

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Year Ended August 31, 2011

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

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EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children's Discovery Museum of San Jose
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the accompanying statement of financial position of Children's Discovery Museum of San Jose (a California nonprofit public benefit corporation) as of August 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 the 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 Children's Discovery Museum of San Jose as of August 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of Children's Discovery Museum of San Jose's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Berger Lewis Accountancy Corporation". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
December 15, 2011

SECTION I
FINANCIAL SECTION
FINANCIAL STATEMENTS

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

August 31, 2011

ASSETS				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 1,261,270	\$ 130,993	\$ -	\$ 1,392,263
Contributions Receivable	704,211	698,986	-	1,403,197
Current Portion of Donated Rent Receivable	-	97,759	-	97,759
Inventory	28,960	-	-	28,960
Prepaid Expenses	63,243	-	-	63,243
Other Current Assets	<u>3,923</u>	<u>-</u>	<u>-</u>	<u>3,923</u>
Total Current Assets	<u>2,061,607</u>	<u>927,738</u>	<u>-</u>	<u>2,989,345</u>
OTHER ASSETS:				
Investments	4,017,988	585,281	1,161,095	5,764,364
Property and Equipment, Net	3,633,734	-	-	3,633,734
Donated Rent Receivable, Net of Current Portion	<u>-</u>	<u>9,217,221</u>	<u>-</u>	<u>9,217,221</u>
Total Other Assets	<u>7,651,722</u>	<u>9,802,502</u>	<u>1,161,095</u>	<u>18,615,319</u>
TOTAL ASSETS	<u>\$ 9,713,329</u>	<u>\$ 10,730,240</u>	<u>\$ 1,161,095</u>	<u>\$ 21,604,664</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 96,880	\$ -	\$ -	\$ 96,880
Accrued Payroll and Related Benefits	262,926	-	-	262,926
Deferred Revenue	77,541	-	-	77,541
Customer Deposits	<u>9,900</u>	<u>-</u>	<u>-</u>	<u>9,900</u>
Total Current Liabilities	<u>447,247</u>	<u>-</u>	<u>-</u>	<u>447,247</u>
NET ASSETS:				
Unrestricted Net Assets:				
Board Designated:				
Endowment	2,632,348	-	-	2,632,348
Operating Reserve	2,000,000	-	-	2,000,000
Fixed Asset Reserve	1,000,000	-	-	1,000,000
Property and Equipment	<u>3,633,734</u>	<u>-</u>	<u>-</u>	<u>3,633,734</u>
Total Board Designated	<u>9,266,082</u>	<u>-</u>	<u>-</u>	<u>9,266,082</u>
Total Unrestricted Net Assets	9,266,082	-	-	9,266,082
Temporarily Restricted Net Assets	-	10,730,240	-	10,730,240
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>	<u>1,161,095</u>	<u>1,161,095</u>
Total Net Assets	<u>9,266,082</u>	<u>10,730,240</u>	<u>1,161,095</u>	<u>21,157,417</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,713,329</u>	<u>\$ 10,730,240</u>	<u>\$ 1,161,095</u>	<u>\$ 21,604,664</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
SUPPORT AND REVENUE:				
Support:				
Grants	\$ 908,707	\$ 1,186,577	\$ -	\$ 2,095,284
Donations In-Kind	787,427	-	-	787,427
Special Events (Includes In-Kind Income of \$5,951)	1,015,723	-	-	1,015,723
Less: Direct Donor Benefits	<u>(111,161)</u>	-	-	<u>(111,161)</u>
Net Special Events	<u>904,562</u>	-	-	<u>904,562</u>
Total Support	<u>2,600,696</u>	<u>1,186,577</u>	-	<u>3,787,273</u>
Revenue:				
Admissions	1,456,405	-	-	1,456,405
Membership	608,969	-	-	608,969
Retail Services	253,297	-	-	253,297
Net Realized and Unrealized Gain on Investments	210,140	229,944	-	440,084
Exhibit Rental	76,622	-	-	76,622
Interest and Dividends	109,899	18,708	-	128,607
Program Fees	97,345	-	-	97,345
Other Income	<u>72,687</u>	-	-	<u>72,687</u>
Total Revenue	<u>2,885,364</u>	<u>248,652</u>	-	<u>3,134,016</u>
Total Support and Revenue	5,486,060	1,435,229	-	6,921,289
Net Assets Released from Restrictions	<u>2,411,189</u>	<u>(2,411,189)</u>	-	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>7,897,249</u>	<u>(975,960)</u>	-	<u>6,921,289</u>
EXPENSES:				
Program Services:				
Exhibits	1,836,531	-	-	1,836,531
Educational Programs	2,864,379	-	-	2,864,379
Retail Services	<u>317,832</u>	-	-	<u>317,832</u>
Total Program Services	<u>5,018,742</u>	-	-	<u>5,018,742</u>
Supporting Services:				
Management and General	1,076,158	-	-	1,076,158
Development and Fundraising	<u>448,414</u>	-	-	<u>448,414</u>
Total Supporting Services	<u>1,524,572</u>	-	-	<u>1,524,572</u>
Total Expenses	<u>6,543,314</u>	-	-	<u>6,543,314</u>
CHANGE IN NET ASSETS	1,353,935	(975,960)	-	377,975
NET ASSETS, Beginning of Year	<u>7,912,147</u>	<u>11,706,200</u>	<u>1,161,095</u>	<u>20,779,442</u>
NET ASSETS, End of Year	<u>\$ 9,266,082</u>	<u>\$ 10,730,240</u>	<u>\$ 1,161,095</u>	<u>\$ 21,157,417</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended August 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 377,975
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Net Unrealized and Realized Gain on Investments	(440,084)
Proceeds from Contributions Restricted for Long-Term Purposes	(713,028)
Depreciation	545,132
Donated Rent Receivable	91,638
Donated Property and Equipment	(108,123)
(Increase) Decrease in Assets:	
Accounts Receivable	20,207
Contributions Receivable	492,086
Inventory	(6,045)
Prepaid Expenses	61,654
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Liabilities	275
Accrued Payroll and Related Benefits	1,371
Deferred Revenue	35,664
Customer Deposits	<u>(6,014)</u>
Net Cash Provided by Operating Activities	<u>352,708</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Investments	(6,037,952)
Proceeds from Sale of Investments	6,210,474
Purchase of Property and Equipment	<u>(1,273,605)</u>
Net Cash Used by Investing Activities	<u>(1,101,083)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Contributions Restricted for Long-Term Purposes	<u>713,028</u>
Net Cash Provided by Financing Activities	<u>713,028</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (35,347)

CASH AND CASH EQUIVALENTS, Beginning of Year 1,427,610

CASH AND CASH EQUIVALENTS, End of Year \$ 1,392,263

The Accompanying Notes are an Integral Part of these Financial Statements.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Children's Discovery Museum of San Jose ("the Museum") is a California nonprofit public benefit corporation organized in 1982 and incorporated in 1983. The Museum operates a children's museum which addresses the educational needs of youngsters and their families in Santa Clara County through participatory exhibits and programs that engage the senses and challenge the mind.

NOTE 2 - PROGRAM SERVICES:

Exhibits - Children's Discovery Museum of San Jose has served over 6 million adults and children since opening its doors in the spring of 1990. In the 2010-2011 fiscal year, the Museum provided engaging learning opportunities to over 262,000 families and 35,000 group visitors.

The Museum offers 28,000 square feet of exhibition space in 13 dedicated galleries, each housing 8-10 interactive exhibits which respond to the distinctive need for children to learn through concrete interactions. Therefore, the Museum's exhibits encourage touching, exploring, manipulating and experimenting and cut across the disciplines of art, science and the humanities. The Museum's theme is connections; the context is community — the myriad relationships within and between the man-made and natural worlds and the way those relationships are expressed here in our own backyard. Whether children are role-playing a firefighter on the authentic fire engine in the Streets of San Jose exhibit, using colorful plastic balls to study how water rushes and flows in WaterWays, or experimenting with surface tension by playing with bubbles in Bubbologna, they are actively engaged in learning, inspired by their own curiosity to investigate how things work and understand more about the world we live in. While the majority of exhibits focus on children to age 10 and their parents and caregivers, The Wonder Cabinet serves the needs of the Museum's youngest visitors as an early learning environment with exhibits designed to support the cognitive, emotional and social development of infants, toddlers and preschoolers. The Museum opened its newest National Science Foundation-funded exhibit, Mammoth Discovery!, which showcases the remains of a Columbian Mammoth found by a San Jose resident along the Guadalupe River. The exhibit opened in June, 2011, and features a full-size replica of this young mammoth, funded by the Santa Clara Valley Water District, and is accompanied by a sculpture of an adult mammoth located just outside of the Museum. To complete the necessary infrastructure improvements in order to house this new gallery and to prepare for future expansion into the outdoors, the Museum secured a funding commitment from the California Cultural and Historical Endowment. The Museum also leveraged the construction project by taking the opportunity to retire the Post Office exhibit adjacent to the Mammoth Discovery! gallery and remodel the space into an enclosed room to enable its long-standing UC Santa Cruz research partners to conduct interviews and one-on-one interactions with the Museum's audience that help inform exhibit design and educational program development on science topics. The new space further enabled the Museum to develop a new research collaboration with a developmental psychologist at Stanford University with the goal of furthering understand of language development in very young children.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

Educational Programs - The Museum provides on-site programs which complement its exhibits and support visitor interactions and learning opportunities. In 2010-2011, the Museum provided programs for over 42,000 participants. The Art Studio in the Wonder Cabinet and Art Loft are examples of the Museum's commitment to arts education and experiences. The Kids' Garden features programming that supports the sciences and provides hands-on nature experiences. Beyond Children's Discovery Museum of San Jose's exhibit galleries, the educational programs bring resources and innovative learning techniques to schools; encourage young adults to become active citizens by impacting their environment and serving their community; stimulate curiosity and promote an inquiry-based learning environment; and reach the children and youth in our community most in need of extra support, with experiences designed to ensure that children know their own worth, respect their own knowledge, and achieve their greatest potential. Highly successful programs, such as BioSITE (Students Investigating Their Environment) engages high school students in mentoring elementary school students to value their local river by gathering important water quality information and sharing the information with the scientific research community; Summer of Service provides middle school youth volunteer opportunities at local food banks and shelters, senior centers, parks and preschools; and Family Lunadas showcase local youth in a free evening event for grandparents, aunts, uncles, and parents to support the children in their lives as they perform dances and songs from their own cultural traditions, are just a few of the ways that Children's Discovery Museum of San Jose seeks to broaden its impact throughout our diverse community.

The Museum continues to expand its commitment to healthy eating and active living through a new, multi-year initiative named Jumpstart. This project seeks to link the Museum's healthy food exhibit, Rainbow Market, its outdoor vegetable garden, and Kids' Café to one another and ultimately engage families in learning about the importance of eating colorful fruit and vegetables, in understanding where our food comes from, and in recognizing and making healthy food choices. Jumpstart is registered as a collaborating location on Michelle Obama's "Let's Move Museum and Gardens" roster.

Retail Services - Located at the entrance to the Museum, the retail store offers educationally-based products for sale, which support and extend the activities encountered through interaction with Museum exhibits and programs. Custom products and licensed exhibit- and program-related items are also featured.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - CHANGE IN NET ASSETS:

During the year ended August 31, 2011, the Museum reported an unrestricted net surplus of \$1,353,935 as noted in the "Unrestricted" column of the Statement of Activities. The large unrestricted net surplus was the result of several significant grants which funded the new Mammoth Discovery! exhibit. While the grant income is recognized in the Statement of Activities, most of the exhibit costs have been capitalized in Property and Equipment on the Statement of Financial Position. These capitalized costs will be depreciated over their estimated useful lives, which range from 3 to 40 years.

Change in unrestricted net assets excluding the Mammoth Discovery! exhibit grant income would be reported as follows:

Statement of Activities, Change in Net Assets - Unrestricted	\$ 1,353,935
Less: Mammoth Discovery! Exhibit Grant Income	<u>(1,443,871)</u>
Statement of Activities, Change in Net Assets - Unrestricted, Excluding Mammoth Discovery! Exhibit Grant Income	<u>\$ (89,936)</u>

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of Children's Discovery Museum of San Jose have been prepared on the accrual basis of accounting.

Basis of Presentation - The Museum 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.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Museum. Under this category, the Museum maintains an operating fund, any net assets designated by the Board for specific purposes and the unrestricted property and equipment fund. The Board has established a goal to include a full six months of the coming year's estimated expense in Operating Reserve. Board designations are not donor-imposed restrictions and are subject to change at the Board's discretion.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Museum has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Inventory - Inventory consists of gift shop merchandise. The merchandise is stated at the lower of cost or market on a first-in/first-out basis. The reported inventory cost as of August 31, 2011 was \$28,960.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Museum. Unobservable inputs reflect the Museum's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Museum's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,000 are capitalized. Costs related to the development and construction of exhibits are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 40 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of August 31, 2011, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2011 was \$193,543.

Deferred Revenue - The Museum has entered into several agreements with other museums to display their traveling exhibits. As of August 31, 2011, \$32,581 has been received in advance for these exhibits. In addition, the Museum had deferred revenue of \$21,210 from advance admissions and the sale of gift cards and \$23,750 for an operating grant payment received in advance from the City of San Jose.

Customer Deposits - As of August 31, 2011, the Museum has received deposits of \$9,900 for future pinscreen sales and birthday party and facility rentals.

Revenue Recognition - The Museum recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Donated rent is recorded at its estimated fair value based on prevailing rent rates when lease agreements are entered into and / or amended. Contributed services, which require a specialized skill and which the Museum would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Allocation of Functional Expenses - Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of square footage of occupied space or number of employees per department.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income Taxes - Children's Discovery Museum of San Jose is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Museum qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in Income Taxes - Effective September 1, 2009 the Museum implemented the new accounting requirements associated with uncertainty in income taxes. The new accounting requirements under generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Museum in its federal and state exempt tax returns are more likely than not to be sustained upon examination.

The Museum's federal returns for years ended August 31, 2010, 2009, and 2008 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Museum's state returns for years ended August 31, 2010, 2009, 2008 and 2007 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Advertising - The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the year ended August 31, 2011 was \$108,712.

Subsequent Events - Management of the Museum has evaluated events and transactions subsequent to August 31, 2011 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 15, 2011. The Museum has not evaluated subsequent events after December 15, 2011.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - INVESTMENTS:

Fair value of assets measured on a recurring basis as of August 31, 2011 consisted of the following:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed Income	\$ 1,504,492	\$ 1,504,492	\$ -	\$ -
Stocks and Mutual Funds	2,844,885	2,844,885	-	-
Venture Capital Funds	253,687	-	-	253,687
Cash and Cash Equivalents	1,161,095	1,161,095	-	-
Interest Receivable	<u>205</u>	<u>205</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 5,764,364</u>	<u>\$ 5,510,677</u>	<u>\$ -</u>	<u>\$ 253,687</u>

Fair values for investments, except venture capital funds, are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for investments in venture capital funds are determined by the fund managers based on the estimated values of underlying investment holdings.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consisted of the following:

	<u>ENF III Fund</u>	<u>ENF VII Fund</u>	<u>TOTAL</u>
Balance as of August 31, 2010	\$ 9,505	\$ 256,096	\$ 265,601
Net Gain (Loss)	1,458	(13,372)	(11,914)
Cash Distributions	<u>-</u>	<u>-</u>	<u>-</u>
Balance as of August 31, 2011	<u>\$ 10,963</u>	<u>\$ 242,724</u>	<u>\$ 253,687</u>

The net loss in venture capital funds investments included in the change in unrestricted net asset is composed of \$11,914 in unrealized losses.

Net investment income for the year ended August 31, 2011 consisted of the following:

Net Investment Income:	
Interest and Dividends	\$ 128,607
Net Realized Gains	794,467
Net Unrealized Losses	<u>(354,383)</u>
Total Net Investment Income	<u>\$ 568,691</u>

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - INVESTMENTS (Continued):

In November, 2010 the Museum's Board of Directors approved a revised investment policy, which aggregated the previous three investment policies into one. The objectives of the new policy were to simplify the Museum's investments, to reduce fees and to be transparent. In the period between February and April, 2011, the current investments were sold by the managers, and the funds were transferred to the management of Lumina Fund Management LLC with State Street Global Services.

NOTE 6 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable represent unconditional promises given by donors and are recorded at net realizable value.

Of the contributions receivable at August 31, 2011, 38% and 36% are due from two donors. Approximately 24% and 12% of total current year grant support was provided by the same two donors.

NOTE 7 - DONATED RENT RECEIVABLE:

The Museum entered into a non-cancelable lease with the Redevelopment Agency of the City of San Jose in June 1987 and amended the lease in February 1990. Under this agreement for no rental payments, the Museum operates, maintains and manages the Museum facility and site with the exception of structural components, which are maintained by the City of San Jose. The initial term of the lease is 55 years with four renewal options of 11 years each.

As the lease is non-cancelable, the Museum recognized the benefit of this lease agreement as donated rent receivable and temporarily restricted support. The Museum has established the fair market value of the rent under the agreement at \$720,000 per year. The annual rent expense is included in the statement of activities. The net present value of the future contribution benefit has been computed at a discount rate of 6.68% based upon prevailing rates when the lease agreement was entered into and is recorded as donated rent receivable on the statement of financial position.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 7 - DONATED RENT RECEIVABLE (Continued):

Donated rent receivable as of August 31, 2011 consisted of the following:

<u>Year Ending August 31,</u>	<u>Amount</u>
2012	\$ 97,759
2013	104,290
2014	111,256
2015	118,688
2016	126,617
Thereafter	<u>8,756,370</u>
Total	9,314,980
Current Portion of Donated Rent Receivable	<u>(97,759)</u>
Donated Rent Receivable, Net of Current Portion	<u>\$ 9,217,221</u>

NOTE 8 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment as of August 31, 2011 consisted of the following:

Exhibits	\$ 6,771,263
Equipment	1,043,860
Leasehold Improvements	774,646
Furniture and Fixtures	161,861
Vehicles	<u>34,484</u>
	8,786,114
Less: Accumulated Depreciation	<u>(5,606,769)</u>
	3,179,345
Construction in Progress	191,966
Art	<u>262,423</u>
Property and Equipment, Net	<u>\$ 3,633,734</u>

Depreciation expense for the year ended August 31, 2011 was \$545,132.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - RETIREMENT PLAN:

The Museum maintains a tax deferred 403(b) retirement plan to provide retirement benefits for all eligible employees. The Plan provides for Museum employees to contribute an amount from their compensation, subject to limitations set by the Internal Revenue Code. The Museum has a separate defined contribution retirement plan, which allows the Museum to make an employer contribution up to a maximum of 5% of all eligible employee compensation. Participants are immediately vested in their salary deferral and employer contributions. There were no employer contributions made during the year ended August 31, 2011.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS:

The Museum's temporarily restricted net assets as of August 31, 2011 consisted of the following:

Temporarily Restricted Net Assets:	
Donated Rent Receivable	\$ 9,314,980
Programs and Exhibits	829,979
Endowment Accumulated Earnings - Unappropriated	<u>585,281</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,730,240</u>

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consist of endowment fund investments which represent the principal amount of gifts and bequests accepted with the donor stipulation that the principal be maintained intact in perpetuity or for a specified period, with only the income to be utilized for operations (see Note 16).

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - DONATIONS IN-KIND:

The estimated fair value of rent, fixtures and furnishings, computer software and hardware, professional services and supplies received are recorded as donations. During the year ended August 31, 2011 the following in-kind donations were received by the Museum:

Rent	\$ 628,362
Computer Software	108,123
Supplies	<u>50,942</u>
Donations In-Kind for Operations	787,427
Special Event Supplies and Services	<u>5,951</u>
Total Donations In-Kind	<u>\$ 793,378</u>

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time are as follows:

Donated Rent Receivable	\$ 91,638
Programs and Exhibits	2,300,600
Endowment Accumulated Earnings - Appropriated	<u>18,951</u>
Total Net Assets Released from Restrictions	<u>\$ 2,411,189</u>

NOTE 14 - CONTINGENCIES:

Grants and contracts awarded to Children's Discovery Museum of San Jose are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Museum could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - RELATED PARTY TRANSACTIONS:

The Museum's volunteer executive board members are active in both oversight of the fundraising events activities and in making private contributions. During the year ended August 31, 2011 in-kind donations received from the board members totaled \$75. During the year ended August 31, 2011 cash and stock contributions received from board members totaled \$242,391 and cash contributions from their employers or affiliation totaled \$648,100.

NOTE 16 - ENDOWMENT:

Children's Discovery Museum of San Jose's endowment consists of two individual funds. Its endowment includes donor-restricted and board-designated endowment funds. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of Children's Discovery Museum of San Jose has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Children's Discovery Museum of San Jose classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA.

In accordance with the California version of 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 fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 16 - ENDOWMENT (Continued):

Investment Return Objectives, Risk Parameters and Strategies - Goals and Performance Measurement:

- A. Based on a Total Return Investment Objective, the primary goal for the Portfolio is to exceed the inflation rate as measured by the Consumer Price Index (CPI) by not less than four (4) percentage points on an annual (calendar) basis, net of investment management fees. A secondary goal is to exceed by not less than one (1) percentage point the return of the appropriate benchmark indices over a three (3) to five (5) year period, net of investment management fees. (70% Standard & Poor's Equity Index, and 30% Lehman Intermediate Government/ Corporate Bond Index.)
- B. The performance results will be calculated in conformance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.
1. Total returns, including realized and unrealized gains and losses plus income.
 2. Accrual accounting for fixed income securities.
 3. Time-weighted rate of return using monthly valuation and geometric linking.
 4. The pricing of all assets must be based on a reasonable estimate of current value. Standardized pricing quotations must be used when available.

Spending Policy - Unless otherwise specified in a governing gift agreement, the 2011 payout policy for an endowed fund may be up to 5% of the fund's value, based on a 12 quarter rolling average calculated as of August 31, 2010. Where the fund has not been in existence for 12 quarters, the actual number of quarters that the fund has been in existence will be used. The intent of the policy is to set a maximum amount for spending, but not to mandate that such an amount be spent. Disbursements will be made in two installments, half at the end of December and half at the end of June.

The Board will review the spending policy annually, and update, if necessary.

Endowment net asset composition by type of fund as of August 31, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 585,281	\$ 1,161,095	\$ 1,746,376
Board-Designated Endowment Funds	<u>2,632,348</u>	<u>-</u>	<u>-</u>	<u>2,632,348</u>
Total Funds	<u>\$ 2,632,348</u>	<u>\$ 585,281</u>	<u>\$ 1,161,095</u>	<u>\$ 4,378,724</u>

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 16 - ENDOWMENT (Continued):

Changes in donor-restricted endowment net assets for the fiscal year ended August 31, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 355,580	\$ 1,161,095	\$ 1,516,675
Interest and Dividends Realized and Unrealized Gains	-	18,708	-	18,708
	-	229,944	-	229,944
Amounts Appropriated for Expenditure	<u>-</u>	<u>(18,951)</u>	<u>-</u>	<u>(18,951)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 585,281</u>	<u>\$ 1,161,095</u>	<u>\$ 1,746,376</u>

Changes in board-designated endowment net assets for the fiscal year ended August 31, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 2,115,009	\$ -	\$ -	\$ 2,115,009
Interest and Dividends Net Realized and Unrealized Gain on Investments	86,139	-	-	86,139
	346,416	-	-	346,416
Board Designated	<u>84,784</u>	<u>-</u>	<u>-</u>	<u>84,784</u>
Endowment Net Assets, End of Year	<u>\$ 2,632,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,632,348</u>

SECTION II
SUPPLEMENTARY INFORMATION

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended August 31, 2011

	PROGRAM SERVICES				SUPPORTING SERVICES			Totals
	Exhibits	Educational Programs	Retail Services	Total	Management and General	Development and Fundraising	Total	
EXPENSES:								
Salaries	\$ 456,814	\$ 1,559,948	\$ 88,541	\$ 2,105,303	\$ 453,865	\$ 199,351	\$ 653,216	\$ 2,758,519
Employee Benefits	30,784	105,135	5,966	141,885	30,585	13,434	44,019	185,904
Payroll Taxes	34,327	118,044	6,672	159,043	31,289	12,671	43,960	203,003
Total Salaries and Benefits	521,925	1,783,127	101,179	2,406,231	515,739	225,456	741,195	3,147,426
Occupancy	324,000	288,000	14,400	626,400	72,000	21,600	93,600	720,000
Outside Services	73,893	145,292	24,548	243,733	310,294	120,478	430,772	674,505
Repairs and Maintenance	175,460	203,287	8,703	387,450	49,465	13,054	62,519	449,969
Small Equipment	85,504	93,640	3,318	182,462	23,934	2,206	26,140	208,602
Printing	43,474	167,592	339	211,405	1,534	11,743	13,277	224,682
Utilities	72,574	81,682	3,629	157,885	18,144	5,443	23,587	181,472
Cost of Goods Sold	-	-	126,476	126,476	-	-	-	126,476
Dues and Subscriptions	33,283	2,258	155	35,696	6,465	2,525	8,990	44,686
Insurance	16,864	18,972	843	36,679	4,996	1,265	6,261	42,940
Travel	11,954	19,898	935	32,787	735	699	1,434	34,221
Postage and Shipping	5,348	11,457	3,993	20,798	1,344	2,812	4,156	24,954
Telephone	6,946	7,549	3,653	18,148	9,388	6,767	16,155	34,303
Conferences and Meetings	7,673	6,119	4,213	18,005	14,788	20,094	34,882	52,887
Office Expenses	3,526	3,659	1,597	8,782	5,595	1,968	7,563	16,345
Training	225	55	75	355	8,232	-	8,232	8,587
Automobile	3,816	2,263	-	6,079	-	-	-	6,079
Miscellaneous	-	-	-	-	48	-	48	48
Total Functional Expenses Before Depreciation	1,386,465	2,834,850	298,056	4,519,371	1,042,701	436,110	1,478,811	5,998,182
Depreciation	450,066	29,529	19,776	499,371	33,457	12,304	45,761	545,132
Total Functional Expenses	\$ 1,836,531	\$ 2,864,379	\$ 317,832	\$ 5,018,742	\$ 1,076,158	\$ 448,414	\$ 1,524,572	\$ 6,543,314
Percentage of Total	28.1 %	43.7 %	4.9 %	76.7 %	16.4 %	6.9 %	23.3 %	100.0 %

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2011

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award Amount	Federal Expenditures
<u>National Science Foundation:</u>				
Education and Human Resources	47.076	0741583	<u>\$ 2,198,498</u>	<u>\$ 723,382</u>
<u>Institute of Museum and Library Services:</u>				
Museums for America	45.301	MA-04-09-0288-09	150,000	64,231
National Leadership Grants	45.312	CM-00-10-0012-10	120,000	120,000
National Leadership Grants Passed Through:				
Children's Museum of Houston	45.312	LG-30-07-0179-07	<u>82,110</u>	<u>34,907</u>
Total Institute of Museum and Library Services			<u>352,110</u>	<u>219,138</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,550,608</u>	<u>\$ 942,520</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Children's Discovery Museum of San Jose under programs of the federal government for the year ended August 31, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Children's Discovery Museum of San Jose, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Children's Discovery Museum of San Jose.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

SECTION III
REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Children's Discovery Museum of San Jose
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the financial statements of Children's Discovery Museum of San Jose (a California nonprofit public benefit corporation) as of and for the year ended August 31, 2011, and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Children's Discovery Museum of San Jose's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Children's Discovery Museum of San Jose's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Children's Discovery Museum of San Jose's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Children's Discovery Museum of San Jose in separate letter dated December 15, 2011.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Berger Lewis Accountancy Corporation". The script is cursive and fluid, with the words connected together.

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
December 15, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133

To the Board of Directors
Children's Discovery Museum of San Jose
(A California Nonprofit Public Benefit Corporation)
San Jose, California

Compliance

We have audited Children's Discovery Museum of San Jose's (a California nonprofit public benefit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Children's Discovery Museum of San Jose's major federal programs for the year ended August 31, 2011. Children's Discovery Museum of San Jose's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Children's Discovery Museum of San Jose's management. Our responsibility is to express an opinion on Children's Discovery Museum of San Jose's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Children's Discovery Museum of San Jose's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Children's Discovery Museum of San Jose's compliance with those requirements.

In our opinion, Children's Discovery Museum of San Jose complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

Management of Children's Discovery Museum of San Jose is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Children's Discovery Museum of San Jose's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Children's Discovery Museum of San Jose's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Berger Lewis Accountancy Corporation". The script is cursive and fluid, with the words connected together.

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
December 15, 2011

SECTION IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2011

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Children's Discovery Museum of San Jose.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Children's Discovery Museum of San Jose, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Children's Discovery Museum of San Jose expresses an unqualified opinion on all major federal programs.
6. No audit findings which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included: National Science Foundation, Education and Human Resources - CFDA No. 47.076.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Children's Discovery Museum of San Jose was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT:

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

NATIONAL SCIENCE FOUNDATION

Name of Program - Education and Human Resources

CFDA No. - 47.076

Grant No. - 0741583

Grant Period - 9/1/08 to 8/31/11

None

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2011

NONE