

**Bay Area  
Discovery  
Museum**



**Bay Area Discovery Museum**

Financial Statements

Year ended August 31, 2010

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, 2010, and the related statements of activities, functional expenses and cash flows for the year 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 period summarized comparative information from its August 31, 2009 financial statements and, in our report dated December 4, 2009; 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, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

*Wilson Markle Stuckey Hardesty & Bott*

Wilson Markle Stuckey Hardesty & Bott  
December 16, 2010

**Bay Area Discovery Museum**  
Statement of Financial Position  
August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,459,558	\$ 1,426,997
Investments	9,999	-
Pledges receivable	87,086	321,105
Accounts receivable	16,833	15,844
Inventory	34,785	53,794
Prepaid expenses	85,000	119,067
Property and equipment, net	<u>10,591,015</u>	<u>11,292,210</u>
 Total assets	 <u><u>\$12,284,276</u></u>	 <u><u>\$13,229,017</u></u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 177,337	\$ 193,978
Deferred revenue	<u>347,631</u>	<u>386,592</u>
 Total liabilities	 524,968	 580,570
 <b>Net assets</b>		
Unrestricted	11,032,070	11,701,140
Temporarily restricted	637,238	857,307
Permanently restricted	<u>90,000</u>	<u>90,000</u>
 Total net assets	 <u>11,759,308</u>	 <u>12,648,447</u>
 Total liabilities and net assets	 <u><u>\$12,284,276</u></u>	 <u><u>\$13,229,017</u></u>

See accompanying notes.

**Bay Area Discovery Museum**

Statement of Activities and Changes in Net Assets

Year ended August 31, 2010 with comparative totals for the 14-month period ended August 31, 2009

	Unrestricted	Restricted		2010 Totals	2009 Totals only
		Temporarily	Permanently		
Support and revenue					
Contributions	\$ 587,866	\$538,121	\$ –	\$ 1,125,987	\$ 1,387,270
In-kind	93,785	–	–	93,785	130,186
Special events, net	470,651	–	–	470,651	463,278
Membership dues	777,804	–	–	777,804	915,254
Admission fees	536,845	–	–	536,845	682,216
Program fees	438,320	–	–	438,320	618,978
Facility rentals	25,840	–	–	25,840	32,855
Store sales, net	170,564	–	–	170,564	255,022
Café sales, net	11,115	–	–	11,115	37,978
Investment income, net	3,100	433	–	3,533	10,782
Net assets released from restrictions					
Satisfaction of usage restrictions	758,623	( 758,623)	–	–	–
<b>Total revenues and support</b>	<b>3,874,513</b>	<b>( 220,069)</b>	<b>–</b>	<b>3,654,444</b>	<b>4,533,819</b>
Expenses					
Program services	2,490,875	–	–	2,490,875	2,793,986
Supporting services					
Management and general	1,124,938	–	–	1,124,938	937,913
Fundraising	891,896	–	–	891,896	951,468
Membership	35,874	–	–	35,874	49,148
<b>Total expenses</b>	<b>4,543,583</b>	<b>–</b>	<b>–</b>	<b>4,543,583</b>	<b>4,732,515</b>
Change in net assets	( 669,070)	( 220,069)	–	( 889,139)	( 198,696)
Net assets, beginning of year	11,701,140	857,307	90,000	12,648,447	12,847,143
Net assets, end of year	<u>\$11,032,070</u>	<u>\$637,238</u>	<u>\$90,000</u>	<u>\$11,759,308</u>	<u>\$12,648,447</u>

See accompanying notes.

**Bay Area Discovery Museum**  
Statement of Functional Expenses  
Year ended August 31, 2010 with comparative totals for the 14-month period ended August 31, 2009

Expenses	Program services	Supporting services			Allocated indirect	2010 Totals	2009 Totals only
		Management and general	Fundraising	Membership			
Salaries	\$ 848,769	\$ 351,953	\$369,088	\$ –	\$ 436,109	\$2,005,919	\$2,241,802
Benefits and payroll taxes	137,128	45,496	54,596	–	63,766	300,986	350,497
Bank fees	52,627	2,838	9,635	6,430	1,526	73,056	80,651
Changing exhibits	72,130	–	–	–	–	72,130	9,476
Conferences and meetings	–	6,024	–	–	–	6,024	5,866
Equipment rental and maintenance	–	2,584	–	–	80,615	83,199	74,287
Insurance	–	32,154	–	–	12,187	44,341	40,898
Maintenance and repairs	7,374	–	–	–	101,309	108,683	142,589
Marketing and advertising	31,205	375	617	7,652	151,405	191,254	158,009
Postage and shipping	–	1,336	227	10,164	15,145	26,872	16,394
Printing and publications	3,778	3,036	4,410	11,628	30,108	52,960	62,596
Professional fees	127,874	34,250	–	–	72,858	234,982	340,805
Supplies	59,178	14,922	15	–	2,117	76,232	82,285
Technology and telephone	–	–	–	–	51,708	51,708	22,781
Training	916	–	205	–	85	1,206	4,896
Travel	77,733	5,033	397	–	174	83,337	49,829
Utilities	–	–	–	–	192,278	192,278	197,870
Youth Museum Exhibit Collaborative	33,019	120,000	–	–	–	153,019	38,500
Depreciation	–	–	–	–	703,235	703,235	810,545
Miscellaneous	3,084	75,322	2,174	–	1,582	82,162	1,939
Allocated indirect	1,036,060	429,615	450,532	–	( 1,916,207)	–	–
<b>Total expenses</b>	<b>\$2,490,875</b>	<b>\$1,124,938</b>	<b>\$891,896</b>	<b>\$35,874</b>	<b>\$ –</b>	<b>\$4,543,583</b>	<b>\$4,732,515</b>

See accompanying notes.

**Bay Area Discovery Museum**

Statement of Cash Flows

Year ended August 31, 2010 and 14-month period ended August 31, 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	(\$ 889,139)	(\$ 198,696)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	703,235	810,545
(Gain) loss from sale, holding and disposal of		
Property and equipment	70,161	-
Investments	( 111)	( 301)
Contributions of investments	( 88,273)	( 114,934)
Receivable write-off (discount amortization)	16,105	-
Changes in current assets and liabilities		
Accounts receivable	( 989)	( 10,336)
Pledges receivable	217,914	( 163,355)
Inventory	19,009	( 2,721)
Prepaid expenses	34,067	( 64,504)
Accounts payable and accrued expenses	( 16,641)	32,487
Deferred revenues	( 38,961)	( 173,419)
Net cash provided (used) by operating activities	26,377	114,766
Cash flows from financing activities		
Proceeds from sale of investments	78,385	120,143
Purchase of property and equipment	( 72,201)	( 185,675)
Net cash provided (used) by investing activities	6,184	( 65,532)
Net change in cash and cash equivalents	32,561	49,234
Cash and cash equivalents, beginning of year	1,426,997	1,377,763
Cash and cash equivalents, end of year	\$1,459,558	\$1,426,997

See accompanying notes.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

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 265,000 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, 2010

Note 1 – Summary of significant accounting policies (continued)

Basis of accounting

The Museum prepares its financial statements using accounting principles generally accepted in the United States (US-GAAP). The Museum records support and revenue when pledged and earned and expenses when incurring the related obligation.

Fair value

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 all 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 (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.

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, using a discount rate that takes into account the timing and risk of ultimate collection, which is a Level 3 input. The Museum records a discount for the difference between the anticipated cash flows and

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

Note 1 – Summary of significant accounting policies (continued)

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, 2010 and 2009, management of the Museum concluded that any 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 pledges and accounts 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, 2010 and 2009, management of the Museum concluded that any allowance for doubtful accounts was not material to the financial position of the Museum.

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 two to 34 years.

Deferred revenue

Deferred revenue consists of reservation deposits for camps held after the end of the 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.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

Note 1 – Summary of significant accounting policies (continued)

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 period. Temporarily restricted net assets become unrestricted net assets when the Museum meets the donor purpose or period 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.

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 held.

Functional expenses

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

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

Note 1 – Summary of significant accounting policies (continued)

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 concluded 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.

Effective September 1, 2009, the Museum adopted the provisions 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].”

Those provisions require management of the Museum to consider certain tax positions taken by the Museum. A tax position is a position taken in a previously filed tax return or a position management of the Museum expects to take in a future tax return that figures in measuring current or deferred income tax assets and liabilities for interim or annual periods. A tax position can result in a permanent reduction in income taxes payable, a deferral of income taxes otherwise currently payable to future years or a change in the expected realizability of deferred tax assets. A tax position also encompasses, but is not limited to:

1. A decision not to file a tax return
2. An allocation or a shift of income between jurisdictions
3. The characterization of income or a decision to exclude reporting taxable income in a return
4. A decision to classify a transaction, entity or other position in a tax return as tax exempt
5. The status of an entity, including its status as a pass-through or tax-exempt entity.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

Note 1 – Summary of significant accounting policies (continued)

Evaluating a tax position requires management of the Museum to determine, for each tax position, whether it is more likely than not that, upon examination by taxing authorities, such authorities will uphold the tax position and, for each more-likely-than-not tax position, determine the highest benefit with a more than 50% likelihood of realization upon ultimate settlement. Accordingly, it is possible that tax positions taken on tax returns and related amounts recognized herein could vary.

The Museum files tax returns with the IRS and California. The Museum recognizes interest and penalties related to income taxes and tax positions with interest and income tax expense, respectively. As of and for the year ended August 31, 2010, management of the Museum concluded that interest and penalties related to income taxes and tax positions were not material to the financial position of the Museum. As of August 31, 2010, management of the Museum concluded that there are no tax positions of the Museum where it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the year ending August 31, 2011. As of August 31, 2010, open tax periods subject to future examination by taxing authorities cover periods from July 1, 2006 through August 31, 2010.

Management of the Museum concluded that differences between income taxes the Museum measures using the current “tax position” method and the methods the Museum used previously not to be material to the financial position of the Museum, except for the additional disclosures.

Use of estimates

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 year ended August 31, 2010 and 14-month period ended August 31, 2009.

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).

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents supporting permanently restricted net assets as of August 31, 2010 and 2009, totaled \$90,000 and \$90,000, respectively.

The Museum receives certain support and revenue that may be subject to audit or review by the donors and contractors. Management of the Museum concluded 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.

Subsequent events

The Museum evaluated subsequent events for recognition and disclosure through December 16, 2010. Management concluded that no subsequent events have occurred since August 31, 2010 that required recognition or disclosure.

Comparative totals

The financial statements include certain prior period 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 14-month period ended August 31, 2009, from which the Museum derived the summarized information. The Museum reclassified certain prior period amounts to conform to the current year presentation.

Note 2 – Pledges receivable

As of August 31, 2010 and 2009, pledges receivable totaled as follows:

	<u>2010</u>	<u>2009</u>
The Bernard Osher Foundation	\$ —	\$ 30,000
Compton Foundation, Inc.	—	5,000
The Gamble Foundation	—	20,000
The Goldman Sachs Group, Inc.	—	10,000
Institute of Museum and Library Services	—	40,000
Marin Community Foundation	20,833	—
Wells Fargo Bank	50,000	200,000
Youth Museum Exhibit Collaborative	—	15,000

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

Note 2 – Pledges receivable (continued)

Individuals, others and miscellaneous	<u>16,253</u>	<u>1,105</u>
Total pledges receivable	<u>\$87,086</u>	<u>\$321,105</u>

During the year ended August 31, 2010 and 14-month period ended August 31, 2009, the Museum wrote-off pledges receivable totaling \$16,105 and \$-0-, respectively.

Note 3 – Property and equipment

As of August 31, 2010 and 2009, property and equipment totaled as follows:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$17,169,831	\$17,146,488
Exhibits	882,964	930,725
Equipment, furniture and fixtures	<u>27,999</u>	<u>32,059</u>
Property and equipment, at cost	18,080,794	18,109,272
Accumulated depreciation	<u>( 7,489,779)</u>	<u>( 6,817,062)</u>
Property and equipment, net	<u>\$10,591,015</u>	<u>\$11,292,210</u>

During the year ended August 31, 2010 and 14-month period ended August 31, 2009, the Museum wrote-off property and equipment with net book values totaling \$70,161 and \$-0-, respectively.

Note 4 – Credit line

A commercial bank provides a \$200,000 credit line to the Museum. Interest (variable at the higher of the Prime Rate plus 2.00% or 5.00%, with a 3.25% Prime Rate as of August 31, 2010) is due monthly and principal is due at maturity on April 15, 2011. Receivables, inventory and equipment of the Museum secure the credit line. As of August 31, 2010, the Museum had no outstanding borrowings under the credit line. The management of the Museum believes that the Museum complied with all terms of the credit line during the period July 1, 2008 through December 16, 2010.

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

Note 5 – Temporarily restricted net assets

As of and during the year ended August 31, 2010, 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	\$ 433	\$ –	\$ 1,400
Capital improvements and exhibits	129,938	–	129,938	–
Connections program	214,979	255,550	244,254	226,225
Development	227,046	204,280	136,371	294,955
Discovery Theatre and special events	200,000	–	150,000	50,000
Free admissions	30,000	–	30,000	–
Marin City Community Garden	9,000	–	–	9,000
Marketing	35,000	65,000	52,891	47,109
Outdoor Environments for Early Learning	–	12,500	12,500	–
Science Education	<u>10,377</u>	<u>841</u>	<u>2,669</u>	<u>8,549</u>
Totals	<u>\$857,307</u>	<u>\$538,554</u>	<u>\$758,623</u>	<u>\$637,238</u>

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	257,710	161,212	214,979
Development	64,739	232,933	70,626	227,046
Discovery Theatre and special events	–	290,000	90,000	200,000
Free admissions	–	30,000	–	30,000
Marin City Community Garden	9,000	–	–	9,000
Marketing	–	35,000	–	35,000
Science Education	<u>–</u>	<u>60,150</u>	<u>49,773</u>	<u>10,377</u>
Totals	<u>\$877,280</u>	<u>\$906,760</u>	<u>\$926,733</u>	<u>\$857,307</u>

**Bay Area Discovery Museum**  
Notes to Financial Statements  
August 31, 2010

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

Endowment funds of the Museum are subject to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205-45-13/32, "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." Endowment funds of the Museum may be subject to the California version of UPMIFA (CA-UPMIFA).

Endowment funds subject to both FASB ASC 958-205-45-13/32 and the CA-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 ASC 958-205-45-13/32 or the CA-UPMIFA.

The Museum has interpreted the CA-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 CA-UPMIFA. In accordance with the CA-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

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Notes to Financial Statements  
August 31, 2010

Note 7 – Endowments (continued)

4. The possible effect of inflation or deflation
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.

As of August 31, 2010, endowment funds totaled as follows:

	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Totals</u>
Donor restricted	<u>\$1,400</u>	<u>\$90,000</u>	<u>\$91,400</u>

During the year ended August 31, 2010, endowment funds reconciled as follows:

	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Totals</u>
Beginning of year	\$ 967	\$90,000	\$90,967
Contributions	—	—	—

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Note 7 – Endowments (continued)

Dividends and interest	433	–	433
Unrealized appreciation (depreciation)	–	–	–
Appropriations for expenditure	–	–	–
Board designations (undesignations)	<u>–</u>	<u>–</u>	<u>–</u>
End of year	<u>\$1,400</u>	<u>\$90,000</u>	<u>\$91,400</u>

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

	<u>Temporarily</u> <u>restricted</u>	<u>Permanently</u> <u>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</u> <u>restricted</u>	<u>Permanently</u> <u>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>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CA-UPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with US-GAAP, the Museum reports deficiencies of this nature in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that the Board of Directors deemed prudent. As of August 31, 2010 and 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 CA-UPMIFA, absent donor restrictions.

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Note 8 – In-kind contributions

In-kind contributions received during the year ended August 31, 2010 include goods and services with an estimated fair value of \$189,596 and sold at auction for \$169,360, legal services with an estimated fair value of \$2,600 and on-line advertising with an estimated fair value of \$91,185. Such in-kind contributions benefitted special events (Note 9) and management and general activities.

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 benefitted special events (Note 9) and management and general activities.

Note 9 – Special events

Special event contributions, revenue and direct costs during the year ended August 31, 2010, totaled as follows:

<u>Event</u>	<u>Contributions and revenue</u>	<u>Direct costs</u>	<u>Net</u>
Discovery Forum	\$226,531	\$ 76,238	\$150,293
Gala	621,556	378,901	242,655
Goblin Jamboree	<u>115,043</u>	<u>37,340</u>	<u>77,703</u>
Totals	<u>\$963,130</u>	<u>\$492,479</u>	<u>\$470,651</u>

Gala contributions and revenue include in-kind contributions of goods and services sold at auction totaling \$189,596 and proceeds from auction of in-kind contributions of goods and services totaling \$169,360. Gala direct costs include the cost of in-kind contributions of goods and services sold at auction totaling \$189,596.

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

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Note 9 – Special events (continued)

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.

Note 10 – Store sales

During the year ended August 31, 2010, net sales and cost of goods sold of the store totaled \$325,177 and \$154,613, respectively. In addition, operating costs of the store, included in program expenses, totaled \$128,514.

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.

Note 11 – Café sales

Under an old Food Service Provider Agreement (FSPA) that terminated February 27, 2010, an old contractor operated the Café during regular Museum operating days and hours. Under the FSPA, the old contractor remitted to the Museum a variable percentage of the gross sales of the Café monthly. During the six-month period ended February 27, 2010 and the 14-month period ended August 31, 2009, remittances of the variable percentage of the gross sales, net of immaterial operating expenses incurred by the Museum, totaled \$11,115 and \$37,978, respectively.

A new contractor began Café operations effective July 1, 2010, under a new FSPA that runs through June 30, 2013. Under the new FSPA, the new contractor will remit to the Museum a variable percentage of the gross sales of the Café monthly,

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Note 11 – Café sales (continued)

beginning October 1, 2010, with a minimum monthly contribution of \$3,000. The Museum and new contractor may mutually extend the new FSPA for two two-year periods.

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 year ended August 31, 2010 or the 14-month period ended August 31, 2009.

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 year ended August 31, 2010 and the 14-month period ended August 31, 2009, such District Service fees totaled \$111,761 and \$135,875, 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

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Note 13 – Commitments (continued)

National Park laws, rules and regulations. Management of the Museum concluded it complied with all the requirements of the CA.

On April 9, 2007, the Museum entered into an agreement for an exhibition the Museum will display from June 17 through September 24, 2011, at a cost of \$45,000. The Museum has paid \$6,750 through August 31, 2010, with two installments of \$19,125 each due through June 12, 2011.

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. During the 14-month period ended August 31, 2009 and year ended June 30, 2008, the Museum capitalized expenditures for the design phase of an exhibit tentatively titled the "Shipwreck of the Stella Maris," totaling \$95,621. On March 26, 2010, under an agreement with the YMEC, the Museum terminated construction of the exhibit. Accordingly, the Museum returned \$105,000 received from the YMEC under their pledge and wrote-off the capitalized expenditures. In addition, the Museum will not build an exhibit during the next round that will end December 31, 2015 (below).

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.