

SAN DIEGO AUTOMOTIVE MUSEUM

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019



Leaf & Cole, LLP
Certified Public Accountants

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 16



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Certified Public Accountants

A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
San Diego Automotive Museum, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Automotive Museum, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 audits. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
San Diego Automotive Museum, Inc.

Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Automotive Museum, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP

San Diego, California
January 6, 2021

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
<u>Current Assets:</u> (Note 2)		
Cash and cash equivalents	\$ 69,093	\$ 180,174
Accounts receivable	-	42,407
Inventories	57,509	42,461
Total Current Assets	<u>126,602</u>	<u>265,042</u>
<u>Noncurrent Assets:</u> (Notes 2, 4 and 6)		
Property and equipment, net	1,163,683	1,133,256
Collection	1,128,251	1,126,251
Total Noncurrent Assets	<u>2,291,934</u>	<u>2,259,507</u>
TOTAL ASSETS	<u><u>\$ 2,418,536</u></u>	<u><u>\$ 2,524,549</u></u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2, 6, and 9)		
Accounts payable and accrued expenses	\$ 74,911	\$ 34,886
Deferred revenue	94,800	-
Current portion of note payable	31,224	29,197
Total Current Liabilities	<u>200,935</u>	<u>64,083</u>
<u>Noncurrent Liabilities:</u> (Note 6)		
Note payable, net of current portion	<u>32,513</u>	<u>62,057</u>
Total Liabilities	<u>233,448</u>	<u>126,140</u>
<u>Commitments and Contingencies</u> (Notes 5, 7 and 9)		
<u>Net Assets:</u> (Note 2 and 8)		
Without donor restrictions	2,185,088	2,348,409
With donor restrictions	-	50,000
Total Net Assets	<u>2,185,088</u>	<u>2,398,409</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,418,536</u></u>	<u><u>\$ 2,524,549</u></u>

The accompanying notes are an integral part of the financial statements.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue and Support:</u>						
Admissions	\$ 381,672	\$ -	\$ 381,672	\$ 526,735	\$ -	\$ 526,735
In-kind contributions	57,500	-	57,500	250,093	-	250,093
Governmental grants	56,352	-	56,352	78,795	-	78,795
Museum store sales	46,279	-	46,279	65,906	-	65,906
Contributions and grants	38,171	-	38,171	21,178	50,000	71,178
Museum events	21,808	-	21,808	58,547	-	58,547
Vehicle and parts sales, net	6,000	-	6,000	18,250	-	18,250
Facility rental income	5,780	-	5,780	11,644	-	11,644
Membership dues	3,918	-	3,918	4,460	-	4,460
Other income	2,096	-	2,096	6,570	-	6,570
Interest Income	12	-	12	13	-	13
Loss on sale of collection items	(2,950)	-	(2,950)	(56,805)	-	(56,805)
Net assets released from restrictions	50,000	(50,000)	-	-	-	-
Total Revenue and Support	<u>666,638</u>	<u>(50,000)</u>	<u>616,638</u>	<u>985,386</u>	<u>50,000</u>	<u>1,035,386</u>
<u>Expenses:</u>						
<u>Program Expenses:</u>						
Program and Exhibits	290,148	-	290,148	475,083	-	475,083
Education	64,496	-	64,496	75,229	-	75,229
Total Program Expenses	<u>354,644</u>	<u>-</u>	<u>354,644</u>	<u>550,312</u>	<u>-</u>	<u>550,312</u>
<u>Supporting Services:</u>						
General and administrative	423,493	-	423,493	250,692	-	250,692
Fundraising	51,822	-	51,822	57,190	-	57,190
Total Supporting Services	<u>475,315</u>	<u>-</u>	<u>475,315</u>	<u>307,882</u>	<u>-</u>	<u>307,882</u>
Total Expenses	<u>829,959</u>	<u>-</u>	<u>829,959</u>	<u>858,194</u>	<u>-</u>	<u>858,194</u>
Change in Net Assets	(163,321)	(50,000)	(213,321)	127,192	50,000	177,192
Net Assets at Beginning of Year	<u>2,348,409</u>	<u>50,000</u>	<u>2,398,409</u>	<u>2,221,217</u>	<u>-</u>	<u>2,221,217</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,185,088</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,185,088</u></u>	<u><u>\$ 2,348,409</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 2,398,409</u></u>

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Expenses			Supporting Services			
	Programs and Exhibits	Education	Total Program Expenses	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and Related Expenses:							
Salaries and wages	\$ 82,239	\$ 51,072	\$ 133,311	\$ 237,699	\$ 14,416	\$ 252,115	\$ 385,426
Payroll taxes and related costs	7,043	4,081	11,124	21,655	1,746	23,401	34,525
Employee benefits	10,435	6,133	16,568	32,730	-	32,730	49,298
Total Salaries and Related Expenses	99,717	61,286	161,003	292,084	16,162	308,246	469,249
Nonsalary Related Expenses:							
Advertising and marketing	8,068	-	8,068	2,304	1,153	3,457	11,525
Automobile costs and repairs	33,554	-	33,554	-	-	-	33,554
Building repairs and maintenance	7,067	-	7,067	2,935	-	2,935	10,002
Cost of museum store sales	14,986	-	14,986	-	-	-	14,986
Exhibit and event costs	4,188	-	4,188	-	13,673	13,673	17,861
Fees and other charges	952	-	952	7,831	5,757	13,588	14,540
Insurance	24,224	-	24,224	13,043	-	13,043	37,267
Interest	-	-	-	3,149	-	3,149	3,149
Licenses and fees	974	-	974	273	-	273	1,247
Miscellaneous	-	-	-	84	-	84	84
Postage and delivery	-	-	-	1,501	-	1,501	1,501
Professional fees	42,024	-	42,024	42,293	14,878	57,171	99,195
Staff development	728	196	924	375	-	375	1,299
Security	360	-	360	5,807	-	5,807	6,167
Supplies	12,989	1,465	14,454	25,931	199	26,130	40,584
Telephone	1,421	-	1,421	2,791	-	2,791	4,212
Travel and entertainment	2,522	1,549	4,071	3,815	-	3,815	7,886
Utilities	4,242	-	4,242	9,975	-	9,975	14,217
Total Nonsalary Related Expenses	158,299	3,210	161,509	122,107	35,660	157,767	319,276
Add: Depreciation	32,132	-	32,132	9,302	-	9,302	41,434
Total Expenses	\$ 290,148	\$ 64,496	\$ 354,644	\$ 423,493	\$ 51,822	\$ 475,315	\$ 829,959

The accompanying notes are an integral part of the financial statements.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Expenses			Supporting Services			
	Programs and Exhibits	Education	Total Program Expenses	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and Related Expenses:							
Salaries and wages	\$ 160,041	\$ 52,000	\$ 212,041	\$ 136,114	\$ 15,807	\$ 151,921	\$ 363,962
Payroll taxes and related costs	14,444	4,285	18,729	10,477	1,338	11,815	30,544
Employee benefits	18,037	6,306	24,343	15,494	2,543	18,037	42,380
Total Salaries and Related Expenses	<u>192,522</u>	<u>62,591</u>	<u>255,113</u>	<u>162,085</u>	<u>19,688</u>	<u>181,773</u>	<u>436,886</u>
Nonsalary Related Expenses:							
Advertising and marketing	10,803	-	10,803	3,504	1,841	5,345	16,148
Automobile costs and repairs	26,253	3,131	29,384	23	100	123	29,507
Building repairs and maintenance	6,853	-	6,853	3,681	-	3,681	10,534
Cost of museum store sales	25,279	-	25,279	-	-	-	25,279
Exhibit and event costs	4,972	-	4,972	-	21,306	21,306	26,278
Fees and other charges	7,781	-	7,781	6,739	1,357	8,096	15,877
Insurance	22,044	-	22,044	11,622	-	11,622	33,666
Interest	-	-	-	4,250	-	4,250	4,250
Licenses and fees	-	853	853	398	-	398	1,251
Miscellaneous	-	-	-	700	-	700	700
Postage and delivery	-	-	-	1,460	400	1,860	1,860
Professional fees	99,676	1,630	101,306	11,168	11,917	23,085	124,391
Staff development	-	1,584	1,584	1,061	-	1,061	2,645
Security	360	-	360	2,077	-	2,077	2,437
Supplies	25,595	3,756	29,351	22,105	581	22,686	52,037
Telephone	2,285	-	2,285	3,179	-	3,179	5,464
Travel and entertainment	6,458	1,684	8,142	6,098	-	6,098	14,240
Utilities	7,480	-	7,480	5,317	-	5,317	12,797
Total Nonsalary Related Expenses	<u>245,839</u>	<u>12,638</u>	<u>258,477</u>	<u>83,382</u>	<u>37,502</u>	<u>120,884</u>	<u>379,361</u>
Add: Depreciation	<u>36,722</u>	<u>-</u>	<u>36,722</u>	<u>5,225</u>	<u>-</u>	<u>5,225</u>	<u>41,947</u>
Total Expenses	<u>\$ 475,083</u>	<u>\$ 75,229</u>	<u>\$ 550,312</u>	<u>\$ 250,692</u>	<u>\$ 57,190</u>	<u>\$ 307,882</u>	<u>\$ 858,194</u>

The accompanying notes are an integral part of the financial statements.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (213,321)	\$ 177,192
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	41,434	41,947
Losses on sale of collection items	2,950	56,805
Donated inventories	(22,500)	(15,500)
Donated collection items	(35,000)	(226,500)
(Increase) Decrease in:		
Accounts receivable	42,407	(26,150)
Inventories	7,452	16,243
Prepaid expenses	-	275
Increase (Decrease) in:		
Accounts payable and accrued expenses	40,025	2,479
Deferred revenue	94,800	(4,020)
Net Cash (Used In) Provided by in Operating Activities	<u>(41,753)</u>	<u>22,771</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(71,861)	(8,093)
Proceeds from sale of collection items	30,050	41,795
Net Cash (Used In) Provided by Investing Activities	<u>(41,811)</u>	<u>33,702</u>
<u>Cash Flows From Financing Activities:</u>		
Payments on note payable	(27,517)	(26,419)
Net Cash Used in Financing Activities	<u>(27,517)</u>	<u>(26,419)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(111,081)	30,054
Cash and Cash Equivalents at Beginning of Year	<u>180,174</u>	<u>150,120</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 69,093</u></u>	<u><u>\$ 180,174</u></u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash paid for interest	<u><u>\$ 3,242</u></u>	<u><u>\$ 4,339</u></u>

The accompanying notes are an integral part of the financial statements.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1 - Organization:

San Diego Automotive Museum, Inc. (the "Museum") was incorporated in October 1984 and is registered as a nonprofit corporation in the State of California. The Museum functions as an educational and cultural institution exercising community responsibility for the preservation of the automotive arts and sciences.

Collections

The Museum's collection of vintage automobiles, motorcycles and accessories is on permanent display at the Museum located in Balboa Park. The Museum's collection consists of 50 automobiles and 46 motorcycles. In addition, the Museum is home to one of the finest collections of automotive research materials on the entire West Coast consisting of:

- 3,393 automobile books
- 36,000-40,000 magazines
- 2,559 hardcover repair manuals
- 9 editions of Dykes Repair Manuals
- 13,000 plus Club Newsletter and Magazines
- 113 different automobile magazines titles back to 1901
- 43 current monthly automobile periodicals
- Automotive Quarterly: complete run
- Road and Track: complete run

Education

San Diego Automotive Museum's programming offers San Diego's children an opportunity to learn about the many facets of the automobile experience from the automobile's impact on society to society's impact on the automobile. This includes social studies (automotive history: local, national, and international), science (the physics and technologies involved), and even art (movable art).

The impact of the automobile on American society is without question and has been driving factor in our growth. At the San Diego Automotive Museum, visitors can begin to understand how important the industry has been to humanity, how the automobile has helped to shape our national identity, how the automobile has changed the course of American History, and how technological improvements brought on by the automobile have given us much greater access to the world at large.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of the Museum have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Museum had no financial instruments at June 30, 2020 and 2019.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at June 30, 2020 and 2019.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Inventories

Inventories of retail store merchandise consist primarily of books, periodicals and gift items which are valued at the lower of cost (first-in, first-out) or net realizable value. Inventories of Balboa Park passports are recorded at cost. Inventories of automobiles held for resale are recorded at cost if purchased and at fair value if donated. Inventories consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Automobiles	\$ 50,000	\$ 30,000
Retail store	7,509	11,288
Balboa Park passports	-	1,173
Total Inventories	<u>\$ 57,509</u>	<u>\$ 42,461</u>

Capitalization and Depreciation

The Museum capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Storage building	40 years
Building improvements	7 - 40 years
Computer equipment	3 - 7 years
Furniture and fixtures	3 - 10 years
Vehicles	5 years

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Depreciation expense totaled \$41,434 and \$41,947 for the years ended June 30, 2020 and 2019, respectively.

Impairment of Real Estate

The Museum reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2020 and 2019.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Collection

The Museum has capitalized its collection since its inception. If purchased, items accessioned into the collection are capitalized at cost and, if donated, they are capitalized at their appraised or fair value on the accession date, the date on which the item is accepted by the Board of Directors (the "Board"). Gains or losses on the deaccession of collection items are classified in the statements of activities as without donor restriction or with donor restriction depending on donor restrictions, if any, placed on the item at the time of accession. Deaccessions of collection items totaled \$33,000 and \$98,600, which were sold for \$30,050 and \$41,795, resulting in losses of \$(2,950) and \$(56,805), for the years ended June 30, 2020 and 2019, respectively, which has been included as loss on sale of collection items in the statements of activities. Costs incurred in connection with the acquisition and conservation of the collection are expensed in the period incurred. The collection consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Antique autos	\$ 930,502	\$ 928,502
Library collections and other memorabilia	<u>197,749</u>	<u>197,749</u>
Total Collection	<u>\$ 1,128,251</u>	<u>\$ 1,126,251</u>

Compensated Absences

Accumulated unpaid vacation totaling \$14,663 and \$20,407, at June 30, 2020 and 2019, respectively, is accrued when incurred and included in accounts payable and accrued expenses.

Revenue Recognition

The Museum recognizes revenue from admissions upon sale or date of service, as applicable.

Museum store sales and vehicle and parts sales are recognized as revenue when the sale transaction occurs.

Contributions are recognized when the donor makes a promise to give to the Museum that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as without donor restriction or with donor restriction, depending on the existence or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions. When the stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

The Museum recognizes revenue from event income, facility rental income and other income upon sale or date of service, as applicable.

The Museum offers memberships that typically last for a term of one year. The Museum divides fees from these memberships between contributions and exchange transactions and recognizes revenue for the contribution upon sale. The exchange portion is also recognized upon sale, since fees are non-refundable and used to fund the Museum's mission and access programs.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Donated Services, Materials and Support

The Museum utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended June 30, 2020 and 2019 did not meet the requirements above; therefore, no amounts were recognized in the financial statements for volunteer time.

The Museum received donations of items which have been recorded at fair value and included in in-kind contributions as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Collection items	\$ 35,000	\$ 222,000
Inventory – vehicle	22,500	15,500
Equipment	-	8,093
Collectables	-	4,500
Total In-Kind Contributions	<u>\$ 57,500</u>	<u>\$ 250,093</u>

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of expenses that benefit multiple functional areas have been allocated between programs and supporting services based on a cost allocation plan that allocates costs based on time records, space utilized and estimates made by the Museum's management.

Income Taxes

The Museum is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code except on net income derived from unrelated business activities. The Museum 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. The Museum is not a private foundation.

The Museum's Return of Organization Exempt from Income Tax for the years ended June 30, 2020, 2019, 2018, and 2017 are subject to examination by Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

The Museum maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Museum has not experienced any losses in such accounts. The Museum believes it is not exposed to any significant credit risk on cash and cash equivalents.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Cash and Cash Equivalents

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

Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis, which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the year ended June 30, 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 for the year ended June 30, 2020 had no effect on the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through January 6, 2021, the date the financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed except as disclosed in Note 10.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 3 - Liquidity and Availability:

The Museum regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. The Museum receives contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Museum considers all expenditures related to its ongoing programs as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure within one year, are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 69,093	\$ 180,174
Accounts receivable	-	42,407
Less: Donor restricted for capital improvements	-	(50,000)
Financial assets available to meet general expenditures within one year	<u>\$ 69,093</u>	<u>\$ 174,600</u>

In addition to financial assets available to meet general expenditures over the next 12 months the Museum operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The Museum also has a line-of-credit agreement with available borrowings totaling \$100,000 as described in Note 5.

Note 4 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 519,848	\$ 519,848
Storage building	90,000	90,000
Building improvements	1,303,055	1,233,173
Computer equipment	68,598	66,619
Furniture and fixtures	84,631	84,631
Vehicles	14,401	14,401
Subtotal	2,080,533	2,008,672
Less: Accumulated depreciation	(916,850)	(875,416)
Property and Equipment, Net	<u>\$ 1,163,683</u>	<u>\$ 1,133,256</u>

Note 5 - Line-of-Credit:

The Museum has a line-of-credit available in the amount of \$100,000 with US Bank with interest at the bank's prime rate. The line-of-credit is secured by deed of trust on the Museum's building. The line of credit is renewable annually on July 1. There were no outstanding advances under the line-of-credit at June 30, 2020 and 2019.

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 6 - Note Payable:

Note payable consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable in the original amount of \$263,134, payable in monthly installments of principal and interest totaling \$2,659 with interest at 3.9%. The note terms were amended December 5, 2016 to extend the maturity date to August 1, 2022 payable in monthly installments of principal and interest totaling \$2,563 with interest at 4.05%. The note is secured by land and building.	\$ 63,737	\$ 91,254
Less: Current portion	(31,224)	(29,197)
Note Payable, Net of Current Portion	<u>\$ 32,513</u>	<u>\$ 62,057</u>

Future principal payments on the note payable are as follows:

Years Ended <u>June 30</u>	
2021	\$ 31,224
2022	<u>32,513</u>
	<u>\$ 63,737</u>

Note 7 - Agreement With the City of San Diego:

The building and land where the Museum is located are owned by the City of San Diego (the "City") and leased to the Museum, and therefore are not assets of the Museum and are not reflected in the accompanying financial statements. Additions and renovations to the original building are assets of the Museum and are reflected as leasehold improvements in the accompanying financial statements. The Museum operates the museum under a 25-year lease with the City ending on January 14, 2038. As part of this agreement, the Museum is to make the premises available to the public, without charge, one day per month. Under the agreement, in place of cash rent for the use of the premises, the consideration to the City from the Museum will be the continuous operation, development and maintenance of the premises.

Note 8 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions received or receivable by the Museum, which are limited in their use by time or donor-imposed restrictions. Net assets with donor restrictions are available for the following purpose at June 30:

	<u>2020</u>	<u>2019</u>
Subject to Expenditure for Specified Purpose:		
Lift	\$ -	\$ 50,000
Total Subject to Expenditure For Specified Purpose	<u>\$ -</u>	<u>\$ 50,000</u>

Net assets totaling \$50,000 and \$-0- were released from donor restrictions by incurring expenses satisfying the restricted purpose for the years ended June 30, 2020 and 2019, respectively:

SAN DIEGO AUTOMOTIVE MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 - Contingencies:

Payroll Protection Program Loan

In April 2020, the Museum received a loan totaling \$94,800 from the U.S. Small Business Administration, under the CARES Act Paycheck Protection Program ("PPP"). The loan is forgivable to the extent that the Museum meets the terms and conditions of the PPP. Any portion of the loan that is not forgiven bears interest at 1% and is due in April 2022. The Museum has included the loan totaling \$94,800 in deferred revenue at June 30, 2020. The Museum expects to satisfy the terms and conditions of forgiveness of the PPP and will recognize the \$94,800 as revenue when forgiveness is granted, which is expected to occur during the year ended June 30, 2021.

Coronavirus Pandemic Contingency

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. On March 19, 2020, the Governor of California declared a health emergency and issued an order to close all nonessential businesses. The Museum was required to close the museum and museum store. The potential impacts to the Museum include disruptions or restrictions on employees' ability to work; suspension of in-person programs; and closure of the museum and museum store. Changes to the operating environment may also be impacted and may have an impact on operating costs. The future effects of these issues are unknown.

Note 10 - Subsequent Events:

In July, the Museum received a loan totaling \$150,000 from the U.S. Small Business Administration ("SBA"). The loan is payable in monthly installments of \$641, including interest at 2.75%, and is due in 30 years from the date of the promissory note. The loan is collateralized by the assets of the Museum.

In September, the Museum received a loan totaling \$330,000 from Weldon Financial, Inc. The loan is payable in monthly installments of \$2,200, including interest at 8%, and is due in 3 years from the date of the promissory note. The loan is collateralized by the property in National City.