

**Children's Discovery Museum of San Jose**

Financial Statements

August 31, 2020



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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 corporation) (the "Museum"), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, functional expenses, 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 entity'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 entity'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, 2020, 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.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Museum closed its operation on March 5, 2020, and since then has had essentially no earned income. The duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Jose, California

January 28, 2021

Children's Discovery Museum of San Jose  
Statement of Financial Position  
August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 3,605,253	\$ 467,466	\$ 4,072,719
Short term investment	1,000,000	-	1,000,000
Contributions receivable, current portion	564,719	387,407	952,126
Donated rent receivable, current portion	-	174,946	174,946
Inventory	14,054	-	14,054
Prepaid expenses	306,655	-	306,655
Other current assets	3,870	-	3,870
Total current assets	<u>5,494,551</u>	<u>1,029,819</u>	<u>6,524,370</u>
Property and equipment, net	<u>6,362,462</u>	<u>-</u>	<u>6,362,462</u>
Other assets			
Investments	1,497,062	1,390,640	2,887,702
Contributions receivable, net of current portion	-	250,000	250,000
Donated rent receivable, net of current portion	-	7,984,536	7,984,536
Total other assets	<u>1,497,062</u>	<u>9,625,176</u>	<u>11,122,238</u>
Total assets	<u><u>\$ 13,354,075</u></u>	<u><u>\$ 10,654,995</u></u>	<u><u>\$ 24,009,070</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 59,115	\$ -	\$ 59,115
Accrued payroll and related benefits	278,315	-	278,315
Deferred revenue	120,572	-	120,572
Customer deposits	15,420	-	15,420
Paycheck Protection Program forgivable loan	<u>934,422</u>	<u>-</u>	<u>934,422</u>
Economic Injury Disaster loan	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total liabilities	<u>1,557,844</u>	<u>-</u>	<u>1,557,844</u>
Net assets			
Without donor restrictions			
Board-designated			
Endowment	2,433,769	-	2,433,769
Operating reserve	2,000,000	-	2,000,000
Fixed asset reserve	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total board-designated	<u>5,433,769</u>	<u>-</u>	<u>5,433,769</u>
Property and equipment	<u>6,362,462</u>	<u>-</u>	<u>6,362,462</u>
Total without donor restrictions	<u>11,796,231</u>	<u>-</u>	<u>11,796,231</u>
With donor restrictions			
Restricted for a specified purpose	-	1,334,418	1,334,418
Donated rent receivable	-	8,159,482	8,159,482
Perpetual endowment	<u>-</u>	<u>1,161,095</u>	<u>1,161,095</u>
Total with donor restrictions	<u>-</u>	<u>10,654,995</u>	<u>10,654,995</u>
Total net assets	<u>11,796,231</u>	<u>10,654,995</u>	<u>22,451,226</u>
Total liabilities and net assets	<u><u>\$ 13,354,075</u></u>	<u><u>\$ 10,654,995</u></u>	<u><u>\$ 24,009,070</u></u>

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

Children's Discovery Museum of San Jose  
Statement of Activities  
For the Year Ended August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Support			
Grants and contributions	\$ 2,461,611	\$ 511,115	\$ 2,972,726
Donations in-kind	<u>725,070</u>	<u>-</u>	<u>725,070</u>
Total support	<u>3,186,681</u>	<u>511,115</u>	<u>3,697,796</u>
Revenue			
Admissions	993,439	-	993,439
Membership	482,956	-	482,956
Other income	226,481	-	226,481
Investment income, net	194,861	13,411	208,272
Program fees	64,394	-	64,394
Exhibit rental	21,443	-	21,443
Retail services	15,549	-	15,549
Net assets released from restriction	<u>1,536,855</u>	<u>(1,536,855)</u>	<u>-</u>
Total revenue	<u>3,535,978</u>	<u>(1,523,444)</u>	<u>2,012,534</u>
Total support, revenue, and net assets released from restriction	<u>6,722,659</u>	<u>(1,012,329)</u>	<u>5,710,330</u>
Functional expenses			
Program services			
Exhibits	2,642,836	-	2,642,836
Educational programs	3,677,530	-	3,677,530
Retail services	<u>95,448</u>	<u>-</u>	<u>95,448</u>
Total program services	<u>6,415,814</u>	<u>-</u>	<u>6,415,814</u>
Support services			
Management and general	1,089,290	-	1,089,290
Development and fundraising	<u>214,001</u>	<u>-</u>	<u>214,001</u>
Total support services	<u>1,303,291</u>	<u>-</u>	<u>1,303,291</u>
Total functional expenses	<u>7,719,105</u>	<u>-</u>	<u>7,719,105</u>
Change in net assets (see Notes 2 and 3)	(996,446)	(1,012,329)	(2,008,775)
Net assets, beginning of year	<u>12,792,677</u>	<u>11,667,324</u>	<u>24,460,001</u>
Net assets, end of year	<u>\$ 11,796,231</u>	<u>\$ 10,654,995</u>	<u>\$ 22,451,226</u>

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

Children's Discovery Museum of San Jose  
Statement of Functional Expenses  
For the Year Ended August 31, 2020

	Program Services				Support Services			
	Exhibits	Educational Programs	Retail Services	Total Program Services	Management and General	Development and Fundraising	Total Support Services	Total
Expenses								
Salaries and benefits								
Salaries	\$ 424,700	\$ 1,777,894	\$ 27,778	\$ 2,230,372	\$ 575,342	\$ 79,959	\$ 655,301	\$ 2,885,673
Employee benefits	51,499	173,152	16,489	241,140	76,039	11,764	87,803	328,943
Payroll taxes	<u>32,686</u>	<u>138,533</u>	<u>2,082</u>	<u>173,301</u>	<u>40,782</u>	<u>6,788</u>	<u>47,570</u>	<u>220,871</u>
Total salaries and benefits	508,885	2,089,579	46,349	2,644,813	692,163	98,511	790,674	3,435,487
Outside services	34,676	484,731	488	519,895	216,490	62,926	279,416	799,311
Occupancy	331,200	338,400	14,400	684,000	28,800	7,200	36,000	720,000
Repairs and maintenance	242,610	273,029	10,048	525,687	22,805	5,419	28,224	553,911
Small equipment	120,601	109,313	-	229,914	24,638	351	24,989	254,903
Utilities	83,790	84,847	3,658	172,295	7,224	1,844	9,068	181,363
Printing	-	105,985	-	105,985	-	-	-	105,985
Insurance	36,838	31,675	1,713	70,226	2,722	966	3,688	73,914
Telephone	6,642	19,864	1,836	28,342	9,384	1,836	11,220	39,562
Office supplies	1,383	19,978	433	21,794	1,907	436	2,343	24,137
Dues and subscriptions	4,917	13,012	616	18,545	1,852	1,209	3,061	21,606
Conferences and meetings	1,474	11,917	845	14,236	1,250	75	1,325	15,561
Travel	1,149	10,353	-	11,502	22	-	22	11,524
Cost of goods sold	-	-	7,567	7,567	-	-	-	7,567
Postage and shipping	429	1,321	1,279	3,029	1,100	1,311	2,411	5,440
Training	-	17	-	17	2,425	-	2,425	2,442
Automobile	<u>1,151</u>	<u>250</u>	<u>-</u>	<u>1,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,401</u>
Total expenses before depreciation	1,375,745	3,594,271	89,232	5,059,248	1,012,782	182,084	1,194,866	6,254,114
Depreciation	<u>1,267,091</u>	<u>83,259</u>	<u>6,216</u>	<u>1,356,566</u>	<u>76,508</u>	<u>31,917</u>	<u>108,425</u>	<u>1,464,991</u>
	<u>\$ 2,642,836</u>	<u>\$ 3,677,530</u>	<u>\$ 95,448</u>	<u>\$ 6,415,814</u>	<u>\$ 1,089,290</u>	<u>\$ 214,001</u>	<u>\$ 1,303,291</u>	<u>\$ 7,719,105</u>
Percentage of total	<u>34 %</u>	<u>48 %</u>	<u>1 %</u>	<u>83 %</u>	<u>14 %</u>	<u>3 %</u>	<u>17 %</u>	<u>100 %</u>

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

Children's Discovery Museum of San Jose  
Statement of Cash Flows  
For the Year Ended August 31, 2020

Cash flows from operating activities	
Change in net assets	\$ (2,008,775)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Net realized and unrealized gain on investments	(86,881)
Proceeds from contributions restricted for purchase of property and equipment	(392,422)
Depreciation	1,464,991
Donated rent receivable amortization	163,992
Changes in operating assets and liabilities	
Contributions receivable	(121,618)
Inventory	221
Prepaid expenses	16,999
Accounts payable and accrued liabilities	(63,282)
Accrued payroll and related benefits	(268,279)
Deferred revenue	25,317
Customer deposits	12,420
Net cash used in operating activities	<u>(1,257,317)</u>
Cash flows from investing activities	
Purchase of investments	(6,400,423)
Proceeds from sale of investments	8,667,826
Purchase of property and equipment	<u>(283,319)</u>
Net cash provided by investing activities	<u>1,984,084</u>
Cash flows from financing activities	
Proceeds from contributions restricted for purchase of property and equipment	392,422
Proceeds from Paycheck Protection Program forgivable loan	934,422
Proceeds from Economic Injury Disaster loan	<u>150,000</u>
Net cash provided by financing activities	<u>1,476,844</u>
Net increase in cash and cash equivalents	2,203,611
Cash and cash equivalents, beginning of year	<u>1,869,108</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,072,719</u></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, 2020

1. NATURE OF OPERATIONS

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 children, youth, and their families in Santa Clara County through participatory exhibits and programs that engage the senses and challenge the mind.

Exhibits

Children's Discovery Museum of San Jose has served over 9.6 million adults and children since opening its doors in the spring of 1990. During the first half of the 2019-2020 fiscal year, the Museum provided engaging learning opportunities to over 131,755 family and 10,394 group visitors before being forced to close its doors to the public on March 5, 2020 due to the COVID-19 pandemic.

Approaching 30 years of operation, the Museum and its staff strive to enhance the visitor experience in its 28,000 square feet of indoor exhibition space with 13 dedicated galleries, each housing 8-10 interactive exhibits that address the distinctive need for children to learn through concrete interactions, and an adjacent outdoor exhibit space, Bill's Backyard: Bridge to Nature, which opened in 2017 and essentially doubled the Museum's exhibit space.

Similar to most children's museums and many science centers, CDM's exhibits are highly tactile and encourage touching, exploring, manipulating and experimenting, while cutting across the disciplines of art, science and the humanities. These are the very activities that were determined to be major concern factors in the spread of the coronavirus and, therefore, prohibited by the Santa Clara County Department of Public Health, based on recommendations from Center of Disease Control. During the period of mandated closure, the Museum's Board and executive staff examined CDM's operating feasibility in terms of mission and financial liquidity. Resulting from this review, the Museum secured several financing options, including the Payment Protection Program under the federal CARES Act (Coronavirus Aid, Relief, and Economic Security Act,) an Economic Injury Disaster Loan through the Small Business Administration, and a line of credit with a local financial institution in order to sustain operations through the end of the fiscal year and into the next 12 months.

Once the Museum is permitted to reopen to the public, visitors will notice changes in terms of sanitization of the facility, exhibits and manipulatives, as well as visitor capacity and social distancing. The majority of exhibits will continue to focus on children to age 10 and their parents and caregivers, while The Wonder Cabinet will serve 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. Whether children are roleplaying a firefighter on the authentic fire engine in the Streets of San Jose exhibit, using, but not sharing, colorful plastic balls to study how water rushes and flows in WaterWays, or experimenting with surface tension by playing with bubbles, they are actively engaged in learning, inspired by their own curiosity to investigate how things work and to understand more about the world in which we live.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2020

1. NATURE OF OPERATIONS (continued)

Exhibits (continued)

As an outdoor space, Bill's Backyard will be the first Museum space permitted to welcome visitors with opportunities for unstructured play, and will enable Museum staff to adapt to the new requirements for operating to ensure public safety as a result of the pandemic. Signage in English, Spanish and Vietnamese focuses visitor interactions on the uniqueness of outdoor play, such as build, roll, climb, plant, and observe, to name a few. Ten different local species of animals and insects were cast in bronze and placed appropriately throughout the area to allow children to discover them in their natural habitat. A 7,200 gallon rain-harvest system is used to irrigate the native landscape and to teach visitors about water conservation at the same time. By bringing nature to children, CDM hopes to create a spark so that children will then seek out other outdoor opportunities close to their home, and become environmental stewards as they grow up.

Traveling exhibit projects undertaken by the Museum in 2018-2019 included the creation of a Potter the Otter exhibit, with funding from FIRST 5 Santa Clara County, and the refurbishment of Hello from Japan!, an exhibit created by the Children's Museum of Manhattan and originally traveled by the Association of Children's Museums. Hello from Japan! was installed at CDM through January, 2020, and illustrates a society where the past, present and future aesthetics and customs harmoniously coexist. Hello from Japan! was slated to begin a 2-3-year tour, but this tour has been stalled due to the pandemic. The Potter the Otter exhibit was completed during the year, and opened at CDM in February, 2020. It was slated to start a five-year tour during the summer, which was also postponed. This exhibit will be installed at CDM, once reopening is allowed, in the area that previously served as food service. Given the current health concerns, it was decided not to continue to offer food service at CDM for the foreseeable future.

During the prior fiscal year, CDM received funding from Zoom to develop a 600 square foot educational and interactive play space for very young children in Terminal B of the Mineta San Jose International Airport. Hensel Phelps Construction will serve as the general contractor on a pro bono basis for the project, which was slated to open in December, 2020. The space is designed to engage youngsters in thinking about the creatures and objects that fly, while experimenting with the role that air, wind, wings and design play in flight.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2020

1. NATURE OF OPERATIONS (continued)

Educational Programs

The Museum provides on-site and outreach programs which complement its exhibits and support visitor interactions and learning opportunities. In 2019-2020, the Museum provided targeted programs for over 24,707 participants. The on-site Art Studio in The Wonder Cabinet and the LeRoy Neiman Art Studio are examples of the Museum's commitment to visual arts education experiences, while the Lee and Diane Brandenburg Theatre and Cadence Amphitheatre offer performing arts experiences. The Museum employs a three-pronged approach to the arts: engagement with and viewing the work of professional artists; exploring other children's art; and creating individual works of art in various formats. Throughout the year, the Museum invites the community to participate in various cultural festivals, which represent the region's ethnic composition. These events include weekend events, such as Diwali, Dia de los Tres Reyes Magos, Lunar New Year, Children of the Dragon, and single day or evening events, such as Dia de los Muertos, the Lantern Festival, Lunadas Familiares and Menorahs and Miracles: A Hanukkah Celebration.

With its closure in March, 2020, the Museum sought ways to continue its impact in the community and to provide programs for its members. Museum programming pivoted from the direct, hands-on interactions to a virtual platform, the Virtual Purple Museum (VPM). Programs were delivered via FaceBook and YouTube videos and focused on the disciplines of arts and science. Programs structured to appeal to very young children, such as Story Times, were offered in English, Spanish and Vietnamese. For school-aged children, programs focused on visual arts, physical sciences investigations and exploring the environment. VPM also provided the means to celebrate our Proud of My Family annual event this summer, and will serve to celebrate CDM's cultural festivals with the public until it is deemed safe to gather again. CDM also pivoted its ongoing relationship with Educare California at Silicon Valley by reallocating a portion of its restricted arts funding to offer a bilingual Story Time workshop for families, providing 160 activity kits to accompany a Zoom broadcast of "Not a Box".

National Leadership Grant funding from the IMLS in September, 2017, funded CDM's expansion of its Cultural Competence Learning Institute (CCLI) in collaboration with the Association of Children's Museums and the Association of Science-Technology Centers to work with 15-18 museums from across museum sectors. The ultimate goal of CCLI is to develop, track, promote and sustain organizational change within individual institutions and field-wide in order to build museums' capacity to engage with issues of inclusion and cultural competence. CDM and its partners believe that CCLI's peer-driven approach to diversity and inclusion responds to the need voiced by the broader museum field and can help to shift decades of conversation about diversity to tangible actions that will empower museums to provide high quality, inclusive experiences that reflect and respond to the needs of their entire community. Building on the CCLI initiative, CDM partnered with the Exploratorium to offer Cambio, a professional development institute combining CCLI and the Exploratorium's GENIAL work to support informal science practitioners working with Latinx audiences, and received a 5-year funding commitment from the National Science Foundation.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2020

1. NATURE OF OPERATIONS (continued)

Educational Programs (continued)

CDM continuously strives to understand and to improve its service to its visitors. Last year, CDM became the 27th museum to join the Collaboration for Ongoing Visitor Engagement Surveys (COVES) led by the Museum of Science, Boston. Participation in this collaborative enables CDM to survey its visitors systematically about their museum experience, and to garner demographic information about its visitors. The Museum was also accepted as a cohort to the American Alliance of Museums' Facing Change Initiative, a national year-long Board diversity program.

Proudly, CDM was selected by the American Alliance of Museums' Board of Directors to receive the AAM Institutional Award for Diversity, Equity, Accessibility, and Inclusion (DEAI) in recognition of years of service to DEAI and addressing how to become a safe, engaging, and educational space for all members of our community. From trilingual signage to the open-door policy, the award honors CDM as a model for the greater museum field, helping to advance communities across the nation.

2. CHANGE IN NET ASSETS

During the year ended August 31, 2020, the Museum experienced a decrease in net assets of \$2,008,775 as reported in the statement of activities. A significant amount of the decrease was attributed to no earned revenue since March 5, 2020 after the Museum closed the operation due to the COVID-19 pandemic (see Note 3), and the depreciation expense and donated rent receivable amortization.

The following schedule reflects an intermediate measure of the change in net assets excluding depreciation expense and donated rent receivable amortization:

	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets	\$ (996,446)	\$ (1,012,329)	\$ (2,008,775)
Add back:			
Depreciation expense	1,464,991	-	1,464,991
Donated rent receivable amortization (see Note 9)	<u>-</u>	<u>163,992</u>	<u>163,992</u>
Change in net assets excluding depreciation and donated rent receivable amortization	<u>\$ 468,545</u>	<u>\$ (848,337)</u>	<u>\$ (379,792)</u>

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2020

3. COVID-19 IMPACT

The COVID-19 pandemic, whose effects first became known in January, 2020, has had a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. CDM closed its operation on March 5, 2020, and since that time has had essentially no earned income (see Note 1). CDM has been monitoring closely its investment portfolio and its liquidity, and is actively working to minimize the impact of its declining liquidity. The extent of the impact of COVID-19 on CDM's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on CDM's visitors, employees and vendors, all of which at present, cannot be fully determined. Accordingly, the extent to which COVID-19 may impact CDM's financial position and changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic.

On April 21, 2020, CDM received \$10,000 from Economic Injury Disaster Loan (EIDL) Grant program as an advance payment of Paycheck Protection Program (PPP), and on May 3, 2020, CDM received PPP loan proceeds in the amount of \$924,422 (see Note 11). CDM also received Economic Injury Disaster Loan (EIDL) proceeds in the amount of \$150,000 on May 22, 2020 (see Note 12).

After closing to the public on March 5, 2020, CDM pivoted from direct programming to virtual programs, Virtual Purple Museum (VPM). These virtual programs encompassed multiple components, such as live and visual arts, science and literacy programming, replicating the content presented in CDM's exhibits and programs. VPM programs targeted children from very young to age 8, and were presented by CDM Educators in English, Spanish and Vietnamese. The virtual programs were supported by weekly postings of hands-on activities, videos, related Web sites and other resources designed for parent/child interactions. Also see Note 1.

The Museum submitted a Social Distancing Protocol to the Santa Clara County Department of Public Health and was permitted to open its open play space, Bill's Backyard, on September 26, 2020, with a limited capacity of 25%. CDM operated three days per week (Friday – Sunday), with two daily play sessions. Visitors were required to pre-purchase admission tickets (free for Museum members) for each 2.5-hour play session. Face masks were required for all visitors two years old or older, and no food service was provided. Signage was added, in English, Spanish and Vietnamese, to provide important information about entrances/exits, occupancy, social distancing and suggested flow through the spaces. On December 3, 2020, the State issued a new Regional Stay at Home Order, which will remain in effect until January 4, 2021 at the earliest. Santa Clara County elected to implement this order on December 4, 2020, effectively closing CDM for a second time due to COVID-19.

4. CONDITIONAL PROMISES TO GIVE

Conditional promises to give are recognized when the Museum meets the terms of the conditions.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2020

4. CONDITIONAL PROMISES TO GIVE (continued)

Conditional promises to give as of August 31, 2020 consisted of the following:

Recognizable in one year or less	
Cambio project - reimbursement based	\$ 409,866
IMLS - Nowruz Planning grant	113,206
Freeman Foundation Asian cultural exhibit series	55,000
Potter the Otter Traveling exhibit - achieve deliverable requirements	<u>36,003</u>
	614,075
Recognizable in more than one year	
Cambio project - reimbursement based and contingent on the availability of funds and the scientific progress of the project	<u>695,121</u>
	<u><u>\$ 1,309,196</u></u>

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

The Museum reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

- *Net assets without donor restrictions* - 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. Board designations are not donor-imposed restrictions and are subject to change at the Board's discretion.
- *Net assets with donor restrictions* - 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 and also include those assets which are subject to a non-expiring donor restriction, such as endowments.

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.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Museum closed the gift shop in December 2018 given the rise of major online retailers. The remaining inventory on hand as of August 31, 2020 was \$14,054.

Investments

Investments in marketable securities with readily determinable fair values and all investments in mutual funds and other 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.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (included as part of exhibits) 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, 2020, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2020 was \$193,522.

Deferred revenue

As of August 31, 2020, the Museum had deferred revenue of \$120,572 from advance admissions, the sale of gift cards and prepaid events.

Customer deposits

As of August 31, 2020, the Museum has received deposits of \$15,420 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 contributions without donor restrictions and contributions with donor restrictions, depending on the nature of donor restrictions. Contributions with donor restrictions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.



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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Conditional grants and contributions

Conditional grants and contributions are recognized when the Museum meets the terms of the conditions.

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 enhance nonfinancial assets or 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 support services. Expenses related to more than one function are charged to program and support services on the basis of square footage of occupied space or number of employees per department.

Advertising

The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the year ended August 31, 2020 was \$87,214, included in printing on the statement of functional expenses.

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.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes (continued)

The Museum's federal returns for the years ended August 31, 2019, 2018 and 2017 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, 2019, 2018, 2017 and 2016 could be subject to examination by state taxing authorities, generally for four years after they are filed.

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.

Subsequent events

Management of the Museum has evaluated events and transactions subsequent to August 31, 2020 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 fiscal year ended August 31, 2020 (see Note 20). Subsequent events have been evaluated through the date the financial statements became available to be issued, January 28, 2021.

6. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE

As part of the Museum's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Short-term contributions receivable consists of grants, bequests and pledges receivable expected to be received within one year from August 31, 2020. Unrestricted short-term grants, bequests and pledges receivable will be available to support general operations of the Museum.

Long-term investments include endowment funds consisting of donor-restricted and board-designated endowments. Income from donor-restricted endowments is restricted until appropriated in accordance with the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, is not available for general expenditure until appropriated. As described in Note 19, the endowment had a spending rate of up to 5% prior to March, 2020, and the Board approved to adjust the rate to 7% to maximize the spending to protect the Museum.

Children's Discovery Museum of San Jose  
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6. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of August 31, 2020 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 4,072,719
Short term investment	1,000,000
Investments	2,887,702
Contributions receivable	<u>1,202,126</u>
	<u>9,162,547</u>
Less: amounts unavailable for general expenditure within one year	
Net assets restricted for a specified purpose	(1,334,418)
Board-designated endowment	(2,433,769)
Board-designated for fixed assets reserve	(1,000,000)
Perpetual endowment	<u>(1,161,095)</u>
	<u>(5,929,282)</u>
	<u><u>\$ 3,233,265</u></u>

As of August 31, 2020, the Museum had \$3,233,265 of financial assets available to meet cash needs for general expenditures. In addition, the board-designated endowment of \$2,433,769 and the board-designated for fixed assets reserve of \$1,000,000 could be made available in their entirety if needed.

7. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of August 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Stocks and mutual funds	\$ 2,519,082	\$ -	\$ -	\$ 2,519,082
Cash and cash equivalents	340,968	-	-	340,968
Venture capital funds	-	-	27,537	27,537
Interest receivable	<u>115</u>	<u>-</u>	<u>-</u>	<u>115</u>
	<u><u>\$ 2,860,165</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,537</u></u>	<u><u>\$ 2,887,702</u></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.

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7. INVESTMENTS (continued)

The following table sets forth a summary of changes in fair value of Level 3 investments for the year as follows:

	<u>ENF III Fund</u>	<u>ENF VII Fund</u>	<u>Total</u>
Balance, beginning of year	\$ -	\$ 47,997	\$ 47,997
Net loss	<u>-</u>	<u>(20,460)</u>	<u>(20,460)</u>
Balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ 27,537</u></u>	<u><u>\$ 27,537</u></u>

The net loss in venture capital funds investments included in the change in unrestricted net assets is composed of \$20,460 in a net unrealized loss.

Net investment income during the year consist of the following:

Interest and dividends	\$ 123,291
Net realized and unrealized gain on investments	86,881
Investment expenses	<u>(1,900)</u>
	<u><u>\$ 208,272</u></u>

8. CONTRIBUTIONS RECEIVABLE

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

Contributions receivable consisted of the following:

Receivable in less than one year	\$ 952,126
Receivable in one to five years	<u>250,000</u>
	<u><u>\$ 1,202,126</u></u>

Of the contributions receivable at August 31, 2020, 42%, and 27% are due from two donors.

9. 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.

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9. DONATED RENT RECEIVABLE (continued)

As the lease is non-cancelable, the Museum recognized the benefit of this lease agreement as donated rent receivable and net assets with donor restrictions. 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 and statement of functional expenses. 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 consisted of the following:

<u>Year ending August 31,</u>	
2021	\$ 174,946
2022	186,633
2023	199,100
2024	212,400
2025	226,588
Thereafter	<u>7,159,815</u>
	8,159,482
Current portion	<u>(174,946)</u>
	<u><u>\$ 7,984,536</u></u>

The current rent expense of \$720,000 consists of the following

Donated rent receivable amortization	\$ 163,992
Current year in-kind rent contribution	<u>556,008</u>
	<u><u>\$ 720,000</u></u>

10. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Exhibits	\$ 10,841,302
Leasehold improvements	4,282,777
Equipment	2,590,411
Furniture and fixtures	123,364
Vehicles	37,494
Construction in progress	<u>176,193</u>
	18,051,541
Accumulated depreciation	<u>(11,689,079)</u>
	<u><u>\$ 6,362,462</u></u>

Depreciation expense for the year ended August 31, 2020 was \$1,464,991.

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11. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On May 3, 2020, CDM received loan proceeds in the amount of \$924,422 under the Paycheck Protection Program (PPP), which was established under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and is administered by the U.S. Small Business Administration. The loan maturity date is May 3, 2022, and with an annual interest rate of 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, CDM can apply for and be granted forgiveness for all or a portion of the loan proceeds. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

CDM accounted for the PPP proceeds of \$924,422 and EIDL grant of \$10,000 received under the accounting guidance for debt and believes that it will likely qualify for full forgiveness and will submit its forgiveness application shortly after the end of its covered period (24 weeks after loan disbursement date), but there is uncertainty around the standards and operation of the PPP and no assurance is provided that CDM will obtain forgiveness in whole or in part. CDM currently is in the process of applying for forgiveness.

12. ECONOMIC INJURY DISASTER LOAN

On May 22, 2020, CDM received a Economic Injury Disaster Loan (EIDL) of \$150,000 from the Small Business Administration. The loan proceeds are used solely as working capital to alleviate economic injury caused by disaster occurring in the month of January 31, 2020 and continuing thereafter. The loan bears interest at the rate of 2.75% per annum. Monthly installment payment of \$641, including principal and interest will begin twelve months from the loan effective date, with the balance of principal and interest due on thirty years.

13. 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, 2020.

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donated rent receivable	\$ 8,159,482
Programs and exhibits	1,334,418
Perpetual endowment	<u>1,161,095</u>
	<u><u>\$ 10,654,995</u></u>

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14. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year were as follows:

Donated rent receivable amortization	\$ 163,992
Programs and exhibits	1,026,294
Appropriated earnings on perpetual endowment	<u>346,569</u>
	<u><u>\$ 1,536,855</u></u>

15. DONATIONS IN-KIND

The estimated fair value of rent, professional services, and supplies received are recorded as donations.

Donations in-kind were received by the Museum as follows:

Rent	\$ 556,008
Consulting services	165,602
Supplies	<u>3,460</u>
	<u><u>\$ 725,070</u></u>

16. LINE OF CREDIT

On May 5, 2020 the Museum entered a revolving line of credit agreement with Heritage Bank of Commerce for an amount not to exceed \$1,000,000. The line of credit bears interest at 3.2%. All outstanding principal and unpaid interest are due on May 5, 2022. The line of credit is secured by the Museum's \$1,000,000 certificate of deposit at Heritage Bank of Commerce and tangible and intangible assets stated in the Assignment of Deposit Account. As of August 31, 2020 there was no balance outstanding on the line of credit.

17. 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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18. 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, 2020, in-kind donations received from the board members totaled \$150,602. During the year ended August 31, 2020, cash contributions received from board members totaled \$410,271, and cash contributions from their employers totaled \$936,882.

19. ENDOWMENT

The Museum'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 the Museum 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, the Museum classifies as net assets with donor restrictions - perpetual endowment (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 net assets with donor restrictions - unappropriated earnings on perpetual endowment 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 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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19. ENDOWMENT (continued)

Investment return objectives, risk parameters and strategies - goals and performance measurement

- 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.)
- 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.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. There were no such deficiencies as of August 31, 2020 and 2019.

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, 2020. 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. Prior to March, 2020, CDM had exercised its Spending Policy for five years and each time moved the 5% allocation from permanent endowment to Board-designated endowment.

With the goal of providing the maximum liquidity to ensure the Museum's survival during the COVID-19 pandemic and its negative financial impact, the Board approved exercising the maximum Spending Policy up to 7% on the Permanent Endowment, both retroactively to the passing of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) by the State of California in 2009 and forward three years through 2023. This decision resulted in a distribution of \$346,569 from endowment unappropriated earnings for the year ended August 31, 2020.

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19. ENDOWMENT (continued)

Spending policy (continued)

The Board reviews the spending policy annually, and updates, if necessary.

Endowment composition

Endowment net asset composition by type is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Perpetual endowment	\$ -	\$ 1,161,095	\$ 1,161,095
Board-designated endowment funds	<u>2,433,769</u>	<u>-</u>	<u>2,433,769</u>
	<u><u>\$ 2,433,769</u></u>	<u><u>\$ 1,161,095</u></u>	<u><u>\$ 3,594,864</u></u>

Changes in donor-restricted endowment net assets for the year are as follows:

	<u>Unappropriated Earnings on Perpetual Endowment</u>	<u>Perpetual Endowment</u>	<u>Total</u>
Balance, beginning of year	\$ 333,158	\$ 1,161,095	\$ 1,494,253
Interest and dividends	13,411	-	13,411
Appropriations	<u>(346,569)</u>	<u>-</u>	<u>(346,569)</u>
Balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ 1,161,095</u></u>	<u><u>\$ 1,161,095</u></u>

Changes in board-designated endowment net assets for the year are as follows:

Balance, beginning of year	\$ 2,248,543
Interest and dividends	109,736
Net realized and unrealized gain on investments	86,881
Appropriations	<u>(11,391)</u>
Balance, end of year	<u><u>\$ 2,433,769</u></u>

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20. SUBSEQUENT EVENTS

As described in Note 3, the Museum submitted a Social Distancing Protocol to the Santa Clara County Department of Public Health and was permitted to open its open play space, Bill's Backyard, on September 26, 2020, with a limited capacity of 25%. CDM operated three days per week (Friday – Sunday), with two daily play sessions. Visitors were required to pre-purchase admission tickets (free for Museum members) for each 2.5-hour play session. Face masks were required for all visitors two years old or older, and no food service was provided. Signage was added, in English, Spanish and Vietnamese, to provide important information about entrances/exits, occupancy, social distancing and suggested flow through the spaces. On December 3, 2020, the State issued a new Regional Stay at Home Order, which will remain in effect until further notice. Santa Clara County elected to implement this order on December 4, 2020, effectively closing CDM for a second time due to COVID-19.