



CHILDREN'S CREATIVITY MUSEUM

Financial Statements

June 30, 2012 and 2011

With Independent Auditors' Report

CHILDREN'S CREATIVITY MUSEUM

(A California Not-For-Profit Corporation)

June 30, 2012

The Children's Creativity Museum (CCM) is a hands-on, interactive arts and technology experience for kids. Our mission is to nurture the 3Cs of 21st-century skills - Creativity, Collaboration and Communication - in all youth and families. We believe that the success of the next generation will hinge not only on what they know, but also on their ability to think and act creatively as global citizens.

Since our founding in 1998, CCM has grown to serve annually more than 150,000 youth, ages 3 to 18, and their families through our general admissions experience, Children's Creativity Carousel, and various public and educational programs. Additionally, about 6,000 K-12 students in our field trip program learn basic creative and technical skills through the completion of collaborative projects like clay animations, music videos, and fictional newscasts. Our C.I.T.Y. teen internship program annually trains up to 60 teens in customer service, leadership development, and other transferable job skills. More than 25 percent of our programs are fee-waived in order to remove cost as a barrier to participation for youth and families from low-income and under-resourced communities.

In October 2011, CCM re-launched with our new name and offerings for our expanded audience of youth, ages 2 to 12, and their families. CCM went into re-launch after four consecutive years with a net surplus. Although CCM reflected an accrual-basis decrease in net assets of \$31,779 for the year ended June 30, 2012, the organization actually ended the year with positive cash flow when depreciation expense of \$70,004 is added back, resulting in a net increase of \$38,225. This year, the organization invested \$150K in marketing, exhibits, and new programming as part of the re-launch. CCM's Board of Directors collectively gave twice than they normally give in a year.

Since our re-launch, we have experienced double-digit growth in weekly attendance, new memberships, and traffic to our website, www.creativity.org. We also have been mentioned in widely-followed media channels, including The Wall Street Journal. At the close of the most recent fiscal year (on June 30, 2012), CCM reached a major milestone, surpassing the 70,000-annual-visitor mark, the first time in our 15-year history.

Fiscal Year 2011-2012 Board of Directors and Staff

Name	Office
Laney Whitcanack	Chair
Mai Mai Wythes	Vice Chair
Bill Rusitzky	Secretary
John Gonzalez	Treasurer
Carol Carrubba	Director
Nate Chang	Director
Cindy Johanson	Director
Michael Mankins	Director
Danielle Merida	Director
Jon Murchinson	Director
Andy Proehl	Director
Paul Southern	Director
Christina S. Turner	Director

Interim Executive Director

Michael Nobleza

CHILDREN'S CREATIVITY MUSEUM

(A California Not-For-Profit Corporation)
June 30, 2012 and 2011

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CHILDREN'S CREATIVITY MUSEUM

221 Fourth Street
San Francisco, California 94103
415-820-3320
Web Site Address: www.creativity.org

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Children's Creativity Museum

We have audited the accompanying statements of financial position of Children's Creativity Museum (a non-profit organization) as of June 30, 2012 and 2011 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Children's Creativity Museum management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized information on the statement of activities and changes in net assets has been derived from the Children's Creativity Museum June 30, 2011 financial statements and, in our report dated September 20, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 audits provide 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 Children's Creativity Museum as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Regalia & Associates

October 24, 2012
Danville, California

CHILDREN'S CREATIVITY MUSEUM

Statements of Financial Position

June 30, 2012 and 2011

	Unrestricted Net Assets	Temporarily Restricted Net Assets	2012	2011
ASSETS				
Current assets:				
Cash	\$ 34,365	-	34,365	244,384
Cash reserves	190,579	64,169	254,748	219,676
Accounts receivable	15,607	-	15,607	6,965
Pledges and grants receivable	9,212	55,000	64,212	6,904
Inventory	35,620	-	35,620	31,288
Prepaid expenses and other assets	16,507	-	16,507	15,460
Total current assets	<u>301,890</u>	<u>119,169</u>	<u>421,059</u>	<u>524,677</u>
Noncurrent assets:				
Property and equipment, net	<u>208,031</u>	<u>-</u>	<u>208,031</u>	<u>123,243</u>
Total assets	<u>\$ 509,921</u>	<u>119,169</u>	<u>629,090</u>	<u>647,920</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 73,206	-	73,206	61,332
Deferred revenue	7,069	-	7,069	5,994
Total current liabilities	<u>80,275</u>	<u>-</u>	<u>80,275</u>	<u>67,326</u>
Net assets:				
Unrestricted:				
Board-designated for cash reserves	190,579	-	190,579	219,676
Undesignated	239,067	-	239,067	214,793
Temporarily restricted	-	119,169	119,169	146,125
Total net assets	<u>429,646</u>	<u>119,169</u>	<u>548,815</u>	<u>580,594</u>
Total liabilities and net assets	<u>\$ 509,921</u>	<u>119,169</u>	<u>629,090</u>	<u>647,920</u>

CHILDREN'S CREATIVITY MUSEUM

Statement of Activities and Changes in Net Assets Year Ended June 30, 2012

(with Summarized Financial Information for the Year Ended June 30, 2011)

		Temporarily		
	Unrestricted	Restricted		
<i>Changes in net assets:</i>	Net Assets	Net Assets	2012	2011
Revenue and support:				
<i>Contributions, donations and grants:</i>				
Corporate contributions	\$ 124,687	36,670	161,357	135,443
Foundation grants	69,501	65,499	135,000	196,000
Government - SFRA/City & County of SF	575,000	-	575,000	575,000
Government - other	2,250	15,000	17,250	-
Individual contributions	133,276	2,000	135,276	90,540
Memberships	86,803	-	86,803	66,447
In-kind donations	46,309	-	46,309	185,705
<i>Net assets released from restrictions:</i>				
Satisfaction of temporary restrictions	146,125	(146,125)	-	-
Total contributions, donations and grants	1,183,951	(26,956)	1,156,995	1,249,135
<i>Earned revenue:</i>				
Admissions	293,669	-	293,669	238,831
Carousel	166,894	-	166,894	180,132
Camps, workshops and field trips	37,551	-	37,551	41,325
Facility rentals	222,709	-	222,709	161,399
Museum store	114,820	-	114,820	114,045
Concessions and other income	10,742	-	10,742	18,548
Investment income	846	-	846	1,351
Total earned revenue	847,231	-	847,231	755,631
Total revenue and support	2,031,182	(26,956)	2,004,226	2,004,766
Expenses:				
Programs:				
Education	485,840	-	485,840	408,160
Exhibits	310,931	-	310,931	323,622
Marketing and outreach	170,910	-	170,910	106,943
Visitor experience	529,191	-	529,191	467,998
Total programs and experience	1,496,872	-	1,496,872	1,306,723
Administration	214,740	-	214,740	188,101
Fundraising	278,084	-	278,084	295,603
Total expenses	1,989,696	-	1,989,696	1,790,427
Increase (decrease) in net assets before in-kind expenses	41,486	(26,956)	14,530	214,339
In-kind expenses	46,309	-	46,309	128,160
Increase (decrease) in net assets	(4,823)	(26,956)	(31,779)	86,179
Net assets at beginning of year	434,469	146,125	580,594	494,415
Net assets at end of year	\$ 429,646	119,169	548,815	580,594

See accompanying auditors' report and notes to financial statements.

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CHILDREN'S CREATIVITY MUSEUM

Statements of Cash Flows Years Ended June 30, 2012 and 2011

	2012	2011
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ (31,779)	86,179
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation	70,004	59,765
In-kind donations capitalized as property and equipment	-	(57,545)
<i>Changes in:</i>		
Accounts receivable	(8,642)	919
Pledges and grants receivable	(57,308)	62,537
Inventory	(4,332)	3,979
Prepaid expenses and other assets	(1,047)	(3,648)
Accounts payable and accrued liabilities	11,874	(24,204)
Deferred revenue	1,075	(33,357)
Cash provided by (used for) operating activities	<u>(20,155)</u>	<u>94,625</u>
<i>Investing activities:</i>		
Additions to property and equipment	(154,792)	(43,349)
Cash used for investing activities	<u>(154,792)</u>	<u>(43,349)</u>
<i>Financing activities:</i>		
Net adjustments to restricted cash reserves	(35,072)	(35,280)
Cash used for financing activities	<u>(35,072)</u>	<u>(35,280)</u>
Net increase (decrease) in cash	(210,019)	15,996
Cash at beginning of year	<u>244,384</u>	<u>228,388</u>
Cash at end of year	\$ <u>34,365</u>	<u>244,384</u>
<i>Additional cash flow information:</i>		
California taxes paid	\$ <u>150</u>	<u>150</u>
Interest paid	\$ <u>-</u>	<u>-</u>

CHILDREN'S CREATIVITY MUSEUM

Notes to Financial Statements June 30, 2012 and 2011

1. Organization

Children's Creativity Museum (CCM) is a nonprofit, hands-on, interactive arts and technology experience for kids located in the Yerba Buena cultural district in San Francisco. Opened in 1998 as "Zeum" (and renamed to Children's Creativity Museum in 2011), our mission is to nurture the 3Cs of 21st-century skills - Creativity, Collaboration and Communication - in all youth and families. We believe that the success of the next generation will hinge not only on what they know, but also on their ability to think and act creatively as global citizens.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

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

Use of Estimates

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

Support and Revenue Recognition

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

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

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

Notes to Financial Statements

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

Inventory

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

Pledges and Grants Receivable

Pledges and grants receivable are recorded when the pledges and grants are made and are stated at estimated net realizable value. Short-term pledges and grants receivable amounted to \$64,212 and \$6,904 at June 30, 2012 and 2011, respectively. Management has not established an allowance for doubtful accounts because it believes all amounts will be fully realized.

Property and Equipment

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

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

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, CCM is required to report information regarding its exposure to various tax positions taken by the organization and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that CCM has adequately evaluated its current tax positions and has concluded that as of June 30, 2012, CCM does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

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

Cash Holdings and Concentration of Credit Risk

CCM operates a deposit bank account which contains funds that, from time to time, may not be covered with insurance provided by the federal government. Such financial instrument(s) potentially subject CCM to concentrations of credit risk. It is the opinion of management that the solvency of the referenced financial institution is satisfactorily strong and that CCM's financial position will not be compromised.

CHILDREN'S CREATIVITY MUSEUM

Notes to Financial Statements

3. Property and Equipment

Property and equipment consist of the following at June 30, 2012 and 2011:

	2012	2011
Computers and Software	\$ 165,246	213,641
Exhibits	289,276	186,747
Furniture and Fixtures	72,342	85,386
Leasehold improvements	56,714	16,451
Multimedia Equipment	93,329	143,907
Theater Equipment	38,026	38,026
Less: accumulated depreciation	(506,901)	(560,915)
	<u>\$ 208,031</u>	<u>123,243</u>

Depreciation expense amounted to \$70,003 and \$59,765 for the years ended June 30, 2012 and 2011, respectively. During the year ended June 30, 2012, CCM disposed of fully-depreciated property with an original cost basis and accumulated depreciation balance of \$125,017. There was no gain or loss on disposal. During the year ended June 30, 2011, CCM disposed of partially-depreciated property which resulted in a net loss on disposal of \$521.

4. San Francisco Redevelopment Agency (SFRA)

CCM entered into an operating agreement with SFRA on July 1, 1997. In February 2012, to comply with legislation adopted by the California State Legislature, the SFRA was dissolved and all of its existing obligations and commitments transferred to the San Francisco City Administrator's Office. In July 2012, the original 15-year agreement into which CCM entered with the former SFRA was effectively extended for another 10 years. The agreement may be terminated by either party during the term of the agreement upon default by either party. The successor agency to the SFRA continues to own the facilities of CCM, which consist of the premises occupied by CCM and the Carousel. CCM operates and maintains the premises for and on behalf of the successor agency to the SFRA during the term of the agreement.

SFRA has provided annual support of \$575,000 each year for the years ended June 30, 2012 and 2011, respectively. In addition, SFRA provided the organization with an advance on future support totaling \$910,000 during the three years ended June 2001 (from July 1, 1999 through June 30, 2001). In July 2004, SFRA's Commission voted unanimously to approve a Ninth Amendment to the operating agreement which deemed (1) the advances of \$910,000 to be repaid and confirmed forgiven and (2) the annual security, operations and maintenance support for the facilities to be set and capped at \$600,000 per year for a nine-year period from July 1, 2004 through June 30, 2013, with no increase in the annual amount of the SFRA contributions.

CCM was previously required to set aside a total of \$150,000 and to place this amount in a special reserve fund to be held in a manner and place and subject to controls to be approved by SFRA at its sole discretion. SFRA waived the funding of this special reserve through June 30, 2004 and established new requirements in the Ninth Amendment for funding two reserve accounts: (a) the Interior Reserve Fund and (b) the Operating Reserve Fund.

(continued)

CHILDREN'S CREATIVITY MUSEUM

Notes to Financial Statements

4. San Francisco Redevelopment Agency (SFRA) *(continued)*

For the years ended June 30, 2012 and 2011 (and for the duration of the operating agreement), CCM is required to deposit an amount equal to 3% of the SFRA-approved SOM funds into each reserve account. Total cumulative reserve account deposits amounted to \$249,000 and \$214,500 (before earnings and accrued interest) at June 30, 2012 and 2011, respectively. Total cash reserve balances (including earnings and accrued interest) amounted to \$254,748 and \$219,676 at June 30, 2012 and 2011, respectively, and are reflected on the statements of financial position.

5. Note Payable and Line of Credit

At June 30, 2012 CCM had a revolving line of credit account with a financial institution with a \$100,000 total available commitment. The line of credit had no outstanding balance at June 30, 2012 and 2011. The note is secured by CCM's personal property and fixtures and, if utilized, accrues interest at the bank's prime rate plus 3% (6.25% as of June 30, 2012).

6. Net Assets

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

Donor	June 30, 2011 Beginning Balance	Additions	Released to Unrestricted	June 30, 2012 Ending Balance
Adobe Foundation	\$ 30,000	-	\$ 30,000	-
Bank of America (Museums on Us)	7,500	7,500	7,500	7,500
California Consumer Protection Foundation	7,500	-	7,500	-
The Campbell Foundation	3,000	13,833	3,000	13,833
Josephine and Eric Chang	1,000	-	1,000	-
Hearst Foundation	12,500	-	12,500	-
GGG Foundation	6,250	-	6,250	-
David B. Gold Foundation	7,500	5,000	7,500	5,000
House Family Foundation	12,500	-	12,500	-
Kimball Foundation	-	25,000	-	25,000
Koret Foundation	9,000	-	9,000	-
Dean and Margaret Leshner Foundation	3,750	15,833	3,750	15,833
Miranda Lux Foundation	3,750	-	3,750	-
Joseph R McMicking Foundation	2,917	5,833	2,917	5,833
Microsoft Corporation	-	9,170	-	9,170
Other	-	2,000	-	2,000
Target	20,000	20,000	20,000	20,000
Union Bank	5,833	-	5,833	-
Yerba Buena Community Benefit District	13,125	15,000	13,125	15,000
Totals	\$ 146,125	\$ 119,169	\$ 146,125	\$ 119,169

CHILDREN'S CREATIVITY MUSEUM

Notes to Financial Statements

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

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

During the years ended June 30, 2012 and 2011, CCM was the recipient of a substantial amount of in-kind contributions which satisfied the provisions of ASC 958.605.30-11 and these donated services, materials and facilities were recorded at their estimated fair market values as program and supporting revenues and expenses. The values of these contributions, as reflected on the statements of financial position (for equipment) and the statements of activities and changes in net assets (for all other items), are as follows for the years ended June 30, 2012 and 2011::

	2012	2011
<u>Statements of financial position</u>		
Capitalized as a component of property and equipment	\$ -	57,545
<u>Statement of activities and changes in net assets</u>		
Consulting	-	100,000
Hospitality and other	172	396
Materials	-	338
Professional services	2,500	14,926
Technology	43,637	12,500
Subtotal	46,309	128,160
Total in-kind contributions received	\$ 46,309	185,705

8. Functional Allocation of Expenses

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

9. Deferred Revenue

Deferred revenue of \$7,069 and \$5,994 at June 30, 2012 and 2011, respectively, represents funds received in advance of facility rentals, summer camps, group sales and other program activities for the following fiscal year. Such amounts have been reflected as short-term liabilities and will be reported as program and activity revenue on the statements of activities and changes in net assets in the subsequent fiscal period.

Notes to Financial Statements

10. 403(b) Annuity Plan

CCM has a 403(b) tax-deferred retirement plan administered by Lincoln Financial Advisors. Employees are permitted to make contributions to the retirement plan under a pre-tax arrangement. There were no employer contributions (matching or otherwise) for the years ended June 30, 2012 and 2011. Distributions from the 403(b) plan are made only pursuant to all applicable laws and regulations.

11. Commitments and Contingencies

CCM leases office equipment under rental contracts requiring total monthly rental payments of \$2,119 through April 2017. Minimum annual payments under all equipment leases are as follows: \$25,424 due during the year ending June 30, 2013; \$23,437 due during the year ending June 30, 2014; \$23,040 due during the year ending June 30, 2015; \$23,040 due during the year ending June 30, 2016, and \$19,200 due during the year ending June 30, 2017.

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

12. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, CCM is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on hourly rates for the subsequent fiscal year. Accrued vacation payable amounted to \$31,632 and \$22,514 as of June 30, 2012 and 2011, respectively.

13. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, CCM has evaluated subsequent events through October 24, 2012, the date the financial statements were available to be issued, and, in the opinion of management, there are no subsequent events which need to be disclosed.