

Children's Discovery Museum of San Jose

Financial Statements and Supplementary Information
Year Ended August 31, 2015



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children's Discovery Museum of San Jose
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, 2015, 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, 2015, 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 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.



Armanino^{LLP}
San Jose, California

January 20, 2016

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Statement of Financial Position
August 31, 2015

<u>ASSETS</u>				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 1,866,746	\$ 406,608	\$ -	\$ 2,273,354
Contributions receivable, current portion	406,750	527,185	-	933,935
Donated rent receivable, current portion	-	126,617	-	126,617
Inventory	30,803	-	-	30,803
Prepaid expenses	78,791	-	-	78,791
Other current assets	<u>17,433</u>	<u>-</u>	<u>-</u>	<u>17,433</u>
Total current assets	<u>2,400,523</u>	<u>1,060,410</u>	<u>-</u>	<u>3,460,933</u>
Other assets				
Investments	3,899,863	505,548	1,161,095	5,566,506
Property and equipment, net	6,562,206	-	-	6,562,206
Contributions receivable, net of current portion	-	48,874	-	48,874
Donated rent receivable, net of current portion	<u>-</u>	<u>8,756,369</u>	<u>-</u>	<u>8,756,369</u>
Total other assets	<u>10,462,069</u>	<u>9,310,791</u>	<u>1,161,095</u>	<u>20,933,955</u>
Total assets	<u>\$ 12,862,592</u>	<u>\$ 10,371,201</u>	<u>\$ 1,161,095</u>	<u>\$ 24,394,888</u>

LIABILITIES AND NET ASSETS

Current liabilities				
Accounts payable and accrued liabilities	\$ 301,258	\$ -	\$ -	\$ 301,258
Accrued payroll and related benefits	429,313	-	-	429,313
Deferred revenue	54,122	-	-	54,122
Customer deposits	<u>57,720</u>	<u>-</u>	<u>-</u>	<u>57,720</u>
Total current liabilities	<u>842,413</u>	<u>-</u>	<u>-</u>	<u>842,413</u>
Net assets				
Unrestricted net assets				
Board designated				
Endowment	2,457,973	-	-	2,457,973
Operating reserve	2,000,000	-	-	2,000,000
Fixed asset reserve	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total board designated	<u>5,457,973</u>	<u>-</u>	<u>-</u>	<u>5,457,973</u>
Property and equipment	<u>6,562,206</u>	<u>-</u>	<u>-</u>	<u>6,562,206</u>
Total unrestricted net assets	<u>12,020,179</u>	<u>-</u>	<u>-</u>	<u>12,020,179</u>
Temporarily restricted net assets	-	10,371,201	-	10,371,201
Permanently restricted net assets	<u>-</u>	<u>-</u>	<u>1,161,095</u>	<u>1,161,095</u>
Total net assets	<u>12,020,179</u>	<u>10,371,201</u>	<u>1,161,095</u>	<u>23,552,475</u>
Total liabilities and net assets	<u>\$ 12,862,592</u>	<u>\$ 10,371,201</u>	<u>\$ 1,161,095</u>	<u>\$ 24,394,888</u>

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

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Statement of Activities
Year Ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Support				
Grants and contributions	\$ 956,326	\$ 1,189,982	\$ -	\$ 2,146,308
Donations in-kind	649,459	-	-	649,459
Special events (includes in-kind income of \$11,490)	1,419,232	-	-	1,419,232
Less: direct donor benefits	<u>(149,986)</u>	<u>-</u>	<u>-</u>	<u>(149,986)</u>
Net special events	<u>1,269,246</u>	<u>-</u>	<u>-</u>	<u>1,269,246</u>
Total support	<u>2,875,031</u>	<u>1,189,982</u>	<u>-</u>	<u>4,065,013</u>
Revenue				
Admissions	1,786,019	-	-	1,786,019
Membership	844,712	-	-	844,712
Net realized and unrealized gain (loss) on investments	(212,226)	1,596	-	(210,630)
Retail services	295,472	-	-	295,472
Program fees	152,518	-	-	152,518
Other income	108,693	-	-	108,693
Interest and dividends	133,642	2,420	-	136,062
Exhibit rental	48,350	-	-	48,350
Gain on disposition of property and equipment	<u>44,027</u>	<u>-</u>	<u>-</u>	<u>44,027</u>
Total revenue	<u>3,201,207</u>	<u>4,016</u>	<u>-</u>	<u>3,205,223</u>
Total support and revenue	6,076,238	1,193,998	-	7,270,236
Net assets released from restrictions	<u>1,670,903</u>	<u>(1,670,903)</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restrictions	<u>7,747,141</u>	<u>(476,905)</u>	<u>-</u>	<u>7,270,236</u>
Expenses				
Program services				
Exhibits	1,766,096	-	-	1,766,096
Educational programs	3,516,936	-	-	3,516,936
Retail services	<u>392,815</u>	<u>-</u>	<u>-</u>	<u>392,815</u>
Total program services	<u>5,675,847</u>	<u>-</u>	<u>-</u>	<u>5,675,847</u>
Supporting services				
Management and general	1,198,198	-	-	1,198,198
Development and fundraising	<u>359,465</u>	<u>-</u>	<u>-</u>	<u>359,465</u>
Total supporting services	<u>1,557,663</u>	<u>-</u>	<u>-</u>	<u>1,557,663</u>
Total expenses	<u>7,233,510</u>	<u>-</u>	<u>-</u>	<u>7,233,510</u>
Change in net assets	513,631	(476,905)	-	36,726
Net assets, beginning of year	<u>11,506,548</u>	<u>10,848,106</u>	<u>1,161,095</u>	<u>23,515,749</u>
Net assets, end of year	<u>\$ 12,020,179</u>	<u>\$ 10,371,201</u>	<u>\$ 1,161,095</u>	<u>\$ 23,552,475</u>

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

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Statement of Cash Flows
Year Ended August 31, 2015

Cash flows from operating activities	
Change in net assets	\$ 36,726
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net realized and unrealized loss on investments	210,630
Depreciation	794,474
Donated rent receivable	118,689
Donated property and equipment	(26,921)
Gain on disposition of property and equipment	(44,027)
Change in operating assets and liabilities	
Contributions receivable	(187,704)
Inventory	3,173
Prepaid expenses	26,450
Other current assets	5,537
Accounts payable and accrued liabilities	193,266
Accrued payroll and related benefits	33,112
Deferred revenue	(7,676)
Customer deposits	(8,030)
Net cash provided by operating activities	<u>1,147,699</u>
Cash flows from investing activities	
Purchase of investments	(696,312)
Proceeds from sale of investments	600,187
Purchase of property and equipment	(2,665,853)
Proceeds from disposition of property and equipment	48,900
Net cash used in investing activities	<u>(2,713,078)</u>
Net decrease in cash and cash equivalents	(1,565,379)
Cash and cash equivalents, beginning of year	<u>3,838,733</u>
Cash and cash equivalents, end of year	<u>\$ 2,273,354</u>

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

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

1. Organization

Children's Discovery Museum of San Jose ("the Museum" or "CDM") 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.

2. Program Services

Exhibits

Children's Discovery Museum of San Jose has served over 7.8 million adults and children since opening its doors in the spring of 1990. In the 2014-2015 fiscal year, the Museum provided engaging learning opportunities to over 308,400 families and 36,600 group visitors. On June 6, 2015, the Museum thanked its supportive community by hosting a "free day" for 6,000 visitors, partially underwritten by support from Google, which also provided admission and transportation support for 5,000 school groups.

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 Bubbologna, they are actively engaged in learning, inspired by their own curiosity to investigate how things work and understand more about the world we live in. While the majority of exhibits focus on children to age 10 and their parents and caregivers, The Wonder Cabinet serves the needs of the Museum's youngest visitors as an early learning environment with exhibits designed to support the cognitive, emotional and social development of infants, toddlers and preschoolers. Discovery Express, the Museum's battery-operated train continues to be a visitor favorite since it began its journey around the Museum in 2013.

Last year, was a year of significant accomplishments for the Museum and its staff. Voyage to Vietnam, an exhibit funded by the Association of Children's Museums and the Freeman Foundation Asian Culture Exhibit Series, focused on the celebration of Tet, was completed and showcased at CDM prior to beginning its 3-year national tour to other children's museums. Designing and building its exhibits in-house is a competency of CDM, and 2014-2015 saw the start of construction of the Builder Building, a 3,200 square foot addition adjacent to the Museum, which will house the fabrication work for future exhibits. Building upon recent initiatives that promote healthy eating and a understanding of where our food originates, the Museum enlisted the services of Baldauf Catton Von Eckartsberg Architects and Karp Resources to design the new eating area, Foodshed, a term used to describe a region of food flows, from the area where it is produced, to the place where it is consumed, including: the land it grows on, the route it travels, the markets it passes through, and the tables it ends up on. Gourmet Lunch was hired to work with CDM staff to develop further the connections between Museum exhibits and programs and healthy eating by providing fresh and healthy food options. With a recent contribution from the Agilent Technologies Foundation recognizing the retirement of its CEO Bill Sullivan, design work was begun on the new outdoor play space, Bill's Backyard. Scheduled for completion in spring 2017, this new space will provide outdoor activities and strong links to food sources.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

2. Program Services (continued)

Educational Programs

The Museum provides on-site programs which complement its exhibits and support visitor interactions and learning opportunities. In 2014-2015, the Museum provided programs for over 47,000 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.

This past year, CDM was given the opportunity to develop a satellite location at the new Educare of California at Silicon Valley, a model early learning school and the region's leading professional development and research institute located in the Santee neighborhood of San Jose. CDM installed an updated version of its Out on a Limb exhibit, featuring local animals, trees and plants, and program staff will continue to provide program activity support. Educare of California at Silicon Valley is the newest center in the Educare network, and the only one with a relationship with a 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.

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.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

3. Summary of Significant Accounting Policies (continued)

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, 2015 was \$30,803.

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.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

3. Summary of Significant Accounting Policies (continued)

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, 2015, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2015 was \$216,677.

Deferred revenue

As of August 31, 2015, the Museum had deferred revenue of \$31,559 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, 2015, the Museum has received deposits of \$57,720 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
Notes to Financial Statements
August 31, 2015

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.

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.

The Museum's federal returns for the years ended August 31, 2014, 2013 and 2012 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, 2014, 2013, 2012 and 2011 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, 2015 was \$183,971.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

3. Summary of Significant Accounting Policies (continued)

Subsequent events

Management of the Museum has evaluated events and transactions subsequent to August 31, 2015 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, 2015 (see Note 16). Subsequent events have been evaluated through the date the financial statements became available to be issued, January 20, 2016.

4. Investments

Fair value of assets measured on a recurring basis as of August 31, 2015 consisted of the following:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks and mutual funds	\$ 5,414,839	\$ 5,414,839	\$ -	\$ -
Venture capital funds	147,835	-	-	147,835
Cash and cash equivalents	654	654	-	-
Interest receivable	<u>3,178</u>	<u>3,178</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 5,566,506</u>	<u>\$ 5,418,671</u>	<u>\$ -</u>	<u>\$ 147,835</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, 2014	\$ 11,229	\$ 117,480	\$ 128,709
Net gain (loss)	<u>(1,597)</u>	<u>20,723</u>	<u>19,126</u>
Balance as of August 31, 2015	<u>\$ 9,632</u>	<u>\$ 138,203</u>	<u>\$ 147,835</u>

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

4. Investments (continued)

The net gain in venture capital funds investments included in the change in unrestricted net assets is composed of \$19,126 in unrealized gains.

Net investment income (loss) for the year ended August 31, 2015 consisted of the following:

Net investment income (loss)	
Interest and dividends	\$ 136,062
Net unrealized loss	<u>(210,630)</u>
Total net investment income (loss)	<u>\$ (74,568)</u>

5. Contributions Receivable

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

Contributions receivable as of August 31, 2015 consisted of the following:

Receivable in less than one year	\$ 933,935
Receivable in one to five years	48,874
Receivable in more than five years	<u>-</u>
Total contributions receivable	982,809
Less allowance for uncollectible	<u>-</u>
Net contributions receivable	982,809
Contributions receivable, current portion	<u>(933,935)</u>
Contributions receivable, net of current portion	<u>\$ 48,874</u>

Of the contributions receivable at August 31, 2015, 22%, 22%, 17% and 15% are due from four donors.

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
Notes to Financial Statements
August 31, 2015

6. Donated Rent Receivable (continued)

Donated rent receivable as of August 31, 2015 consisted of the following:

<u>Year ending August 31,</u>		
2016	\$	126,617
2017		135,074
2018		144,097
2019		153,723
2020		163,992
Thereafter		<u>8,159,483</u>
Total		8,882,986
Donated rent receivable, current portion		<u>(126,617)</u>
Donated rent receivable, net of current portion	\$	<u>8,756,369</u>

7. Property and Equipment

The cost and related accumulated depreciation of the property and equipment as of August 31, 2015 consisted of the following:

Exhibits	\$	6,040,861
Equipment		1,869,862
Leasehold improvements		1,486,941
Furniture and fixtures		127,125
Vehicles		<u>37,494</u>
		9,562,283
Less: accumulated depreciation		<u>(5,976,092)</u>
		3,586,191
Construction in progress		2,713,592
Art		<u>262,423</u>
Property and equipment, net	\$	<u>6,562,206</u>

Depreciation expense for the year ended August 31, 2015 was \$794,474.

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, 2015.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

9. Temporarily Restricted Net Assets

The Museum's temporarily restricted net assets as of August 31, 2015 consisted of the following:

Temporarily restricted net assets	
Donated rent receivable	\$ 8,882,986
Programs and exhibits	983,077
Endowment accumulated earnings - unappropriated	<u>505,138</u>
Total temporarily restricted net assets	<u>\$ 10,371,201</u>

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).

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, 2015 the following in-kind donations were received by the Museum:

Rent	\$ 601,312
Equipment	30,121
Software	10,000
Services and consulting	4,226
Supplies	<u>3,800</u>
Donations in-kind for operations	649,459
Special event supplies and services	<u>11,490</u>
Total donations in-kind	<u>\$ 660,949</u>

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	\$ 118,689
Programs and exhibits	1,464,723
Endowment accumulated earnings - appropriated	<u>87,491</u>
Total net assets released from restrictions	<u>\$ 1,670,903</u>

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

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.

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, 2015 in-kind donations received from the board members totaled \$2,685. During the year ended August 31, 2015 cash and stock contributions received from board members totaled \$401,533 and cash contributions from their employers or affiliation totaled \$889,715.

During the year ended August 31, 2015 the Museum paid approximately \$382,000 to a construction company for the remodel of the Museum cafe' and other construction projects. The vice president of the construction company is a member of the Museum's board of directors.

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.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

15. Endowment (continued)

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

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, 2015 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 505,138	\$ 1,161,095	\$ 1,666,233
Board-designated endowment funds	<u>2,457,973</u>	<u>-</u>	<u>-</u>	<u>2,457,973</u>
Total funds	<u>\$ 2,457,973</u>	<u>\$ 505,138</u>	<u>\$ 1,161,095</u>	<u>\$ 4,124,206</u>

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Notes to Financial Statements
August 31, 2015

15. Endowment (continued)

Changes in donor-restricted endowment net assets for the fiscal year ended August 31, 2015 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 588,613	\$ 1,161,095	\$ 1,749,708
Interest and dividends	-	2,420	-	2,420
Net unrealized gain on investments	-	1,596	-	1,596
Amounts appropriated for expenditure	<u>-</u>	<u>(87,491)</u>	<u>-</u>	<u>(87,491)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 505,138</u>	<u>\$ 1,161,095</u>	<u>\$ 1,666,233</u>

Changes in board-designated endowment net assets for the fiscal year ended August 31, 2015 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,966,373	\$ -	\$ -	\$ 2,966,373
Interest and dividends	133,642	-	-	133,642
Net realized and unrealized loss on investments	(212,226)	-	-	(212,226)
Released from board designation	<u>(429,816)</u>	<u>-</u>	<u>-</u>	<u>(429,816)</u>
Endowment net assets, end of year	<u>\$ 2,457,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,457,973</u>

16. Subsequent Events

In September 2015 the Museum completed construction on a 3,200 square foot stand-alone structure, the Builder Building, which serves as an exhibit fabrication and repair area. Subsequent to completion, the Museum gifted the project to the City of San Jose in connection with an agreement entered into during December 2014 under which the Museum agreed to operate and maintain the area for a term of 25 years, commencing on September 30, 2015, the date when the certificate of occupancy was issued.

As the lease is non-cancelable, the Museum will recognize the benefit of this lease agreement as donated rent receivable and temporarily restricted support during the year ending August 31, 2016. The cost of the building gifted to the City will be recorded as contribution expense during that same period.

CHILDREN'S DISCOVERY MUSEUM OF SAN JOSE
Schedule of Functional Expenses
Year Ended August 31, 2015

	Program Services				Supporting Services			Total
	Exhibits	Educational Programs	Retail Services	Total	Management and General	Development and Fundraising	Total	
Expenses								
Salaries	\$ 257,447	\$ 1,844,143	\$ 107,931	\$ 2,209,521	\$ 505,051	\$ 181,261	\$ 686,312	\$ 2,895,833
Payroll taxes	18,661	146,061	8,099	172,821	34,873	14,334	49,207	222,028
Employee benefits	12,728	76,579	17,849	107,156	90,260	13,483	103,743	210,899
Total salaries and benefits	288,836	2,066,783	133,879	2,489,498	630,184	209,078	839,262	3,328,760
Occupancy	324,000	288,000	14,400	626,400	72,000	21,600	93,600	720,000
Repairs and maintenance	242,153	260,543	11,378	514,074	57,197	17,066	74,263	588,337
Outside services	88,893	207,548	15,510	311,951	193,961	7,215	201,176	513,127
Small equipment	189,527	139,498	3,607	332,632	22,589	5,510	28,099	360,731
Utilities	81,928	92,169	4,096	178,193	20,482	6,145	26,627	204,820
Printing	6,689	226,928	763	234,380	1,549	1,890	3,439	237,819
Cost of goods sold	-	-	152,413	152,413	-	-	-	152,413
Dues and subscriptions	41,220	4,337	-	45,557	6,266	520	6,786	52,343
Insurance	23,335	26,251	1,167	50,753	5,834	1,750	7,584	58,337
Travel	4,695	38,947	1,038	44,680	1,723	1,192	2,915	47,595
Conferences and meetings	5,815	12,279	8,019	26,113	15,424	13,799	29,223	55,336
Office expense	5,933	8,096	1,962	15,991	18,617	17,717	36,334	52,325
Telephone	4,266	5,023	2,064	11,353	5,954	3,785	9,739	21,092
Postage and shipping	1,277	8,100	10,794	20,171	967	2,135	3,102	23,273
Training	-	75	-	75	7,232	-	7,232	7,307
Automobile	3,802	1,869	-	5,671	-	-	-	5,671
Miscellaneous	-	-	-	-	9,750	-	9,750	9,750
Total functional expenses before depreciation	1,312,369	3,386,446	361,090	5,059,905	1,069,729	309,402	1,379,131	6,439,036
Depreciation	453,727	130,490	31,725	615,942	128,469	50,063	178,532	794,474
Total functional expenses	\$ 1,766,096	\$ 3,516,936	\$ 392,815	\$ 5,675,847	\$ 1,198,198	\$ 359,465	\$ 1,557,663	\$ 7,233,510
Percentage of total	24.4%	48.6%	5.4%	78.4%	16.6%	5.0%	21.6%	100.0%