

**Bay Area  
Discovery  
Museum**



**Bay Area Discovery Museum**

Financial Statements

14-month period ended August 31, 2009

with

Report of Independent Auditors

Report of Independent Auditors

Board of Trustees  
Bay Area Discovery Museum

We have audited the accompanying statement of financial position of the Bay Area Discovery Museum (Museum) as of August 31, 2009, and the related statements of activities, functional expenses and cash flows for the 14-month period then ended. These financial statements are the responsibility of the management of the Museum. Our responsibility is to express an opinion on these financial statements based on our audit. The Museum derived the prior year summarized comparative information from its June 30, 2008 financial statements and, in our report dated November 17, 2008; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of August 31, 2009, and the results of its operations and cash flows for the 14-month period then ended in conformity with accounting principles generally accepted in the United States.

*Wilson Markle Stuckey Hardesty & Bott*  
Wilson Markle Stuckey Hardesty & Bott  
December 4, 2009

**Bay Area Discovery Museum**  
Statement of Financial Position  
August 31, 2009 and June 30, 2008

	2009	2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,426,997	\$ 1,377,763
Investments	–	4,908
Pledges receivable	321,105	157,750
Accounts receivable	15,844	5,508
Inventory	53,794	51,073
Prepaid expenses	119,067	54,563
Total current assets	1,936,807	1,651,565
Property and equipment	18,109,272	18,100,733
Accumulated depreciation	( 6,817,062)	( 6,183,653)
Property and equipment, net	11,292,210	11,917,080
<b>Total assets</b>	<b>\$13,229,017</b>	<b>\$13,568,645</b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 193,978	\$ 161,491
Deferred revenue	386,592	560,011
Total current liabilities	580,570	721,502
Net assets		
Unrestricted	11,701,140	11,879,863
Temporarily restricted	857,307	877,280
Permanently restricted	90,000	90,000
Total net assets	12,648,447	12,847,143
<b>Total liabilities and net assets</b>	<b>\$13,229,017</b>	<b>\$13,568,645</b>

See accompanying notes.

**Bay Area Discovery Museum**

Statement of Activities and Changes in Net Assets

14-month period ended August 31, 2009 with comparative totals for the year ended June 30, 2008

	Unrestricted	Restricted		2009 Totals	2008 Totals only
		Temporarily	Permanently		
Support and revenue					
Contributions	\$ 555,127	\$832,143	\$ -	\$ 1,387,270	\$ 1,235,794
In-kind	95,186	35,000	-	130,186	17,800
Special events, net	424,628	38,650	-	463,278	623,631
Membership dues	915,254	-	-	915,254	419,081
Admission fees	682,216	-	-	682,216	528,288
Program fees	618,978	-	-	618,978	515,451
Facility rentals	32,855	-	-	32,855	28,740
Store sales, net of cost of goods sold	255,022	-	-	255,022	229,423
Café sales, net	37,978	-	-	37,978	31,714
Investment income, net	9,815	967	-	10,782	22,080
Net assets released from restrictions					
Satisfaction of usage restrictions	926,733	( 926,733)	-	-	-
<b>Total revenues and support</b>	<b>4,553,792</b>	<b>( 19,973)</b>	<b>-</b>	<b>4,533,819</b>	<b>3,652,002</b>
Expenses					
Program services	2,793,986	-	-	2,793,986	3,651,866
Supporting services					
Management and general	937,913	-	-	937,913	1,163,365
Fundraising	951,468	-	-	951,468	796,742
Membership	49,148	-	-	49,148	-
<b>Total expenses</b>	<b>4,732,515</b>	<b>-</b>	<b>-</b>	<b>4,732,515</b>	<b>5,611,973</b>
Change in net assets	( 178,723)	( 19,973)	-	( 198,696)	( 1,959,971)
Net assets, beginning of year	11,879,863	877,280	90,000	12,847,143	14,807,114
Net assets, end of year	<u>\$11,701,140</u>	<u>\$857,307</u>	<u>\$90,000</u>	<u>\$12,648,447</u>	<u>\$12,847,143</u>

See accompanying notes.

**Bay Area Discovery Museum**  
Statement of Functional Expenses  
14-month period ended August 31, 2009 with comparative totals for the year ended June 30, 2008

Expenses	Program services	Supporting services			Allocated indirect	2009 Totals	2008 Totals only
		Management and general	Fundraising	Membership			
Salaries	\$1,066,357	\$368,154	\$380,025	\$ -	\$ 427,266	\$2,241,802	\$2,020,333
Benefits and payroll taxes	168,713	52,167	64,676	-	64,941	350,497	326,579
Bank fees	58,659	2,201	1,865	17,926	-	80,651	73,597
Changing exhibits	9,476	-	-	-	-	9,476	110,460
Conferences and meetings	-	5,838	-	28	-	5,866	21,766
Equipment rental and maintenance	-	1,333	-	-	72,954	74,287	88,735
Insurance	-	-	-	-	40,898	40,898	35,655
Maintenance and repairs	16,076	-	-	-	126,513	142,589	201,982
Marketing and advertising	7,245	4,951	6,229	7,883	131,701	158,009	70,699
Postage and shipping	-	2,321	1,255	6,045	6,773	16,394	29,837
Printing and publications	1,484	9,024	10,045	17,266	24,777	62,596	86,504
Professional fees	120,798	83,528	58,000	-	78,479	340,805	467,377
Supplies	70,180	9,419	70	-	2,616	82,285	104,045
Telephone	-	-	-	-	22,781	22,781	14,802
Training	168	-	227	-	4,501	4,896	31,930
Travel	44,042	5,145	320	-	322	49,829	28,210
Utilities	-	-	-	-	197,870	197,870	169,877
Youth Museum Exhibit Collaborative	38,500	-	-	-	-	38,500	18,408
Depreciation	-	-	-	-	810,545	810,545	1,656,321
Miscellaneous	5,633	( 15,854)	5,860	-	6,300	1,939	54,856
Allocated indirect	1,186,655	409,686	422,896	-	( 2,019,237)	-	-
<b>Total expenses</b>	<b>\$2,793,986</b>	<b>\$937,913</b>	<b>\$951,468</b>	<b>\$49,148</b>	<b>\$ -</b>	<b>\$4,732,515</b>	<b>\$5,611,973</b>

See accompanying notes.

## Bay Area Discovery Museum

### Statement of Cash Flows

14-month period ended August 31, 2009 and year ended June 30, 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	(\$ 198,696)	(\$1,959,971)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	810,545	1,656,321
Receivable write-off (discount amortization)	–	17,734
Contributions of investments	( 114,934)	( 131,333)
(Gain) loss from sale and holding of investments	( 301)	464
Changes in current assets and liabilities		
Accounts receivable	( 10,336)	180
Pledges receivable	( 163,355)	( 12,375)
Inventory	( 2,721)	4,017
Prepaid expenses	( 64,504)	24,529
Accounts payable and accrued expenses	32,487	( 122,666)
Deferred revenues	( 173,419)	410,859
Net cash provided (used) by operating activities	114,766	( 112,241)
Cash flows from financing activities		
Proceeds from sale of investments	120,143	142,112
Purchase of property and equipment	( 185,675)	( 101,163)
Net cash provided (used) by investing activities	( 65,532)	40,949
Net change in cash and cash equivalents	49,234	( 71,292)
Cash and cash equivalents, beginning of year	1,377,763	1,449,055
Cash and cash equivalents, end of year	\$1,426,997	\$1,377,763

See accompanying notes.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 1 – Summary of significant accounting policies

Basis of presentation

The Bay Area Discovery Museum (Museum) incorporated under the laws of the State of California on August 10, 1984, and operates as a non-profit “public” charity. The mission of the Museum is to engage, delight and educate children through exploration of and connection with the local environment and the diverse communities that live here. The Museum operates at East Fort Baker, part of the Golden Gate National Recreation Area, in Northern California.

The Museum is a one-of-a-kind indoor and outdoor children's museum at the foot of the Golden Gate Bridge, serving over 315,000 visitors per year on its 7.5-acre Sausalito campus. The Museum is the only children’s museum in the U. S. to be located in a national park and its exhibits are admired and emulated by other children’s museums nationwide. The Museum is the leading children’s museum dedicated to developing childhood creativity and nurturing future generations of creative thinkers and innovators. With this emphasis on creativity through play, the Museum encourages children ages six months to eight years to develop into curious, creative and adventurous lifelong learners and explorers.

Museum exhibitions include Tot Spot, an indoor/outdoor multi-sensory experience for toddlers; Art Studios with projects for younger and older children; the 2.5-acre outdoor Lookout Cove; the Wave Workshop science lab; Bay Hall, a simulation of the San Francisco and Oakland ports; Discovery Hall, offering three special exhibitions annually; and the 180-seat Discovery Theatre, Presented by Wells Fargo.

In addition to the exhibitions, the Museum offers numerous performance series, including the ethnic dance series World On Stage; cultural festivals including Chinese New Year, Day of the Young Child and Kwanzaa; spring and summer day camps; and drop-in art and science workshops. Over 10,000 schoolchildren visit each year and approximately 30,000 visitors receive discounted or free admission. The Discovery Store offers a wide variety of educational, interactive and fun products. The award-winning birthday parties serve 10,000 visitors each year.

Three fundraising events support the Museum: Goblin Jamboree, a public Halloween festival; Discovery Forum, a luncheon featuring thought-leaders speaking on the topic of creativity; and the Playdate Gala, a live auction and dinner under the Golden Gate Bridge.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 1 – Summary of significant accounting policies (continued)

Basis of accounting

The Museum prepares its financial statements using the accrual basis of accounting. The Museum records support and revenue when pledged and earned and expenses when incurring the related obligation.

Year-end

Effective with the fiscal period ended August 31, 2009, the Museum changed its year-end from June 30 to August 31. Accordingly, presentations and disclosures herein are as of August 31, 2009 and June 30, 2008 and for the 14-month period ended August 31, 2009 and the year ended June 30, 2008.

Fair value

Effective July 1, 2008, the Museum uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs consist of unobservable inputs that reflect internal judgments and have the lowest priority. The Museum uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Museum measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Museum only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.

The Museum values non-cash (in-kind) contributions at fair value when promised. The Museum only revalues debt and marketable equity securities at least as often as it presents financial statements. For contributions valued initially at fair value but not revalued, the Museum treats the initial fair value as cost in subsequent financial statements.

Management of the Museum estimates that the aggregate net fair value of financial instruments recognized herein (including receivable, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature or bear interest at current market rates.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of amounts on hand and on deposit with a commercial bank, all available within 90 days of demand.

Pledges and discounts

Pledges consist of uncollected unconditional promises to give. The Museum initially records pledges at fair value. The Museum bases the initial fair value of pledges on the present value of anticipated cash flows, which is a Level 3 input. The Museum records a discount for the difference between the anticipated cash flows and the present value of the anticipated cash flows. The Museum accretes the discount as contribution support as it collects the pledges. As of August 31, 2009 and June 30, 2008, the discount on pledges receivable was not material to the financial position of the Museum.

Allowance for uncollectible accounts and pledges receivable

The Museum uses the allowance method to account for uncollectible accounts and pledges receivable. Under this method, the Museum reviews all receivables for any problems with collectability. If the Museum feels that there may be a problem with collection, it provides for an allowance. When attempts to collect a specific receivable are unsuccessful, the Museum considers the account uncollectible and writes it off against the allowance. As of August 31, 2009, the Museum concluded that an allowance for doubtful accounts was not necessary.

Inventory

Inventory consists of items held for sale by the store. The Museum reports inventory at cost, using the first in, first out method.

Property and equipment

Property and equipment consist of leasehold improvements, exhibits, computer, office and display equipment, furniture and fixtures. The Museum reports property and equipment at cost or initially at fair value if received as a contribution. The Museum bases the initial fair value of contributed property and equipment on comparable sales of identical or similar items in markets available to the Museum, which is a Level 2 input. The Museum capitalizes only property and equipment purchased or received as a contribution that it intends to use in its operations when the cost or fair value exceeds \$1,000. The Museum estimates depreciation using the straight-line basis over estimated useful lives (or the lesser remaining lease life for leasehold improvements) ranging from three to 34 years.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 1 – Summary of significant accounting policies (continued)

During the year ended June 30, 2008, the Museum reduced the estimated remaining lives of certain leasehold improvements, based on the remaining term of its lease with GGNRA (Note 11), resulting in additional depreciation expense totaling \$1,171,388.

Deferred revenue

Deferred revenue consists of reservation deposits for camps the Museum will hold after the end of its fiscal year and the unamortized portion of annual memberships sold. The Museum amortizes deferred revenue from memberships sold into revenue using the straight-line basis.

Contributions and net assets

The Museum reports contributions when a donor makes an unconditional promise to provide support. Net assets include cumulative unrestricted, temporarily restricted and permanently restricted net assets, net of cumulative expenses. Unrestricted net assets consist of revenue and contributions not restricted to a particular purpose or period by the donor. Temporarily restricted net assets consist of contributions restricted by the donor to a particular purpose or time. Temporarily restricted net assets become unrestricted net assets when the Museum meets the donor purpose or time restrictions. Permanently restricted net assets consist of contributions restricted by the donor into perpetuity. Donors may also temporarily restrict the revenue derived from permanently restricted net assets.

Contributions in-kind

Contributions in-kind consist principally of goods and services sold at auction, legal services and on-line advertising. The Museum reports contributions in-kind initially at fair value. The Museum estimates the fair value of goods and services sold at auction based on retail or other comparable sales or donor estimates. The Museum estimates the fair value of legal services based on the billing rates and estimated time of the donor (purchase cost). The Museum estimates the fair value of on-line advertising based on the billing rates of the donor (purchase cost). Retail and other comparable sales in markets the Museum can access are Level 2 inputs. Retail and other comparable sales in markets the Museum cannot access, purchase costs and donor estimates are Level 3 inputs. The Museum only reports contributions in-kind of services when the services are of a professional or technical nature requiring expertise or education not available to the Museum and the Museum would have paid for the services if donors had not contributed them.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 1 – Summary of significant accounting policies (continued)

Net investment income

Net investment income consists of interest and dividends earned on cash, cash equivalents and investments, realized gains and losses on the sale of investments and unrealized appreciation and depreciation of investments.

Functional expenses

The Museum summarizes the costs of providing its program and supporting activities on a functional basis herein. The Museum charges direct costs to the activity benefitted and allocates indirect costs among activities based on direct labor and space usage.

Income taxes

The Internal Revenue Service (IRS) and State of California Franchise Tax Board approved the Museum as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and from California bank and corporation taxes under Section 23701(d) of the California Revenue and Taxation Code. In addition, the IRS approved the Museum to receive contributions that qualify for the charitable contribution deduction under IRC Section 170(b)(1)(A) and as a publicly supported organization as described in IRC Section 509(a)(1). Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of the Museum believes that no activities of the Museum jeopardized its exemption from income taxes, its classification as a “public charity” or subjected the Museum to taxes on unrelated business income. Consequently, the Museum did not provide for any income taxes herein.

The Museum has elected to defer application of Financial Accounting Standards Board (FASB) Interpretation Number 48 (FIN 48), “Accounting for Uncertainty in Income Taxes – An interpretation of FASB [Accounting Standards Codification (ASC) 740],” in accordance with FASB ASC 740-10-65-1, until September 1, 2009.

The Museum evaluates its uncertain tax positions using the provisions of FASB ASC 450, “Accounting for Contingencies.” Accordingly, the Museum recognizes a loss contingency when it is probable that the Museum has incurred a liability as of the date of the financial statements and the Museum can estimate reasonably the amount of the loss. The amount the Museum recognizes is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax posi-

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 1 – Summary of significant accounting policies (continued)

tion. The amount that taxing authorities ultimately sustain for individual or aggregate uncertain tax positions could differ from the amount recognized herein.

Management of the Museum evaluates all positions taken on income tax returns and does not believe that any current positions would be subject to adjustments herein if the Museum had applied FIN 48.

Use of estimates

The Museum prepares its financial statements in accordance with accounting principles generally accepted in the United States (US-GAAP). The preparation of financial statements in conformity with US-GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimated.

Risks and contingencies

Cash and cash equivalents held by the commercial bank exceeded federal deposit insurance limits at various times during the 14-month period ended August 31, 2009 and the year ended June 30, 2008.

Cash and cash equivalents supporting permanently restricted net assets as of August 31, 2009 and June 30, 2008, totaled \$90,000.

Investments are subject to credit and market risk. Credit and market risks are the risks that losses may occur due to failure of another party to perform (credit risk) and changes in market or economic conditions over time (market risk).

The Museum receives certain support and revenue that may be subject to audit or review by the donors and contractors. Management of the Museum believes that the Museum complied with all aspects of related grant and contract provisions and that disallowed costs, if any, would be immaterial to the financial position of the Museum.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 1 – Summary of significant accounting policies (continued)

Subsequent events

The Museum evaluated subsequent events for recognition and disclosure through December 4, 2009. Management concluded that no material subsequent events have occurred since August 31, 2009 that required recognition or disclosure herein.

Comparative totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US-GAAP. Accordingly, read such information in conjunction with the financial statements of the Museum as of and for the year ended June 30, 2008, from which the Museum derived the summarized information. The Museum reclassified certain prior year amounts to conform to the current period presentation.

Note 2 – Pledges receivable

As of August 31, 2009 and June 30, 2008, pledges receivable totaled as follows:

	<u>2009</u>	<u>2008</u>
The Bernard Osher Foundation	\$ 30,000	\$ –
Compton Foundation, Inc.	5,000	–
The Gamble Foundation	20,000	–
Genentech, Inc.	–	5,000
The Goldman Sachs Group, Inc.	10,000	–
Gordon and Betty Moore Foundation	–	10,000
Institute of Museum and Library Services	40,000	–
Wells Fargo Bank	200,000	–
Youth Museum Exhibit Collaborative	15,000	110,000
Individuals, others and miscellaneous	<u>1,105</u>	<u>32,750</u>
Total pledges receivable	<u>\$321,105</u>	<u>\$157,750</u>

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 3 – Property and equipment

As of August 31, 2009 and 2008, property and equipment totaled as follows:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$17,146,488	\$17,094,882
Exhibits	930,725	871,637
Equipment, furniture and fixtures	<u>32,059</u>	<u>134,214</u>
Property and equipment, at cost	18,109,272	18,100,733
Accumulated depreciation	<u>( 6,817,062)</u>	<u>( 6,183,653)</u>
Property and equipment, net	<u>\$11,292,210</u>	<u>\$11,917,080</u>

Note 4 – Bank credit line

On April 9, 2009, a commercial bank agreed to provide a credit line to the Museum to borrow up to \$125,000. Interest (variable at the Prime Rate plus 2.00%, but not less than 5.00%, with a Prime Rate as of August 31, 2009 of 3.25%) is due monthly and principal is due at maturity on April 15, 2010. All of the personal property of the Museum secures the bank credit line. As of August 31, 2009, the Museum had no outstanding borrowings under the bank credit line. The management of the Museum believes that the Museum complied with all terms of the bank credit line during the period April 9 through December 4, 2009.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 5 – Temporarily restricted net assets

As of and during the 14-month period ended August 31, 2009, temporarily restricted net assets reconciled as follows:

<u>Activity</u>	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
Artist-in-Residence	\$ —	\$ 967	\$ —	\$ 967
Capital improvements and exhibits	685,060	—	555,122	129,938
Connections program	118,481	287,710	161,212	244,979
Development	64,739	232,933	70,626	227,046
Discovery Theatre and special events	—	290,000	90,000	200,000
Marin City Community Garden	9,000	—	—	9,000
Marketing	—	35,000	—	35,000
Science Education	—	60,000	49,623	10,377
Summer Camp	—	150	150	—
Totals	<u>\$877,280</u>	<u>\$906,760</u>	<u>\$926,733</u>	<u>\$857,307</u>

As of and during the year ended June 30, 2008, temporarily restricted net assets reconciled as follows:

<u>Activity</u>	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
Artist-in-Residence	\$ —	\$ 3,637	\$ 3,637	\$ —
Capital improvements and exhibits	541,224	363,377	219,541	685,060
Community and school	41,142	—	41,142	—
Connections	40,255	97,400	19,174	118,481
Development	82,553	48,215	66,029	64,739
Marin City Community Garden	—	9,000	—	9,000
Science Education	55,000	—	55,000	—
Summer Camp	1,075	—	1,075	—
Totals	<u>\$761,249</u>	<u>\$521,629</u>	<u>\$405,598</u>	<u>\$877,280</u>

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 6 – Permanently restricted net assets

Permanently restricted net assets consist of funds from one donor with the income earned on the funds restricted to the Artist-in-Residence program.

Note 7 – Endowments

On July 1, 2008, the Museum adopted Financial Accounting Standards Board (FASB) Staff Position 117-1, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds” (now incorporated in ASC 958-205-45-13/32). On October 1, 2008, the state of California passed Senate Bill 1329, adopting the provisions of the UPMIFA, with certain modifications.

Endowment funds subject to both FASB Staff Position 117-1 and the UPMIFA include all permanently restricted net assets (Note 6). Management of the Museum does not consider any other fund, whether temporarily (term) restricted (Note 5) or board designated (unrestricted) to be subject to FASB Staff Position 117-1.

The Museum has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Under this interpretation, the Museum classifies as permanently restricted net assets the original fair value of gifts to permanently restricted endowment funds, the original fair value of subsequent gifts and accumulations made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation. The remaining portions of donor-restricted endowment funds that the Museum has not classified as permanently restricted net assets, the Museum classifies as temporarily restricted net assets until the Museum appropriates those amounts for expenditure in a manner consistent with the standards of prudence prescribed by the UPMIFA. In accordance with the 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 endowment funds.
2. The purposes of the Museum and the endowment funds.
3. General economic conditions.
4. The possible effect of inflation or deflation.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 7 – Endowments (continued)

5. The expected total return from income and the appreciation of investments.
6. Other resources of the Museum.
7. The investment policy of the Museum.
8. The limitation under California state law of appropriations to seven percent of the fair value of the endowment funds.

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 funds while seeking to maintain the purchasing power of the endowment assets. Under these policies, the Museum invests the endowment assets in a manner intended to provide reasonable and stable returns to supplement the operating budget, provide liquidity for the operation of the Museum, support the long-term viability of the Museum by providing back-up reserves and assure donors that the Museum manages these funds prudently.

The main investment objectives of the Museum are to preserve capital, have an adequately balanced portfolio and distribute income. Working capital needs contain cash and cash equivalents. To satisfy its long-term rate of return objectives, the Museum relies on a total return strategy in which endowment assets achieve investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation including cash and cash equivalents maturing in less than one year, fixed income investments and equities.

In addition, in accordance with UPMIFA, the Museum considers the following factors when investing endowment funds:

1. General economic conditions.
2. The possible effect of inflation or deflation.
3. The expected tax consequences, if any, of investment decisions or strategies.
4. The role that each investment or course of action plays within the overall investment portfolio of the endowment funds.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Museum.
7. The needs of the Museum and the endowment funds to make distributions and to preserve capital.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2009

Note 7 – Endowments (continued)

8. The special relationship or value of an endowment asset, if any, to the charitable purposes of the Museum.

As of August 31, 2009, endowment funds totaled as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Donor restricted	<u>\$967</u>	<u>\$90,000</u>	<u>\$90,967</u>

During the 14-month period ended August 31, 2009, endowment funds reconciled as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Beginning of year	\$ –	\$90,000	\$90,000
Contributions	–	–	–
Dividends and interest	967	–	967
Unrealized appreciation (depreciation)	–	–	–
Appropriations for expenditure	–	–	–
Board designations (undesignations)	<u>–</u>	<u>–</u>	<u>–</u>
End of year	<u>\$967</u>	<u>\$90,000</u>	<u>\$90,967</u>

As of August 31, 2009, the fair value of investment assets related to donor restricted endowment funds was not less than the amount required to be permanently restricted by the donor or in accordance with UPMIFA, absent donor restrictions.

Note 8 – In-kind contributions

In-kind contributions received during the 14-month period ended August 31, 2009 include goods and services with an estimated fair value of \$220,927 and sold at auction for \$135,090, legal services with an estimated fair value of \$32,700 and on-line advertising with an estimated fair value of \$62,486. Such in-kind contributions benefited special events (Note 9) and management and general activities.

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Note 8 – In-kind contributions (continued)

In-kind contributions received during the year ended June 30, 2008 include goods and services with an estimated fair value of \$190,610 and sold at auction for \$152,935 and legal services with an estimated fair value of \$17,800. Such in-kind contributions benefitted special events (Note 9) and management and general activities, respectively.

Note 9 – Special events

Special event contributions, revenue and direct costs during the 14-month period ended August 31, 2009, totaled as follows:

<u>Event</u>	<u>Contributions and revenue</u>	<u>Direct costs</u>	<u>Net</u>
Discovery Forum	\$ 215,214	\$ 81,293	\$133,921
Gala	670,125	428,070	242,055
Goblin Jamboree	<u>138,207</u>	<u>50,905</u>	<u>87,302</u>
Totals	<u>\$1,023,546</u>	<u>\$560,268</u>	<u>\$463,278</u>

Gala contributions and revenue include in-kind contributions of goods and services sold at auction totaling \$220,927, proceeds from auction of in-kind contributions of goods and services totaling \$135,090 and contributions restricted to the Connections program totaling \$38,650. Gala direct costs include the cost of in-kind contributions of goods and services sold at auction totaling \$220,927.

Special event contributions, revenue and direct costs during the year ended June 30, 2008, totaled as follows:

<u>Event</u>	<u>Contributions and revenue</u>	<u>Direct costs</u>	<u>Net</u>
Discovery Forum	\$ 196,622	\$ 55,511	\$141,111
Gala	741,320	383,905	357,415
Goblin Jamboree	<u>165,428</u>	<u>40,323</u>	<u>125,105</u>
Totals	<u>\$1,103,370</u>	<u>\$479,739</u>	<u>\$623,631</u>

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Note 9 – Special events (continued)

Gala contributions and revenue include in-kind contributions of goods and services sold at auction totaling \$190,610, proceeds from auction of in-kind contributions of goods and services totaling \$152,935 and contributions restricted to the Connections program totaling \$47,400. Gala direct costs include the cost of in-kind contributions of goods and services sold at auction totaling \$190,610.

Note 10 – Store sales

During the 14-month period ended August 31, 2009, net sales and cost of goods sold of the store totaled \$476,076 and \$221,054, respectively. In addition, operating costs of the store, included in program expenses, totaled \$158,621.

During the year ended June 30, 2008, net sales and cost of goods sold of the store totaled \$456,085 and \$226,662, respectively. In addition, operating costs of the store, included in program expenses, totaled \$121,827.

Note 11 – Café sales

Under a Food Service Provider Agreement (FSPA) informally extended through February 27, 2010, a contractor operates the Café during regular Museum operating days and hours. Under the FSPA, the contractor remits to the Museum a variable percentage of the gross sales of the Café monthly. During the 14-month period ended August 31, 2009 and the year ended June 30, 2008, remittances of the variable percentage of the gross sales, net of immaterial operating expenses incurred by the Museum, totaled \$37,978 and \$31,714, respectively.

Note 12 – Retirement plan

The Museum allows its employees to defer a portion of their salary into a defined contribution plan under section 403(b) of the IRC. The Museum is not required to pay and did not pay contributions to the Plan during the 14-month period ended August 31, 2009 and year ended June 30, 2008.

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Note 13 – Commitments

Effective April 22, 2002, the Museum entered into a Cooperative Agreement (CA) with the United States of America, Department of the Interior, National Park Service, Golden Gate National Recreation Area (GGNRA), replacing a Cooperative Agreement that ran from May 14, 1990 through April 21, 2002.

Under the CA, the Museum may use certain land, buildings and improvements comprising a portion of the GGNRA known as East Fort Baker through April 21, 2027, to operate its programs. The Museum may apply annually, beginning five years before the expiration of the CA, for up to five five-year extensions of the CA, which the GGNRA may grant at its discretion. The GGNRA may terminate the CA after the initial term or earlier under certain circumstances. The Museum may terminate the CA before its expiration by giving at least one year of notice to the GGNRA.

In lieu of rent or lease payments, the CA allows the GGNRA to charge the Museum for its share of certain operating costs of the GGNRA. Such District Service fees are due quarterly in advance. During the 14-month period ended August 31, 2009 and year ended June 30, 2008, such District Service fees totaled \$135,875 and \$116,464, respectively.

Finally, the CA requires the Museum to submit certain reports and plans annually, obtain approval for subcontracts and program pricing and comply with various National Park laws, rules and regulations. Management of the Museum believes it complied with all the requirements of the CA.

The Museum is a member of the Youth Museum Exhibit Collaborative (YMEC), which is a group of children's museums that create and share exhibits among its members. Under the current five-year agreement that runs through December 31, 2010, the Museum pays the YMEC annual dues totaling \$33,000, plus certain operating expenses. The YMEC pledged contributions totaling \$120,000 to the Museum to build an exhibit for use by members of the YMEC. The Museum is currently in the design phase of an exhibit tentatively titled the "Shipwreck of the Stella Maris." Cumulative capitalized expenditures as of August 31, 2009 and June 30, 2008, total \$95,621 and \$5,707, respectively.

On July 2, 2009, the Museum signed another five-year agreement with YMEC that will run through December 31, 2015. YMEC estimates that annual dues will be \$36,000. Beginning November 12, 2009, YMEC agreed to provide the Museum with

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Note 13 – Commitments (continued)

options allowing it to modify or cancel its agreements with YMEC with the payment of certain fees. Through December 4, 2009, the Museum has not exercised any of the options.

On April 16, 2007, and as modified on July 17, 2009, the Museum entered into an agreement for an exhibition the Museum will display from October 31, 2009 through May 9, 2010, at a cost of \$65,500. The Museum has paid \$36,250 through August 31, 2009, with three installments of \$9,750 due through March 15, 2010.