,797
	<u>\$ 28,364,502</u>

DISCOVERY CHILDREN'S MUSEUM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 9 – PRIOR PERIOD ADJUSTMENTS

Unrestricted and temporarily restricted net assets at June 30, 2017 have been adjusted due to various items that are presented in the table below that were reported in error in prior years. The correction has no effect on the results of the current year's activities. Previously issued financial statements have been restated to correct this error. The following sets forth the previously reported and restated amounts of selected items within the statement of financial position as of June 30, 2017:

Selected data from the statement of financial position as of June 30, 2017:	As Previously Reported	As Restated	Increase (Decrease)
Property and equipment, net	\$ 38,174,154	\$ 37,853,393	\$ (320,761)
Accrued expenses	\$ 172,865	\$ 108,957	\$ (63,908)
Customer deposits	\$ 4,643	\$ 642	\$ (4,001)
Unrestricted net assets	\$ 10,982,310	\$ 11,071,199	\$ 88,889
Temporarily restricted net assets	\$ 33,012,541	\$ 32,670,800	\$ (341,741)

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 23, 2018, which is the date the financial statements were available to be issued.