

CHAPEL HILL – CARRBORO CHILDREN’S MUSEUM

AUDITED
FINANCIAL STATEMENTS

December 31, 2015

Chapel Hill - Carrboro Children's Museum

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Mark S. Danes, CPA, PLLC

Certified Public Accountant and Consultant

Independent Accountant's Report

Board of Directors
Chapel Hill - Carrboro Children's Museum
Chapel Hill, North Carolina

We have audited the accompanying financial statements of Chapel Hill - Carrboro Children's Museum (the Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and the related statements of activities 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 of 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 Organization'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 Organization'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 the Organization as of December 31, 2015, 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.

Correction of Error

As described in Note 10 to the financial statements, net assets at December 31, 2014 have been restated by \$139,122 to reduce promises to give, tenant improvements, and prepaid expenses. Our opinion is not modified with respect to that matter.

Mark S. Danes, CPA, PLLC

November 8, 2016

Chapel Hill - Carrboro Children's Museum
Statement of Financial Position
December 31, 2015

Assets	
Cash and cash equivalents	\$ 397,870
Accounts receivable	1,712
Promises to give	56,992
Other assets	500
Contributed use of facilities, net	256,234
Property and equipment, net	<u>148,232</u>
Total assets	<u><u>\$ 861,540</u></u>
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 13,668
Accrued payroll and withholdings	9,068
Deferred revenue	<u>59,938</u>
Total liabilities	<u>82,674</u>
Net Assets	
Unrestricted	2,088
Temporarily restricted	<u>776,778</u>
Total net assets	<u><u>778,866</u></u>
Total liabilities and net assets	<u><u>\$ 861,540</u></u>

See accompanying notes to financial statements.

Chapel Hill - Carrboro Children's Museum
Statement of Activities
For the Year Ended December 31, 2015

Unrestricted Net Assets	
Support and Revenue	
Grants and contributions	\$ 317,478
Membership dues	44,037
Non-member admissions	122,970
Other program revenue	34,665
Special events revenue	50,165
Cost of direct benefits to donors at special events	(17,463)
Net assets released from restrictions	<u>214,656</u>
Total unrestricted support, revenue and reclassifications	<u>766,508</u>
Expenses	
Program services	651,255
Management and general	164,397
Fundraising	<u>98,472</u>
Total expenses	<u>914,124</u>
Change in unrestricted net assets	<u>(147,616)</u>
Temporarily Restricted Net Assets	
Contributions	566,934
Net assets released from restrictions	<u>(214,656)</u>
Change in temporarily restricted net assets	<u>352,278</u>
Change in net assets	204,662
Beginning net assets (as restated)	<u>574,204</u>
Ending net assets	<u>\$ 778,866</u>

See accompanying notes to financial statements.

Chapel Hill - Carrboro Children's Museum
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash Flows From Operating Activities	
Change in net assets	\$ 204,662
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	29,607
Donated property and equipment	(43,160)
Changes in assets and liabilities:	
Promises to give	1,134
Accounts receivable	(1,712)
Contributed use of facilities, net	(256,234)
Accounts payable	(24,814)
Accrued payroll and withholdings	3,655
Deferred revenue	59,938
Net cash provided by (used in) operating activities	<u>(26,924)</u>
Cash Flows From Investing Activities	
Purchase of property and equipment	<u>(82,489)</u>
Net cash provided by (used in) investing activities	<u>(82,489)</u>
Net increase (decrease) in cash and cash equivalents	(109,413)
Cash and cash equivalents at beginning of year	<u>507,283</u>
Cash and cash equivalents at end of year	<u>\$ 397,870</u>
Supplemental Disclosures	
Cash paid for interest	<u>\$ -</u>
Cash paid for taxes	<u>\$ -</u>

See accompanying notes to financial statements.

Chapel Hill - Carrboro Children's Museum
Notes to Financial Statements
December 31, 2015

Note 1 - Nature of Activities

Chapel Hill - Carrboro Children's Museum (the Organization) (dba Kidzu Children's Museum) was founded on July 20, 2004 for educational purposes related to fostering the joy of learning of young children in a hands-on environment. It accomplishes these goals primarily through hands-on experience that allows the children to explore, experiment, and learn about themselves and the world in a non-threatening, stimulating, creative and safe environment.

The Organization derives its support and revenue primarily from private foundation grants, contributions from the public, and program revenue. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified as an organization that is not a private foundation under section 509(a)(2).

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Statement of Cash Flows

For the purposes of the statement of cash flows, highly liquid investments with original maturities of three months or less are considered cash equivalents.

Receivables, Promises to Give and Revenue Recognition

Revenue from grants that are deemed to be exchange transactions are recognized at the time the reimbursable expenses are incurred. Contributions are recognized when the donor makes a promise to give the Organization that is, in substance, unconditional.

Receivables and promises to give are stated at the amounts management expects to collect from balances outstanding at year end. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Chapel Hill - Carrboro Children's Museum
Notes to Financial Statements
December 31, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Receivables, Promises to Give and Revenue Recognition (Continued)

The Organization uses the allowance method to determine uncollectible receivables and promises to give. The allowance is based on prior years' experience and management's analysis of specific amounts outstanding at year end. For the year presented, no allowance was considered necessary.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$500 or more and an estimated useful life of more than one year. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded as revenue at their estimated fair value as of the date of the contribution. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed over the straight-line method over the estimated useful lives of the assets, which range from five to seven years.

Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments are capitalized and depreciated over their useful lives. Upon disposition of property and equipment, the related asset and accumulated depreciation accounts are removed and any gain or loss is reflected in the statement of activities for the period.

Compensated Absences

Compensated absences have not been accrued because the amounts cannot be reasonably estimated.

Uncertain Tax Positions

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. It should be noted that the prior three tax returns remain subject to examination by major tax jurisdictions.

Functional Allocation of Expenses

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

Advertising

The Organization generally expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense totaled \$7,883 for the year ended December 31, 2015.

Chapel Hill - Carrboro Children's Museum
Notes to Financial Statements
December 31, 2015

Note 3 - Promises to Give

Only \$10,000 of the promises to give are expected to be collected within one year of the statement of financial position date, with the remaining \$46,992 to be collected in 2017. It is not considered necessary to discount these items for the time value of money since the resulting discount is not considered material to the financial statements taken as a whole.

Note 4 - Contributed Use of Facilities

In February 2015, the Organization entered into a building lease of an approximately 8,400 square feet facility to fulfill its mission. The term of the lease is for three years, with annual expenses of 4% of the Organization's "gross sales (exclusive of sponsorships and donations)" for the first two years and \$5,001 per month for the third year.

The difference between the estimated fair value of the use of facilities at the date of start of the lease and the estimated amount of the lease payments was recognized as a contribution of \$374,174 in 2015. On March 1, 2015, the Organization began recognizing the related amortization expense over the expected time period of utilization and benefit at a variable rate per month. Accumulated amortization at December 31, 2015 was \$117,940. The asset "Contributed use of facilities, net" will expire to the extent amortization expense is recognized through the end of February 2018.

It is not considered necessary to discount this estimated contribution in 2015 for the time value of money due to fact that most of the contribution occurs in the first two years of the arrangement and therefore, the resulting discount is not material to the financial statements taken as a whole.

Note 5 - Property and Equipment

Property and equipment consists of the following as of December 31, 2015:

Exhibits	\$ 259,651
Furniture and equipment	10,081
Computer equipment	4,343
Total property and equipment	<u>274,075</u>
Less accumulated depreciation	<u>(125,843)</u>
	<u>\$ 148,232</u>

Depreciation expense totaled \$29,607 for the year ended December 31, 2015.

Note 6 - Concentrations

The Organization's accounts at various financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and may at times exceed the federally insured limits. At December 31, 2015, cash deposits totaling \$29,782 were not covered by the FDIC. The Organization has never experienced any losses in such accounts.

The Organization received 56% of its revenue from two grantors in 2015. A significant reduction in this level of support, if it were to occur, could have a major impact on the Organization's programs and activities.

Chapel Hill - Carrboro Children's Museum
Notes to Financial Statements
December 31, 2015

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 consist of the following:

Oak Foundation / challenge grant	\$ 459,844
Contributed use of facilities, net	256,234
The Grable Foundation / maker education initiative	50,700
Burt's Bees Greater Good Foundation / pollinating imagination	10,000
	<u>\$ 776,778</u>

Note 8 - Donated Services

Management estimates that it received approximately 2,200 hours of volunteer time for the year ended December 31, 2015. No amounts have been reflected in these financial statements for such services because there is no objective basis upon which to measure their value.

Note 9 - Conditional Promise to Give

Conditional promises to give to the Organization consist of up to \$500,000 from one donor. It is contingent upon future activities of the Organization. No amount has been reflected in the accompanying financial statements for this conditional promise.

Note 10 - Restatement of Beginning Net Assets

Certain errors resulting in an overstatement of previously reported net assets were discovered during the current year. Accordingly, an adjustment of \$139,122 was made to write down unrestricted net assets as of the beginning of the year; temporarily restricted net assets were not impacted by this restatement.

Corresponding entries were made to reduce the beginning balances of promises to give (by \$18,734), property and equipment (by \$27,203) and prepaid expenses (by \$93,185). The effect of the restatement on the change in net assets for 2014 is not readily determinable.

Note 11 - Subsequent Events

In accordance with U.S. GAAP, the Organization has evaluated all events subsequent to the statement of financial position date of December 31, 2015 through November 8, 2016, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.