

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

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FINANCIAL STATEMENTS

Year Ended August 31, 2014

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

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**FOUNDERS**

Alexander W. Berger (1916-2005)  
Griffith R. Lewis (1930-2012)

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 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, 2014, 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, 2014, 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.

## Other Matter

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 20 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, 2014

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

STATEMENT OF FINANCIAL POSITION

August 31, 2014

<b>ASSETS</b>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$ 2,352,780	\$ 579,507	\$ -	\$ 2,932,287
Contributions Receivable, Current Portion	116,794	627,890	-	744,684
Donated Rent Receivable, Current Portion	-	118,688	-	118,688
Inventory	33,976	-	-	33,976
Prepaid Expenses	105,241	-	-	105,241
Other Current Assets	22,970	-	-	22,970
Total Current Assets	2,631,761	1,326,085	-	3,957,846
<b>OTHER ASSETS:</b>				
Cash and Cash Equivalents Designated for Long-Term Purposes	906,446	-	-	906,446
Investments	3,931,303	588,613	1,161,095	5,681,011
Property and Equipment, Net	4,668,779	-	-	4,668,779
Contributions Receivable, Net of Current Portion	-	50,421	-	50,421
Donated Rent Receivable, Net of Current Portion	-	8,882,987	-	8,882,987
Total Other Assets	9,506,528	9,522,021	1,161,095	20,189,644
<b>TOTAL ASSETS</b>	<b>\$ 12,138,289</b>	<b>\$ 10,848,106</b>	<b>\$ 1,161,095</b>	<b>\$ 24,147,490</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts Payable and Accrued Liabilities	\$ 107,992	\$ -	\$ -	\$ 107,992
Accrued Payroll and Related Benefits	396,201	-	-	396,201
Deferred Revenue	61,798	-	-	61,798
Customer Deposits	65,750	-	-	65,750
Total Current Liabilities	631,741	-	-	631,741
<b>NET ASSETS:</b>				
Unrestricted Net Assets:				
Board Designated:				
Endowment	2,966,373	-	-	2,966,373
Operating Reserve	2,000,000	-	-	2,000,000
Fixed Asset Reserve	1,000,000	-	-	1,000,000
Exhibit Fabrication Facility	871,396	-	-	871,396
Total Board Designated	6,837,769	-	-	6,837,769
Property and Equipment	4,668,779	-	-	4,668,779
Total Unrestricted Net Assets	11,506,548	-	-	11,506,548
Temporarily Restricted Net Assets	-	10,848,106	-	10,848,106
Permanently Restricted Net Assets	-	-	1,161,095	1,161,095
Total Net Assets	11,506,548	10,848,106	1,161,095	23,515,749
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 12,138,289</b>	<b>\$ 10,848,106</b>	<b>\$ 1,161,095</b>	<b>\$ 24,147,490</b>

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
<b>SUPPORT AND REVENUE:</b>				
Support:				
Grants and Contributions	\$ 754,082	\$ 1,699,900	\$ -	\$ 2,453,982
Donations In-Kind	1,525,769	-	-	1,525,769
Special Events (Includes In-Kind Income of \$4,873)	1,299,466	-	-	1,299,466
Less: Direct Donor Benefits	<u>(133,749)</u>	<u>-</u>	<u>-</u>	<u>(133,749)</u>
Net Special Events	<u>1,165,717</u>	<u>-</u>	<u>-</u>	<u>1,165,717</u>
Total Support	<u>3,445,568</u>	<u>1,699,900</u>	<u>-</u>	<u>5,145,468</u>
Revenue:				
Admissions	1,630,398	-	-	1,630,398
Membership	765,630	-	-	765,630
Net Realized and Unrealized Gain on Investments	559,870	-	-	559,870
Retail Services	227,181	-	-	227,181
Program Fees	139,830	-	-	139,830
Other Income	94,712	-	-	94,712
Interest and Dividends	56,440	480	-	56,920
Exhibit Rental	46,600	-	-	46,600
Gain on Disposition of Property and Equipment	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>1,800</u>
Total Revenue	<u>3,522,461</u>	<u>480</u>	<u>-</u>	<u>3,522,941</u>
Total Support and Revenue	6,968,029	1,700,380	-	8,668,409
Net Assets Released from Restrictions	<u>1,255,061</u>	<u>(1,255,061)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>8,223,090</u>	<u>445,319</u>	<u>-</u>	<u>8,668,409</u>
<b>EXPENSES:</b>				
Program Services:				
Exhibits	1,726,480	-	-	1,726,480
Educational Programs	3,305,116	-	-	3,305,116
Retail Services	<u>318,341</u>	<u>-</u>	<u>-</u>	<u>318,341</u>
Total Program Services	<u>5,349,937</u>	<u>-</u>	<u>-</u>	<u>5,349,937</u>
Supporting Services:				
Management and General	1,124,216	-	-	1,124,216
Development and Fundraising	<u>350,888</u>	<u>-</u>	<u>-</u>	<u>350,888</u>
Total Supporting Services	<u>1,475,104</u>	<u>-</u>	<u>-</u>	<u>1,475,104</u>
Total Expenses	<u>6,825,041</u>	<u>-</u>	<u>-</u>	<u>6,825,041</u>
<b>CHANGE IN NET ASSETS</b>	1,398,049	445,319	-	1,843,368
<b>NET ASSETS, Beginning of Year</b>	<u>10,108,499</u>	<u>10,402,787</u>	<u>1,161,095</u>	<u>21,672,381</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 11,506,548</u>	<u>\$ 10,848,106</u>	<u>\$ 1,161,095</u>	<u>\$ 23,515,749</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, 2014

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in Net Assets	\$ 1,843,368
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Net Realized and Unrealized Gain on Investments	(559,870)
Depreciation	808,867
Donated Rent Receivable	111,256
Donated Property and Equipment	(876,632)
(Increase) Decrease in Assets:	
Contributions Receivable	52,961
Inventory	(2,426)
Prepaid Expenses	(5,651)
Other Current Assets	(19,100)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Liabilities	4,191
Accrued Payroll and Related Benefits	18,335
Deferred Revenue	(1,212)
Customer Deposits	<u>63,250</u>
Net Cash Provided by Operating Activities	<u>1,437,337</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of Investments	(2,073,055)
Proceeds from Sale of Investments	58,750
Purchase of Property and Equipment	<u>(877,042)</u>
Net Cash Used by Investing Activities	<u>(2,891,347)</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (1,454,010)

**CASH AND CASH EQUIVALENTS, Beginning of Year** 5,292,743

**CASH AND CASH EQUIVALENTS, End of Year** \$ 3,838,733

**CASH AND CASH EQUIVALENTS:**

Operating	\$ 2,932,287
Designated for Long-Term Purposes	<u>906,446</u>
Total Cash and Cash Equivalents	<u>\$ 3,838,733</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 7.4 million adults and children since opening its doors in the spring of 1990. In the 2013-2014 fiscal year, the Museum provided engaging learning opportunities to over 280,000 families and 31,000 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 its 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. Last year, the Museum hired internationally recognized artist, Christopher Janney of Phenomen Arts, Inc., to install "Soundstairs: San Jose," an interactive sound and light art installation on the main stairway. As visitors walk up and down the stairs, their steps create a unique and continuously changing symphony of sounds. Greeting them at the top of the stairway is the new Tracey Heymann Wing, a permanent art gallery showcasing children's art. 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 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. In September, 2013, the Museum was one of 5 institutions selected by the Asian Cultural Exhibit Initiative, funded by the Freeman Foundation, to create an exhibit which will tour children's museums over the next 3 years. Building on the Museum's relationship with the local Vietnamese community, the new exhibit will focus on the Tet celebration.



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 2013-2014, the Museum provided programs for over 42,000 participants. The on-site Art Studio in The Wonder Cabinet and Art Loft are examples of the Museum's commitment to visual arts education experiences, while the Lee and Diane Brandenburg Theatre and Cadence Amphitheatre offer performing experiences. The Museum employs a three-pronged approach to the arts: engagement with and viewing the work of professional artists; exploring the other children's art; and individually creating their own works of art in various formats. Throughout the year, the Museum invites the community to participate in various cultural festivals, which represent our region's composition. These events include weekend events, such as Diwali, Dia de los Tres Reyes Magos, Lunar New Year, Children of the Dragon, single day or evening events, such as Dia de los Muertos, the Lantern Festival and Lunada Familiar. 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 the 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.

The Museum currently has funding from IMLS (Institute of Museum and Libraries Services) for three initiatives. The first, known as Family Foodways will develop 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, Kids' Café and the Kids' Garden with support from Kaiser Permanente and FIRST 5 Santa Clara County. Under the 21<sup>st</sup> Century Museum Professionals program, the second initiative will develop and field test the Cultural Competence Learning Institute in collaboration with 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. The most recent award from IMLS is entitled Breaking Ground and strives to identify and support in-depth strategies to attract and serve the region's diverse cultures.

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):

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.

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, 2014 was \$33,976.

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):

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.

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, 2014, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2014 was \$213,444.

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):

Deferred Revenue - The Museum has entered into several agreements with other museums to display their traveling exhibits. As of August 31, 2014, \$13,250 has been received in advance for these exhibits. In addition, the Museum had deferred revenue of \$25,985 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, 2014, the Museum has received deposits of \$65,750 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.

Donations 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.

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

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

The Museum's federal returns for the years ended August 31, 2013, 2012 and 2011 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, 2013, 2012, 2011 and 2010 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, 2014 was \$161,319.

Subsequent Events - Management of the Museum has evaluated events and transactions subsequent to August 31, 2014 for potential recognition or disclosure in the financial statements. The Museum has subsequent events that required recognition or disclosure in the financial statements for the year ended August 31, 2014 (see Note 16). Subsequent events have been evaluated through the date the financial statements became available to be issued, December 18, 2014.

NOTE 4 - INVESTMENTS:

Fair value of assets measured on a recurring basis as of August 31, 2014 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	\$ 4,391,132	\$ 4,391,132	\$ -	\$ -
Venture Capital Funds	128,709	-	-	128,709
Cash and Cash Equivalents	1,161,108	1,161,108	-	-
Interest Receivable	62	62	-	-
Total Investments	<u>\$ 5,681,011</u>	<u>\$ 5,552,302</u>	<u>\$ -</u>	<u>\$ 128,709</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.

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

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NOTE 4 - INVESTMENTS (Continued):

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, 2013	\$ 13,339	\$ 158,369	\$ 171,708
Net Gain	(2,110)	17,690	15,580
Cash Distributions	<u>-</u>	<u>(58,579)</u>	<u>(58,579)</u>
Balance as of August 31, 2014	<u>\$ 11,229</u>	<u>\$ 117,480</u>	<u>\$ 128,709</u>

The net gain in venture capital funds investments included in the change in unrestricted net assets is composed of \$15,580 in unrealized gains.

Net investment income for the year ended August 31, 2014 consisted of the following:

Net Investment Income:	
Interest and Dividends	\$ 56,920
Net Realized Gains	473,532
Net Unrealized Gains	<u>86,338</u>
Total Net Investment Income	<u>\$ 616,790</u>

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

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, 2014 consisted of the following:

Receivable in Less Than One Year	\$ 744,684
Receivable in One To Five Years	50,421
Receivable in More Than Five Years	<u>-</u>
Total Contributions Receivable	<u>795,105</u>
Total Net Present Value of Contributions Receivable	795,105
Less Allowance for Uncollectible	<u>-</u>
Net Contributions Receivable	795,105
Contributions Receivable, Current Portion	<u>(744,684)</u>
Contributions Receivable, Net of Current Portion	<u>\$ 50,421</u>

Of the contributions receivable at August 31, 2014, 41%, 20%, and 17% are due from three donors. Approximately 38% and 7% 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  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 6 - DONATED RENT RECEIVABLE (Continued):

Donated rent receivable as of August 31, 2014 consisted of the following:

<u>Year Ending August 31,</u>	<u>Amount</u>
2015	\$ 118,688
2016	126,617
2017	135,074
2018	144,097
2019	153,723
Thereafter	<u>8,323,476</u>
Total	9,001,675
Donated Rent Receivable, Current Portion	<u>(118,688)</u>
Donated Rent Receivable, Net of Current Portion	<u>\$ 8,882,987</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment as of August 31, 2014 consisted of the following:

Exhibits	\$ 6,792,210
Equipment	1,789,547
Leasehold Improvements	803,033
Furniture and Fixtures	196,531
Vehicles	<u>37,494</u>
	9,618,815
Less: Accumulated Depreciation	<u>(6,148,814)</u>
	3,470,001
Construction in Progress	936,355
Art	<u>262,423</u>
Property and Equipment, Net	<u>\$ 4,668,779</u>

Depreciation expense for the year ended August 31, 2014 was \$808,867.



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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, 2014.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

The Museum's temporarily restricted net assets as of August 31, 2014 consisted of the following:

Temporarily Restricted Net Assets:	
Donated Rent Receivable	\$ 9,001,675
Programs and Exhibits	1,257,818
Endowment Accumulated Earnings - Unappropriated	<u>588,613</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,848,106</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).

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE  
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NOTES TO FINANCIAL STATEMENTS  
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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, 2014 the following in-kind donations were received by the Museum:

Software	\$ 830,480
Rent	608,744
Equipment	47,952
Advertising	29,982
Supplies	3,565
Services and Consulting	<u>173</u>
Donations In-Kind for Operations	1,520,896
Special Event Supplies and Services	<u>4,873</u>
Total Donations In-Kind	<u>\$ 1,525,769</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	\$ 111,256
Programs and Exhibits	<u>1,143,805</u>
Total Net Assets Released from Restrictions	<u>\$ 1,255,061</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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NOTES TO FINANCIAL STATEMENTS  
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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, 2014 in-kind donations received from the board members totaled \$64,488. During the year ended August 31, 2014 cash and stock contributions received from board members totaled \$218,048 and cash contributions from their employers or affiliation totaled \$665,300.

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 as 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  
(Continued)

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, 2014 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 588,613	\$ 1,161,095	\$ 1,749,708
Board-Designated Endowment Funds	2,966,373	-	-	2,966,373
Total Funds	\$ 2,966,373	\$ 588,613	\$ 1,161,095	\$ 4,716,081

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, 2014 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 588,133	\$ 1,161,095	\$ 1,749,228
Interest and Dividends	-	480	-	480
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 588,613</u>	<u>\$ 1,161,095</u>	<u>\$ 1,749,708</u>

Changes in board-designated endowment net assets for the fiscal year ended August 31, 2014 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 2,986,663	\$ -	\$ -	\$ 2,986,663
Interest and Dividends	56,440	-	-	56,440
Net Realized and Unrealized Gain on Investments	559,870	-	-	559,870
Released from Board Designation	<u>(636,600)</u>	<u>-</u>	<u>-</u>	<u>(636,600)</u>
Endowment Net Assets, End of Year	<u>\$ 2,966,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,966,373</u>

NOTE 16 - SUBSEQUENT EVENTS:

In December 2014 the Museum signed a \$1,042,155 contract for the construction of an annex to the museum building to be used as an exhibit fabrication facility. The contract requires monthly progress payments for work performed with the final payment due upon completion of the facility. Construction is expected to be completed during the year ending August 31, 2015.

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SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended August 31, 2014

	PROGRAM SERVICES				SUPPORTING SERVICES			Totals
	Exhibits	Educational Programs	Retail Services	Total	Management and General	Development and Fundraising	Total	
<b>EXPENSES:</b>								
Salaries	\$ 217,598	\$ 1,741,175	\$ 109,515	\$ 2,068,288	\$ 521,088	\$ 203,311	\$ 724,399	\$ 2,792,687
Payroll Taxes	16,677	130,195	8,240	155,112	34,961	13,867	48,828	203,940
Employee Benefits	20,457	64,457	15,870	100,784	79,128	20,702	99,830	200,614
Total Salaries and Benefits	254,732	1,935,827	133,625	2,324,184	635,177	237,880	873,057	3,197,241
Occupancy	324,000	288,000	14,400	626,400	72,000	21,600	93,600	720,000
Repairs and Maintenance	214,125	242,252	10,566	466,943	52,941	15,849	68,790	535,733
Outside Services	60,194	232,862	14,697	307,753	184,910	8,019	192,929	500,682
Small Equipment	125,241	115,731	2,586	243,558	15,361	6,408	21,769	265,327
Utilities	86,380	97,177	4,319	187,876	21,595	6,479	28,074	215,950
Printing	1,490	205,310	-	206,800	275	1,449	1,724	208,524
Cost of Goods Sold	-	-	94,931	94,931	-	-	-	94,931
Dues and Subscriptions	36,262	3,770	632	40,664	14,476	2,571	17,047	57,711
Insurance	22,133	24,899	1,107	48,139	5,533	1,660	7,193	55,332
Travel	1,197	35,660	263	37,120	1,312	-	1,312	38,432
Conferences and Meetings	3,595	9,319	4,890	17,804	9,200	11,317	20,517	38,321
Office Expenses	3,617	17,485	1,558	22,660	5,596	6,589	12,185	34,845
Telephone	4,088	5,357	1,897	11,342	5,147	3,478	8,625	19,967
Postage and Shipping	1,665	6,753	4,262	12,680	757	1,424	2,181	14,861
Training	75	450	-	525	11,257	-	11,257	11,782
Automobile	2,322	4,213	-	6,535	-	-	-	6,535
Total Functional Expenses Before Depreciation	1,141,116	3,225,065	289,733	4,655,914	1,035,537	324,723	1,360,260	6,016,174
Depreciation	585,364	80,051	28,608	694,023	88,679	26,165	114,844	808,867
Total Functional Expenses	\$ 1,726,480	\$ 3,305,116	\$ 318,341	\$ 5,349,937	\$ 1,124,216	\$ 350,888	\$ 1,475,104	\$ 6,825,041
Percentage of Total	25.3 %	48.4 %	4.7 %	78.4 %	16.5 %	5.1 %	21.6 %	100.0 %