

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

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FINANCIAL STATEMENTS

Year Ended August 31, 2013

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

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## 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 financial statements of Children's Discovery Museum of San Jose (a California nonprofit public benefit corporation), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Discovery Museum of San Jose as of August 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Supplementary Information**

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 19 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.

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 13, 2013

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

STATEMENT OF FINANCIAL POSITION

August 31, 2013

<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	\$ 2,126,598	\$ 139,225	\$ -	\$ 2,265,823
Contributions Receivable, Current Portion	285,568	471,488	-	757,056
Donated Rent Receivable, Current Portion	-	111,256	-	111,256
Inventory	31,550	-	-	31,550
Prepaid Expenses	99,590	-	-	99,590
Other Current Assets	3,870	-	-	3,870
Total Current Assets	<u>2,547,176</u>	<u>721,969</u>	<u>-</u>	<u>3,269,145</u>
<b>OTHER ASSETS:</b>				
Cash and Cash Equivalents Designated for Long-Term Purposes	3,026,920	-	-	3,026,920
Investments	1,357,608	588,133	1,161,095	3,106,836
Property and Equipment, Net	3,723,972	-	-	3,723,972
Contributions Receivable, Net of Current Portion	-	91,010	-	91,010
Donated Rent Receivable, Net of Current Portion	-	9,001,675	-	9,001,675
Total Other Assets	<u>8,108,500</u>	<u>9,680,818</u>	<u>1,161,095</u>	<u>18,950,413</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,655,676</u>	<u>\$ 10,402,787</u>	<u>\$ 1,161,095</u>	<u>\$ 22,219,558</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts Payable and Accrued Liabilities	\$ 103,801	\$ -	\$ -	\$ 103,801
Accrued Payroll and Related Benefits	377,866	-	-	377,866
Deferred Revenue	63,010	-	-	63,010
Customer Deposits	2,500	-	-	2,500
Total Current Liabilities	<u>547,177</u>	<u>-</u>	<u>-</u>	<u>547,177</u>
<b>NET ASSETS:</b>				
Unrestricted Net Assets:				
Board Designated:				
Endowment	2,986,663	-	-	2,986,663
Operating Reserve	2,000,000	-	-	2,000,000
Fixed Asset Reserve	1,000,000	-	-	1,000,000
Exhibit Fabrication Facility	397,864	-	-	397,864
Total Board Designated	6,384,527	-	-	6,384,527
Property and Equipment	3,723,972	-	-	3,723,972
Total Unrestricted Net Assets	10,108,499	-	-	10,108,499
Temporarily Restricted Net Assets	-	10,402,787	-	10,402,787
Permanently Restricted Net Assets	-	-	1,161,095	1,161,095
Total Net Assets	<u>10,108,499</u>	<u>10,402,787</u>	<u>1,161,095</u>	<u>21,672,381</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 10,655,676</u>	<u>\$ 10,402,787</u>	<u>\$ 1,161,095</u>	<u>\$ 22,219,558</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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
<b>SUPPORT AND REVENUE:</b>				
Support:				
Grants and Contributions	\$ 880,268	\$ 831,470	\$ -	\$ 1,711,738
Donations In-Kind	913,417	-	-	913,417
Special Events (Includes In-Kind Income of \$3,536)	1,206,891	-	-	1,206,891
Less: Direct Donor Benefits	<u>(119,246)</u>	<u>-</u>	<u>-</u>	<u>(119,246)</u>
Net Special Events	<u>1,087,645</u>	<u>-</u>	<u>-</u>	<u>1,087,645</u>
Total Support	<u>2,881,330</u>	<u>831,470</u>	<u>-</u>	<u>3,712,800</u>
Revenue:				
Admissions	1,655,517	-	-	1,655,517
Membership	759,906	-	-	759,906
Net Realized and Unrealized Gain on Investments	454,803	-	-	454,803
Retail Services	389,291	-	-	389,291
Interest and Dividends	175,961	1,169	-	177,130
Program Fees	122,705	-	-	122,705
Exhibit Rental	67,286	-	-	67,286
Other Income	<u>60,630</u>	<u>-</u>	<u>-</u>	<u>60,630</u>
Total Revenue	<u>3,686,099</u>	<u>1,169</u>	<u>-</u>	<u>3,687,268</u>
Total Support and Revenue	6,567,429	832,639	-	7,400,068
Net Assets Released from Restrictions	<u>1,069,678</u>	<u>(1,069,678)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>7,637,107</u>	<u>(237,039)</u>	<u>-</u>	<u>7,400,068</u>
<b>EXPENSES:</b>				
Program Services:				
Exhibits	1,916,021	-	-	1,916,021
Educational Programs	3,202,386	-	-	3,202,386
Retail Services	<u>434,744</u>	<u>-</u>	<u>-</u>	<u>434,744</u>
Total Program Services	<u>5,553,151</u>	<u>-</u>	<u>-</u>	<u>5,553,151</u>
Supporting Services:				
Management and General	1,135,826	-	-	1,135,826
Development and Fundraising	<u>393,678</u>	<u>-</u>	<u>-</u>	<u>393,678</u>
Total Supporting Services	<u>1,529,504</u>	<u>-</u>	<u>-</u>	<u>1,529,504</u>
Total Expenses	<u>7,082,655</u>	<u>-</u>	<u>-</u>	<u>7,082,655</u>
<b>CHANGE IN NET ASSETS</b>	554,452	(237,039)	-	317,413
<b>NET ASSETS, Beginning of Year</b>	<u>9,554,047</u>	<u>10,639,826</u>	<u>1,161,095</u>	<u>21,354,968</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 10,108,499</u>	<u>\$ 10,402,787</u>	<u>\$ 1,161,095</u>	<u>\$ 21,672,381</u>

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

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE  
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STATEMENT OF CASH FLOWS

Year Ended August 31, 2013

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in Net Assets	\$ 317,413
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Net Realized and Unrealized Gain on Investments	(454,803)
Depreciation	767,196
Donated Rent Receivable	104,290
Donated Property and Equipment	(269,070)
(Increase) Decrease in Assets:	
Contributions Receivable	58,509
Inventory	164
Prepaid Expenses	49,274
Other Current Assets	1,834
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Liabilities	(21,315)
Accrued Payroll and Related Benefits	42,198
Deferred Revenue	(12,836)
Customer Deposits	<u>(10,185)</u>
Net Cash Provided by Operating Activities	<u>572,669</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of Investments	(105,470)
Proceeds from Sale of Investments	3,735,827
Purchase of Property and Equipment	<u>(368,298)</u>
Net Cash Provided by Investing Activities	<u>3,262,059</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 3,834,728

**CASH AND CASH EQUIVALENTS, Beginning of Year** 1,458,015

**CASH AND CASH EQUIVALENTS, End of Year** \$ 5,292,743

**CASH AND CASH EQUIVALENTS:**

Operating	\$ 2,265,823
Designated for Long-Term Purposes	<u>3,026,920</u>
Total Cash and Cash Equivalents	<u>\$ 5,292,743</u>

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

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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 7 million adults and children since opening its doors in the spring of 1990. In the 2012-2013 fiscal year, the Museum provided engaging learning opportunities to over 281,000 families and 34,000 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. The Museum's National Science Foundation-funded exhibit, Mammoth Discovery!, showcases the remains of a Columbian Mammoth found by a San Jose resident along the Guadalupe River, along with a full-size replica of this young mammoth, 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 houses the research of a Stanford University developmental psychologist and his students, who are seeking to increase understanding of language development in very young children. Last year, the Museum investigated a new flexible, short-term approach to exhibit development when it piloted "Holidays Unboxed" during the winter holidays. Museum visitors were actively engaged in exploring the unique properties of a large scale activity structure – crawling, sliding and climbing – created by architect Eric Lennartson using over 14 miles of tape and the assistance of nearly 100 volunteers, and a cardboard maze which filled the Brandenburg Theatre space.



CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE  
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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 2012-2013, the Museum provided programs for over 41,000 participants. 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.

With funding from IMLS (Institute of Museum and Libraries Services), the Museum is working to implement an institutional approach that embraces authentic experiences with food, fully engaging its 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 agrarian past. This initiative will also promote healthy eating initiatives in the Rainbow Pizza Market, Hope Rehabilitation's Hope Café and the Kids' Garden with support from Kaiser Permanente and FIRST 5 Santa Clara County.

The Museum also received funding from IMLS, through its 21st Century Museum Professionals program, to design an organization change model that will go beyond the goal of hiring diverse employees to achieving cultural competence – making the practice of inclusion a foundational way of work. Collaboration to develop and field test the Cultural Competence Learning Institute will include the Association of Science and Technology Center's Equity and Diversity Committee, well-respected researcher/evaluator Cecilia Garibay and museum colleagues from SciPort: Louisiana Science Center and the Long Island Children's Museum.

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)

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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.

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, 2013 was \$31,550.

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  
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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 Museum does not recognize depreciation on capitalized individual works of art whose economic benefit or service potential is used up so slowly that the estimated useful life of the assets is extraordinarily long. 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, 2013, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2013 was \$181,928.

Deferred Revenue - The Museum has entered into several agreements with other museums to display their traveling exhibits. As of August 31, 2013, \$12,500 has been received in advance for these exhibits. In addition, the Museum had deferred revenue of \$27,947 from advance admissions and the sale of gift cards and \$22,563 for an operating grant payment received in advance from the City of San Jose.

Customer Deposits - As of August 31, 2013, the Museum has received deposits of \$2,500 for future

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

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

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, 2012, 2011 and 2010 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, 2012, 2011, 2010 and 2009 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, 2013 was \$138,841.

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

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

Subsequent Events - Management of the Museum has evaluated events and transactions subsequent to August 31, 2013 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 13, 2013. The Museum has not evaluated subsequent events after December 13, 2013.

NOTE 4 - INVESTMENTS:

Fair value of assets measured on a recurring basis as of August 31, 2013 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>
Stocks and Mutual Funds	\$ 1,773,980	\$ 1,773,980	\$ -	\$ -
Venture Capital Funds	171,708	-	-	171,708
Cash and Cash Equivalents	1,161,091	1,161,091	-	-
Interest Receivable	<u>57</u>	<u>57</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 3,106,836</u>	<u>\$ 2,935,128</u>	<u>\$ -</u>	<u>\$ 171,708</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, 2012	\$ 12,513	\$ 149,918	\$ 162,431
Net Gain	3,703	25,157	28,860
Cash Distributions	<u>(2,877)</u>	<u>(16,606)</u>	<u>(19,483)</u>
Balance as of August 31, 2013	<u>\$ 13,339</u>	<u>\$ 158,469</u>	<u>\$ 171,808</u>

The net gain in venture capital funds investments included in the change in unrestricted net assets is composed of \$28,860 in unrealized gains.

Net investment income for the year ended August 31, 2013 consisted of the following:

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

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NOTE 4 - INVESTMENTS (Continued):

Net Investment Income:	
Interest and Dividends	\$ 177,130
Net Realized Gains	397,864
Net Unrealized Gains	<u>56,939</u>
Total Net Investment Income	<u>\$ 631,933</u>

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, 2013 consisted of the following:

Receivable in Less Than One Year	\$ 757,056
Receivable in One To Five Years	91,010
Receivable in More Than Five Years	<u>-</u>
Total Contributions Receivable	<u>848,066</u>
Total Net Present Value of Contributions Receivable	848,066
Less Allowance for Uncollectible	<u>-</u>
Net Contributions Receivable	848,066
Contributions Receivable, Current Portion	<u>(757,056)</u>
Contributions Receivable, Net of Current Portion	<u>\$ 91,010</u>

Of the contributions receivable at August 31, 2013, 46%, 15%, and 12% are due from three donors. Approximately 24% and 14% 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.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 6 - DONATED RENT RECEIVABLE (Continued):

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.

Donated rent receivable as of August 31, 2013 consisted of the following:

<u>Year Ending August 31,</u>	<u>Amount</u>
2014	\$ 111,256
2015	118,688
2016	126,617
2017	135,074
2018	144,097
Thereafter	<u>8,477,199</u>
Total	9,112,931
Donated Rent Receivable, Current Portion	<u>(111,256)</u>
Donated Rent Receivable, Net of Current Portion	<u>\$ 9,001,675</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment as of August 31, 2013 consisted of the following:

Exhibits	\$ 6,458,482
Equipment	766,532
Leasehold Improvements	803,033
Furniture and Fixtures	196,531
Vehicles	<u>56,794</u>
	8,281,372
Less: Accumulated Depreciation	<u>(5,416,153)</u>
	2,865,219
Construction in Progress	596,330
Art	<u>262,423</u>
Property and Equipment, Net	<u>\$ 3,723,972</u>

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CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 7 - PROPERTY AND EQUIPMENT (Continued):

Depreciation expense for the year ended August 31, 2013 was \$767,196.

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, 2013.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

The Museum's temporarily restricted net assets as of August 31, 2013 consisted of the following:

Temporarily Restricted Net Assets:	
Donated Rent Receivable	\$ 9,112,931
Programs and Exhibits	701,723
Endowment Accumulated Earnings - Unappropriated	<u>588,133</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,402,787</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, 2013 the following in-kind donations were received by the Museum:

Rent	\$ 615,710
Equipment	269,070
Small Equipment	3,120
Supplies	517
Services and Consulting	<u>25,000</u>
Donations In-Kind for Operations	913,417
Special Event Supplies and Services	<u>3,536</u>
Total Donations In-Kind	<u>\$ 916,953</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	\$ 104,290
Programs and Exhibits	<u>965,388</u>
Total Net Assets Released from Restrictions	<u>\$ 1,069,678</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, 2013 in-kind donations received from the board members totaled \$202,077. During the year ended August 31, 2013 cash and stock contributions received from board members totaled \$219,515 and cash contributions from their employers or affiliation totaled \$675,194.

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 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. 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, 2013 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 588,133	\$ 1,161,095	\$ 1,749,228
Board-Designated Endowment Funds	<u>2,986,663</u>	<u>-</u>	<u>-</u>	<u>2,986,663</u>
Total Funds	<u>\$ 2,986,663</u>	<u>\$ 588,133</u>	<u>\$ 1,161,095</u>	<u>\$ 4,735,891</u>

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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, 2013 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 586,964	\$ 1,161,095	\$ 1,748,059
Interest and Dividends	<u>-</u>	<u>1,169</u>	<u>-</u>	<u>1,169</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 588,133</u>	<u>\$ 1,161,095</u>	<u>\$ 1,749,228</u>

Changes in board-designated endowment net assets for the fiscal year ended August 31, 2013 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 2,700,247	\$ -	\$ -	\$ 2,700,247
Interest and Dividends	175,961	-	-	175,961
Net Unrealized Gain on Investments	454,803	-	-	454,803
Released from Board Designation	<u>(344,348)</u>	<u>-</u>	<u>-</u>	<u>(344,348)</u>
Endowment Net Assets, End of Year	<u>\$ 2,986,663</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,986,663</u>

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

Year Ended August 31, 2013

	PROGRAM SERVICES				SUPPORTING SERVICES			Totals
	Exhibits	Educational Programs	Retail Services	Total	Management and General	Development and Fundraising	Total	
<b>EXPENSES:</b>								
Salaries	\$ 261,731	\$ 1,738,553	\$ 95,675	\$ 2,095,959	\$ 542,155	\$ 228,460	\$ 770,615	\$ 2,866,574
Payroll Taxes	19,691	130,561	7,621	157,873	36,924	14,726	51,650	209,523
Employee Benefits	20,236	68,854	16,062	105,152	75,948	19,305	95,253	200,405
Total Salaries and Benefits	301,658	1,937,968	119,358	2,358,984	655,027	262,491	917,518	3,276,502
Occupancy	324,000	288,000	14,400	626,400	72,000	21,600	93,600	720,000
Repairs and Maintenance	215,290	239,453	10,561	465,304	53,567	15,842	69,409	534,713
Outside Services	95,419	150,695	16,317	262,431	196,177	10,875	207,052	469,483
Small Equipment	177,337	130,466	4,840	312,643	25,956	3,632	29,588	342,231
Cost of Goods Sold	-	-	218,495	218,495	-	-	-	218,495
Printing	16,930	194,089	83	211,102	2,254	3,354	5,608	216,710
Utilities	79,115	89,004	3,956	172,075	19,779	5,934	25,713	197,788
Conferences and Meetings	7,746	18,568	4,636	30,950	8,272	34,692	42,964	73,914
Insurance	22,792	25,640	1,140	49,572	5,699	1,709	7,408	56,980
Dues and Subscriptions	36,213	3,329	873	40,415	5,464	2,005	7,469	47,884
Telephone	8,394	10,503	4,382	23,279	10,242	8,034	18,276	41,555
Travel	2,282	26,299	492	29,073	2,821	1,743	4,564	33,637
Office Expenses	4,205	4,780	2,112	11,097	9,479	5,988	15,467	26,564
Loss on Disposition of Property and Equipment	1,423	21,947	-	23,370	-	-	-	23,370
Postage and Shipping	1,127	7,260	12,022	20,409	738	1,253	1,991	22,400
Training	75	75	-	150	7,053	-	7,053	7,203
Automobile	2,269	2,549	-	4,818	-	-	-	4,818
Miscellaneous	1,212	-	-	1,212	-	-	-	1,212
Total Functional Expenses Before Depreciation	1,297,487	3,150,625	413,667	4,861,779	1,074,528	379,152	1,453,680	6,315,459
Depreciation	618,534	51,761	21,077	691,372	61,298	14,526	75,824	767,196
Total Functional Expenses	\$ 1,916,021	\$ 3,202,386	\$ 434,744	\$ 5,553,151	\$ 1,135,826	\$ 393,678	\$ 1,529,504	\$ 7,082,655
Percentage of Total	27.1 %	45.2 %	6.1 %	78.4 %	16.0 %	5.6 %	21.6 %	100.0 %