

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

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FINANCIAL STATEMENTS

Year Ended August 31, 2012

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, 2012, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Discovery Museum of San Jose as of August 31, 2012, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on Page 18 is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements as a whole.

*Berger Lewis Accountancy Corporation*

BERGER LEWIS ACCOUNTANCY CORPORATION  
San Jose, California  
December 18, 2012

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

STATEMENT OF FINANCIAL POSITION

August 31, 2012

<b>ASSETS</b>				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$ 1,339,082	\$ 118,933	\$ -	\$ 1,458,015
Contributions Receivable	189,867	609,568	-	799,435
Current Portion of Donated Rent Receivable	-	104,290	-	104,290
Inventory	31,714	-	-	31,714
Prepaid Expenses	148,864	-	-	148,864
Other Current Assets	<u>5,704</u>	<u>-</u>	<u>-</u>	<u>5,704</u>
Total Current Assets	<u>1,715,231</u>	<u>832,791</u>	<u>-</u>	<u>2,548,022</u>
<b>OTHER ASSETS:</b>				
Investments	4,534,331	586,964	1,161,095	6,282,390
Property and Equipment, Net	3,853,800	-	-	3,853,800
Contributions Receivable, Net of Current Portion	-	107,140	-	107,140
Donated Rent Receivable, Net of Current Portion	<u>-</u>	<u>9,112,931</u>	<u>-</u>	<u>9,112,931</u>
Total Other Assets	<u>8,388,131</u>	<u>9,807,035</u>	<u>1,161,095</u>	<u>19,356,261</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,103,362</u>	<u>\$ 10,639,826</u>	<u>\$ 1,161,095</u>	<u>\$ 21,904,283</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts Payable and Accrued Liabilities	\$ 125,116	\$ -	\$ -	\$ 125,116
Accrued Payroll and Related Benefits	335,668	-	-	335,668
Deferred Revenue	75,846	-	-	75,846
Customer Deposits	<u>12,685</u>	<u>-</u>	<u>-</u>	<u>12,685</u>
Total Current Liabilities	<u>549,315</u>	<u>-</u>	<u>-</u>	<u>549,315</u>
<b>NET ASSETS:</b>				
Unrestricted Net Assets:				
Board Designated:				
Endowment	2,700,247	-	-	2,700,247
Operating Reserve	2,000,000	-	-	2,000,000
Fixed Asset Reserve	1,000,000	-	-	1,000,000
Property and Equipment	<u>3,853,800</u>	<u>-</u>	<u>-</u>	<u>3,853,800</u>
Total Board Designated	<u>9,554,047</u>	<u>-</u>	<u>-</u>	<u>9,554,047</u>
Total Unrestricted Net Assets	9,554,047	-	-	9,554,047
Temporarily Restricted Net Assets	-	10,639,826	-	10,639,826
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>	<u>1,161,095</u>	<u>1,161,095</u>
Total Net Assets	<u>9,554,047</u>	<u>10,639,826</u>	<u>1,161,095</u>	<u>21,354,968</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 10,103,362</u>	<u>\$ 10,639,826</u>	<u>\$ 1,161,095</u>	<u>\$ 21,904,283</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, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
<b>SUPPORT AND REVENUE:</b>				
Support:				
Grants	\$ 853,429	\$ 1,244,549	\$ -	\$ 2,097,978
Donations In-Kind	739,938	-	-	739,938
Special Events (Includes In-Kind Income of \$3,887)	1,118,004	-	-	1,118,004
Less: Direct Donor Benefits	<u>(106,282)</u>	<u>-</u>	<u>-</u>	<u>(106,282)</u>
Net Special Events	<u>1,011,722</u>	<u>-</u>	<u>-</u>	<u>1,011,722</u>
Total Support	<u>2,605,089</u>	<u>1,244,549</u>	<u>-</u>	<u>3,849,638</u>
Revenue:				
Admissions	1,463,479	-	-	1,463,479
Membership	623,280	-	-	623,280
Retail Services	308,671	-	-	308,671
Net Unrealized Gain on Investments	352,986	(87,796)	-	265,190
Exhibit Rental	94,904	-	-	94,904
Interest and Dividends	45,789	89,479	-	135,268
Program Fees	110,947	-	-	110,947
Other Income	<u>164,567</u>	<u>-</u>	<u>-</u>	<u>164,567</u>
Total Revenue	<u>3,164,623</u>	<u>1,683</u>	<u>-</u>	<u>3,166,306</u>
Total Support and Revenue	5,769,712	1,246,232	-	7,015,944
Net Assets Released from Restrictions	<u>1,336,646</u>	<u>(1,336,646)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>7,106,358</u>	<u>(90,414)</u>	<u>-</u>	<u>7,015,944</u>
<b>EXPENSES:</b>				
Program Services:				
Exhibits	1,938,295	-	-	1,938,295
Educational Programs	2,948,802	-	-	2,948,802
Retail Services	<u>369,855</u>	<u>-</u>	<u>-</u>	<u>369,855</u>
Total Program Services	<u>5,256,952</u>	<u>-</u>	<u>-</u>	<u>5,256,952</u>
Supporting Services:				
Management and General	1,120,075	-	-	1,120,075
Development and Fundraising	<u>441,366</u>	<u>-</u>	<u>-</u>	<u>441,366</u>
Total Supporting Services	<u>1,561,441</u>	<u>-</u>	<u>-</u>	<u>1,561,441</u>
Total Expenses	<u>6,818,393</u>	<u>-</u>	<u>-</u>	<u>6,818,393</u>
<b>CHANGE IN NET ASSETS</b>	287,965	(90,414)	-	197,551
<b>NET ASSETS, Beginning of Year</b>	<u>9,266,082</u>	<u>10,730,240</u>	<u>1,161,095</u>	<u>21,157,417</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 9,554,047</u>	<u>\$ 10,639,826</u>	<u>\$ 1,161,095</u>	<u>\$ 21,354,968</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, 2012

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in Net Assets	\$ 197,551
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Net Unrealized Gain on Investments	(265,190)
Proceeds from Contributions Restricted for Long-Term Purposes	(423,092)
Depreciation	634,665
Donated Rent Receivable	97,759
Donated Property and Equipment	(101,693)
(Increase) Decrease in Assets:	
Contributions Receivable	496,622
Inventory	(2,754)
Prepaid Expenses	(85,621)
Other Current Assets	(1,781)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Liabilities	28,236
Accrued Payroll and Related Benefits	72,742
Deferred Revenue	(1,695)
Customer Deposits	<u>2,785</u>
Net Cash Provided by Operating Activities	<u>648,534</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of Investments	(538,789)
Proceeds from Sale of Investments	285,953
Purchase of Property and Equipment	<u>(753,038)</u>
Net Cash Used by Investing Activities	<u>(1,005,874)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from Contributions Restricted for Long-Term Purposes	<u>423,092</u>
Net Cash Provided by Financing Activities	<u>423,092</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	65,752
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>1,392,263</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u><u>\$ 1,458,015</u></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)

NOTES TO FINANCIAL STATEMENTS

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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 6.7 million adults and children since opening its doors in the spring of 1990. In the 2011-2012 fiscal year, the Museum provided engaging learning opportunities to over 255,000 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 Bubbalogna, 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. In June, 2011, the Museum opened its newest National Science Foundation-funded exhibit, Mammoth Discovery!, showcasing the remains of a Columbian Mammoth found by a San Jose resident along the Guadalupe River. The exhibit also features a full-size replica of this young mammoth, funded by the Santa Clara Valley Water District, and a sculpture of an adult mammoth located just outside of the Museum. The research room, located under the main stairway, supports the Museum's long-standing UC Santa Cruz research partners conducting interviews and one-on-one interactions with the Museum's audience that help inform exhibit design and educational program development on science topics. The space also provides the research of a developmental psychologist at Stanford University seeking increase the understanding 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)

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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 2011-2012, the Museum provided programs for over 38,000 participants. In addition, the on-site Art Studio in The Wonder Cabinet and Art Loft are examples of the Museum's commitment to arts education experiences. The Kids' Garden features programming that supports science learning 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), engage 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.

In July, 2012, the Museum received funding from IMLS (Institute of Museum and Libraries Services) to strengthen recent healthy eating initiatives in the Rainbow Pizza and Market exhibit and Hope Rehabilitation's Kids' Café. Over the next two years, the Museum will undertake an institutional approach that embraces authentic experiences with food, fully engaging the Museum's audience in exploration of the cultural, social and economic practices of food production and consumption in Silicon Valley, a region rich in agricultural history, new excitement for urban farming, and burgeoning ethnic cuisine. Family Foodways will engage the Museum's audience in identifying and creating strategies to address our community's priority to reduce obesity through early intervention by advancing food literacy and honoring our Valley's agricultural past through farm-to-fork programs.

The success of the Museum's zero-waste initiative was recognized by the national Association of Children's Museums with its 2012 Promising Practices Replication Award sponsored by the MetLife Foundation. With this acknowledgment, the Museum will design and publish an on-line toolkit to be used by other museums seeking to develop similar programs in their institutions.

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.

NOTE 3 - 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.

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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, 2012 was \$31,714.

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."

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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, 2012, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2012 was \$202,188.

Deferred Revenue - The Museum has entered into several agreements with other museums to display their traveling exhibits. As of August 31, 2012, \$40,186 has been received in advance for these exhibits. In addition, the Museum had deferred revenue of \$35,660 from advance admissions.

Customer Deposits - As of August 31, 2012, the Museum has received deposits of \$12,685 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.

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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 - 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 organization tax returns are more likely than not to be sustained upon examination.

The Museum's federal returns for the years ended August 31, 2011, 2010 and 2009 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Museum's state returns for the years ended August 31, 2011, 2010, 2009 and 2008 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, 2012 was \$120,527.

Subsequent Events - Management of the Museum has evaluated events and transactions subsequent to August 31, 2012 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 18, 2012. The Museum has not evaluated subsequent events after December 18, 2012.

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

NOTE 4 - INVESTMENTS:

Fair value of assets measured on a recurring basis as of August 31, 2012 consisted of the following:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Income	\$ 1,619,248	\$ 1,619,248	\$ -	\$ -
Stocks and Mutual Funds	3,339,422	3,339,422	-	-
Venture Capital Funds	162,431	-	-	162,431
Cash and Cash Equivalents	1,161,093	1,161,093	-	-
Interest Receivable	196	196	-	-
Total Investments	<u>\$ 6,282,390</u>	<u>\$ 6,119,959</u>	<u>\$ -</u>	<u>\$ 162,431</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:

	ENF III Fund	ENF VII Fund	TOTAL
Balance as of August 31, 2011	\$ 10,963	\$ 242,724	\$ 253,687
Net Gain (Loss)	<u>1,550</u>	<u>(92,806)</u>	<u>(91,256)</u>
Balance as of August 31, 2012	<u>\$ 12,513</u>	<u>\$ 149,918</u>	<u>\$ 162,431</u>

The net loss in venture capital funds investments included in the change in unrestricted net assets is composed of \$91,256 in unrealized losses.

Net investment income for the year ended August 31, 2012 consisted of the following:

Net Investment Income:	
Interest and Dividends	\$ 135,268
Net Unrealized Gains	<u>265,190</u>
Total Net Investment Income	<u>\$ 400,458</u>

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

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NOTE 5 - CONTRIBUTIONS RECEIVABLE:

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

Contributions receivable as of August 31, 2012 consisted of the following:

Receivable in Less Than One Year	\$ 799,435
Receivable in One To Five Years	107,140
Receivable in More Than Five Years	<u>-</u>
Total Contributions Receivable	<u>906,575</u>
Total Net Present Value of Contributions Receivable	906,575
Less Allowance for Uncollectible	<u>-</u>
Net Contributions Receivable	906,575
Current Portion of Contributions Receivable	<u>(799,435)</u>
Contributions Receivable, Net of Current Portion	<u>\$ 107,140</u>

Of the contributions receivable at August 31, 2012, 27%, 19%, 14% and 12% are due from four donors. Approximately 24% and 11% of total current year grant support was provided by two of these donors.

NOTE 6 - 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)

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NOTE 6 - DONATED RENT RECEIVABLE (Continued):

Donated rent receivable as of August 31, 2012 consisted of the following:

<u>Year Ending August 31,</u>	<u>Amount</u>
2013	\$ 104,290
2014	111,256
2015	118,688
2016	126,617
2017	135,074
Thereafter	<u>8,621,296</u>
Total	9,217,221
Current Portion of Donated Rent Receivable	<u>(104,290)</u>
Donated Rent Receivable, Net of Current Portion	<u>\$ 9,112,931</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment as of August 31, 2012 consisted of the following:

Exhibits	\$ 7,222,106
Equipment	1,311,425
Leasehold Improvements	803,033
Furniture and Fixtures	201,326
Vehicles	<u>34,484</u>
	9,572,374
Less: Accumulated Depreciation	<u>(6,241,435)</u>
	3,330,939
Construction in Progress	260,438
Art	<u>262,423</u>
Property and Equipment, Net	<u>\$ 3,853,800</u>

Depreciation expense for the year ended August 31, 2012 was \$634,665.

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NOTE 8 - 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, 2012.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

The Museum's temporarily restricted net assets as of August 31, 2012 consisted of the following:

Temporarily Restricted Net Assets:	
Donated Rent Receivable	\$ 9,217,221
Programs and Exhibits	835,641
Endowment Accumulated Earnings - Unappropriated	<u>586,964</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,639,826</u>

NOTE 10 - 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 15).

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NOTE 11 - 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, 2012 the following in-kind donations were received by the Museum:

Rent	\$ 622,241
Computer Software	79,746
Supplies	16,004
Vehicle	<u>21,947</u>
Donations In-Kind for Operations	739,938
Special Event Supplies and Services	<u>3,887</u>
Total Donations In-Kind	<u>\$ 743,825</u>

NOTE 12 - 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	\$ 97,759
Programs and Exhibits	<u>1,238,887</u>
Total Net Assets Released from Restrictions	<u>\$ 1,336,646</u>

NOTE 13 - 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.



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NOTE 14 - 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, 2012 in-kind donations received from the board members totaled \$117,193. During the year ended August 31, 2012 cash and stock contributions received from board members totaled \$168,560 and cash contributions from their employers or affiliation totaled \$671,350.

NOTE 15 - 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

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 15 - 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% Barclay's 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, 2012. 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, 2012 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 586,964	\$ 1,161,095	\$ 1,748,059
Board-Designated Endowment Funds	<u>2,700,247</u>	<u>-</u>	<u>-</u>	<u>2,700,247</u>
Total Funds	<u>\$ 2,700,247</u>	<u>\$ 586,964</u>	<u>\$ 1,161,095</u>	<u>\$ 4,448,306</u>

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 15 - ENDOWMENT (Continued):

Changes in donor-restricted endowment net assets for the fiscal year ended August 31, 2012 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 585,281	\$ 1,161,095	\$ 1,746,376
Interest and Dividends	-	89,479	-	89,479
Net Unrealized Loss on Investments	<u>-</u>	<u>(87,796)</u>	<u>-</u>	<u>(87,796)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 586,964</u>	<u>\$ 1,161,095</u>	<u>\$ 1,748,059</u>

Changes in board-designated endowment net assets for the fiscal year ended August 31, 2012 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 2,632,348	\$ -	\$ -	\$ 2,632,348
Interest and Dividends	45,762	-	-	45,762
Net Unrealized Gain on Investments	248,926	-	-	248,926
Released from Board Designation	<u>(226,789)</u>	<u>-</u>	<u>-</u>	<u>(226,789)</u>
Endowment Net Assets, End of Year	<u>\$ 2,700,247</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,700,247</u>

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE  
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SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended August 31, 2012

	PROGRAM SERVICES				SUPPORTING SERVICES			Totals
	Exhibits	Educational Programs	Retail Services	Total	Management and General	Development and Fundraising	Total	
<b>EXPENSES:</b>								
Salaries	\$ 453,107	\$ 1,655,125	\$ 99,423	\$ 2,207,655	\$ 533,673	\$ 220,803	\$ 754,476	\$ 2,962,131
Employee Benefits	23,483	69,832	18,807	112,122	89,479	23,053	112,532	224,654
Payroll Taxes	34,353	124,756	7,644	166,753	36,064	14,555	50,619	217,372
Total Salaries and Benefits	510,943	1,849,713	125,874	2,486,530	659,216	258,411	917,627	3,404,157
Occupancy	324,000	288,000	14,400	626,400	72,000	21,600	93,600	720,000
Outside Services	51,505	121,728	14,668	187,901	202,716	78,170	280,886	468,787
Repairs and Maintenance	186,380	211,119	9,607	407,106	50,857	17,570	68,427	475,533
Small Equipment	152,039	114,562	4,197	270,798	15,661	5,792	21,453	292,251
Printing	1,351	180,382	601	182,334	1,502	947	2,449	184,783
Utilities	70,936	79,803	3,547	154,286	17,685	5,320	23,005	177,291
Cost of Goods Sold	-	-	159,318	159,318	-	-	-	159,318
Dues and Subscriptions	36,534	3,652	212	40,398	2,494	1,650	4,144	44,542
Insurance	20,405	22,956	1,020	44,381	5,101	1,530	6,631	51,012
Travel	22,472	16,305	1,866	40,643	5,264	(1,253)	4,011	44,654
Postage and Shipping	1,433	9,985	3,300	14,718	1,017	1,920	2,937	17,655
Telephone	7,520	8,643	3,925	20,088	9,708	7,389	17,097	37,185
Conferences and Meetings	18,371	6,511	5,719	30,601	10,249	26,317	36,566	67,167
Office Expenses	3,637	4,059	1,808	9,504	13,834	3,149	16,983	26,487
Training	-	-	-	-	7,684	-	7,684	7,684
Automobile	2,849	2,373	-	5,222	-	-	-	5,222
Total Functional Expenses Before Depreciation	1,410,375	2,919,791	350,062	4,680,228	1,074,988	428,512	1,503,500	6,183,728
Depreciation	527,920	29,011	19,793	576,724	45,087	12,854	57,941	634,665
Total Functional Expenses	\$ 1,938,295	\$ 2,948,802	\$ 369,855	\$ 5,256,952	\$ 1,120,075	\$ 441,366	\$ 1,561,441	\$ 6,818,393
Percentage of Total	28.5 %	43.2 %	5.4 %	77.1 %	16.4 %	6.5 %	22.9 %	100.0 %