

Children's Discovery Museum of San Jose

Financial Statements

August 31, 2021



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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, 2021, 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, 2021, 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.

Change in Accounting Principle

As described in Note 5 to the financial statements, the Museum has adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In addition, the Museum has elected to change its method of accounting with respect to the Paycheck Protection Program from the debt model to the conditional grant model. Our opinion is not modified with respect to those matters.

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 has been operating with limited capacity for the year ended August 31, 2021, and since then has had significant reduction of 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 fluid and cursive, with the letters "Armanino" written in a larger, more prominent script than the "LLP" which follows.

Armanino^{LLP}
San Jose, California

January 31, 2022

Children's Discovery Museum of San Jose
Statement of Financial Position
August 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,809,466	\$ 258,766	\$ 5,068,232
Short term investment	1,002,002	-	1,002,002
Contributions receivable, current portion	335,508	389,030	724,538
Donated rent receivable, current portion	-	351,833	351,833
Inventory	14,054	-	14,054
Prepaid expenses	170,515	-	170,515
Other current assets	3,870	-	3,870
Total current assets	<u>6,335,415</u>	<u>999,629</u>	<u>7,335,044</u>
Property and equipment, net	<u>5,101,759</u>	<u>735,679</u>	<u>5,837,438</u>
Other assets			
Investments	2,207,814	1,391,459	3,599,273
Contributions receivable, net of current portion	-	250,000	250,000
Donated rent receivable, net of current portion	-	8,307,266	8,307,266
Total other assets	<u>2,207,814</u>	<u>9,948,725</u>	<u>12,156,539</u>
Total assets	<u>\$ 13,644,988</u>	<u>\$ 11,684,033</u>	<u>\$ 25,329,021</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	\$ 116,228	\$ -	\$ 116,228
Accrued payroll and related benefits	332,922	-	332,922
Deferred revenue	281,576	-	281,576
Customer deposits	2,000	-	2,000
Refundable advance - Paycheck Protection Program	924,422	-	924,422
Total current liabilities	<u>1,657,148</u>	<u>-</u>	<u>1,657,148</u>
Economic Injury Disaster loan	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total liabilities	<u>1,807,148</u>	<u>-</u>	<u>1,807,148</u>
Net assets			
Without donor restrictions			
Board-designated			
Endowment	3,736,081	-	3,736,081
Operating reserve	2,000,000	-	2,000,000
Fixed asset reserve	1,000,000	-	1,000,000
Total board-designated	<u>6,736,081</u>	<u>-</u>	<u>6,736,081</u>
Property and equipment	<u>5,101,759</u>	<u>-</u>	<u>5,101,759</u>
Total without donor restrictions	<u>11,837,840</u>	<u>-</u>	<u>11,837,840</u>
With donor restrictions			
Restricted for a specified purpose	-	1,127,659	1,127,659
Donated rent receivable	-	8,659,099	8,659,099
Unappropriated earnings on perpetual endowment	-	501	501
Perpetual endowment	-	1,161,095	1,161,095
Property and equipment	-	735,679	735,679
Total with donor restrictions	<u>-</u>	<u>11,684,033</u>	<u>11,684,033</u>
Total net assets	<u>11,837,840</u>	<u>11,684,033</u>	<u>23,521,873</u>
Total liabilities and net assets	<u>\$ 13,644,988</u>	<u>\$ 11,684,033</u>	<u>\$ 25,329,021</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Support			
Donations in-kind	\$ 619,131	\$ 1,237,501	\$ 1,856,632
Grants and contributions	1,084,570	443,793	1,528,363
Special events, net of direct donor benefits of \$115,275	1,321,505	-	1,321,505
Contribution - Paycheck Protection Program	934,422	-	934,422
Government grants	171,466	-	171,466
Total support	<u>4,131,094</u>	<u>1,681,294</u>	<u>5,812,388</u>
Revenue			
Admissions	516,242	-	516,242
Membership	43,364	-	43,364
Investment income, net	788,434	501	788,935
Program fees	13,746	-	13,746
Retail services	13,420	-	13,420
Other income	4,275	-	4,275
Exhibit rental	1,902	-	1,902
Loss on disposition of property and equipment	(961)	-	(961)
Total revenue	<u>1,380,422</u>	<u>501</u>	<u>1,380,923</u>
Total support and revenue	<u>5,511,516</u>	<u>1,681,795</u>	<u>7,193,311</u>
Net assets released from restriction	<u>652,757</u>	<u>(652,757)</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>6,164,273</u>	<u>1,029,038</u>	<u>7,193,311</u>
Functional expenses			
Program services			
Exhibits	2,593,724	-	2,593,724
Educational programs	2,183,561	-	2,183,561
Retail services	8,469	-	8,469
Total program services	<u>4,785,754</u>	<u>-</u>	<u>4,785,754</u>
Support services			
Management and general	1,076,427	-	1,076,427
Development and fundraising	260,483	-	260,483
Total support services	<u>1,336,910</u>	<u>-</u>	<u>1,336,910</u>
Total functional expenses	<u>6,122,664</u>	<u>-</u>	<u>6,122,664</u>
Change in net assets	41,609	1,029,038	1,070,647
Net assets, beginning of year	<u>11,796,231</u>	<u>10,654,995</u>	<u>22,451,226</u>
Net assets, end of year	<u>\$ 11,837,840</u>	<u>\$ 11,684,033</u>	<u>\$ 23,521,873</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, 2021

	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	\$ 317,483	\$ 957,991	\$ -	\$ 1,275,474	\$ 600,719	\$ 97,386	\$ 698,105	\$ 1,973,579
Employee benefits	49,580	85,644	1,584	136,808	140,839	70,215	211,054	347,862
Payroll taxes	<u>23,050</u>	<u>70,969</u>	<u>-</u>	<u>94,019</u>	<u>39,604</u>	<u>6,890</u>	<u>46,494</u>	<u>140,513</u>
Total salaries and benefits	390,113	1,114,604	1,584	1,506,301	781,162	174,491	955,653	2,461,954
Occupancy, in-kind	504,237	331,200	-	835,437	21,600	14,400	36,000	871,437
Outside services	28,557	324,484	65	353,106	149,120	5,437	154,557	507,663
Repairs and maintenance	174,549	158,618	250	333,417	10,322	6,512	16,834	350,251
Utilities	69,796	65,564	24	135,384	4,287	2,839	7,126	142,510
Small equipment	77,025	17,824	-	94,849	15,134	3,640	18,774	113,623
Insurance	34,004	31,491	197	65,692	2,126	1,348	3,474	69,166
Telephone	6,458	10,114	-	16,572	7,608	8,226	15,834	32,406
Printing	898	30,316	(88)	31,126	-	50	50	31,176
Conferences and meetings	250	5,270	-	5,520	4,083	10,250	14,333	19,853
Dues and subscriptions	3,999	8,567	-	12,566	2,457	-	2,457	15,023
Postage and shipping	524	2,088	256	2,868	1,285	782	2,067	4,935
Office supplies	516	827	-	1,343	255	1,083	1,338	2,681
Training	-	-	-	-	1,683	-	1,683	1,683
Automobile	<u>1,243</u>	<u>325</u>	<u>-</u>	<u>1,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,568</u>
Total expenses before depreciation	1,292,169	2,101,292	2,288	3,395,749	1,001,122	229,058	1,230,180	4,625,929
Depreciation	<u>1,301,555</u>	<u>82,269</u>	<u>6,181</u>	<u>1,390,005</u>	<u>75,305</u>	<u>31,425</u>	<u>106,730</u>	<u>1,496,735</u>
	<u>\$ 2,593,724</u>	<u>\$ 2,183,561</u>	<u>\$ 8,469</u>	<u>\$ 4,785,754</u>	<u>\$ 1,076,427</u>	<u>\$ 260,483</u>	<u>\$ 1,336,910</u>	<u>\$ 6,122,664</u>
Percentage of total	<u>42 %</u>	<u>36 %</u>	<u>- %</u>	<u>78 %</u>	<u>18 %</u>	<u>4 %</u>	<u>22 %</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, 2021

Cash flows from operating activities	
Change in net assets	\$ 1,070,647
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net realized and unrealized gain on investments	(724,448)
Donated rent	(826,000)
Donated rent receivable amortization	326,384
Proceeds from contributions restricted for purchase of property and equipment	(124,477)
Donated property and equipment	(447,001)
Depreciation	1,496,735
Loss on disposal of property and equipment	961
Changes in operating assets and liabilities	
Contributions receivable	227,588
Prepaid expenses	136,140
Accounts payable and accrued liabilities	57,113
Accrued payroll and related benefits	54,606
Deferred revenue	161,004
Customer deposits	(13,420)
Refundable advance - Paycheck Protection Program	(10,000)
Net cash provided by operating activities	<u>1,385,832</u>
Cash flows from investing activities	
Purchase of investments	(128,216)
Proceeds from sale of investments	139,091
Purchase of property and equipment	<u>(525,671)</u>
Net cash used in investing activities	<u>(514,796)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for purchase of property and equipment	<u>124,477</u>
Net cash provided by financing activities	<u>124,477</u>
Net increase in cash and cash equivalents	995,513
Cash and cash equivalents, beginning of year	<u>4,072,719</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,068,232</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, 2021

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 9.7 million adults and children since opening its doors in the spring of 1990. After closing to the public on March 5, 2020 due to the COVID-19 pandemic, when early signs in early fall indicated that the spread of the virus was waning, the Museum was allowed to open its outdoor play space, Bill's Backyard, at 25% of capacity. The Museum opened in late September for members only for two 2 ½-hour play sessions on Friday – Sunday. In October, CDM opened to the public, with advance reservations and masks for anyone 2 years and older required. Exhibits in the outdoor space were reconfigured to provide social distancing and continual sanitization by staff. In early December 2020, when the pandemic spiked, the Museum was again mandated to close by the Santa Clara County Department of Public Health, and remained closed until mid-February, when it was permitted to reopen the outdoor space. In early April 2021, the Museum was permitted to open the interior exhibit spaces, with modifications for social distancing and the removal or alteration of many of the highly tactile exhibits. Operations for the Museum continued at 25% of capacity following the fall schedule of two play sessions three days per week. In mid-June, CDM moved to a 5 days per week schedule and to three 2-hour play sessions and increased attendance to 50% of capacity. Over the fiscal year, the Museum provided a safe environment for families to return to public activities to just over 62,000 visitors. No group visits occurred during the year as most schools were closed.

With 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, which 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 Centers for Disease Control and Prevention ("CDC").

During the period of mandated closure, the Museum's staff developed plans to reopen safely to the public. Recognizing that young children are not eligible for COVID-19 vaccinations, the Museum chose to follow guidelines established for schools and require all visitors, vaccinated or not, to wear masks inside and outside while at the Museum. Facility upgrades to reduce the risks of COVID-19 transmission included the upgrading of air filters throughout the Museum to Merv 13, the highest level compatible with its HVAC systems, and plumbing upgrades, which will replace sink faucets and toilets with touchless models and change the hydration stations to be bottle-filling only.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

1. NATURE OF OPERATIONS (continued)

Exhibits (continued)

The majority of CDM's exhibits will continue to focus on children to age 10 and their parents and caregivers, while 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. Whether children are roleplaying a firefighter on the authentic fire engine in the Streets of San Jose exhibit, or using, but not sharing, colorful plastic balls to study how water rushes and flows in WaterWays, 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.

Exhibits that featured highly facilitated activities, such as shared art projects, or those with many manipulatives, such as the balls in WaterWays, were reconfigured to limit sharing opportunities. Clean manipulatives were provided for one-time use and then deposited in containers to be sanitized by the staff before being handled by other visitors. The art space activities were replaced by a series of digital art projections, which change based on motions of the visitors and eliminate any direct contact. Food services, which tend to gather visitors in a more confined space, were not reactivated and no decisions have been made as to when these services will return.

The determination by health officials that the transmission of the coronavirus was significantly reduced in outdoor spaces, allowed Bill's Backyard to be a safe and welcoming opportunity for unstructured play. Signage in the 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.

The decision to delay the promotion of CDM's traveling exhibit projects: Potter the Otter exhibit, funded by FIRST 5 Santa Clara County, and the refurbished Hello from Japan!, an exhibit created by the Children's Museum of Manhattan and originally traveled by the Association of Children's Museums, continues due to economic conditions. The Potter the Otter exhibit has been installed at CDM and is slated to start its three-year tour in 2022-2023.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

1. NATURE OF OPERATIONS (continued)

Exhibits (continued)

Conceptual work has been re-launched on Exploration Portal, located outside adjacent to Bill's Backyard, with Brad Cox Architect Inc. and Scientific Art Studio. The space will continue to focus on the intersection of math and nature for its content, but has changed based on lessons learned during the pandemic. The development of the space will shift from creating gathering spaces to providing more places for families to interact with exhibits and the natural world. While the Xu Family Charitable Foundation remains the major sponsor for this space, additional funding has been sought, with FIRST 5 Santa Clara County expressing its intent for support. The Santa Clara Valley Water District will also provide funding through the Safe, Clean Water and Natural Flood Protection program (Measure B – November 2012.)

With sponsorship from Citizens Equity First Credit Union ("CEFCU"), the Museum worked with MindSplash and Stealth Construction to create a new exhibit, Amazing AirMaze, which opened in September 2021. The new exhibit spans two floors and fills the former Bubbles exhibit (which has been relocated outside in Bill's Backyard) with scarves and yarn balls moving through Plexiglas tubes and emerging from one of six possible exits. This pneumatic air exhibit invites visitors to experiment with the tremendous power of air – making predictions, testing theories and solving problems.

In early fall of 2022, CDM will open a new educational and interactive play space for very young children around the theme of “things that fly” in Terminal B at the Mineta San Jose Airport. This new offsite play space was made possible with exhibit funding from Zoom Video Communications, a 5-year donated lease of 600 square feet from the City of San Jose and over \$400,000 in pro bono construction support under the direction of Hensel Phelps Construction.

Building upon the Museum's Board and executive staff review of CDM's operating feasibility in terms of mission and financial liquidity in 2020, continued efforts to identify and secure government funding were successful. The first Paycheck Protection Program (PPP) funding from the SBA was fully forgiven on May 13, 2021 and the second PPP funding from the SBA was fully forgiven on November 29, 2021 (see Note 20). Additional funding was received through the City of San Jose's Greater Downtown COVID-19 Assistance Grant, the City of San Jose Coronavirus Relief Grant and former Councilmember Lan Diep, and the state of California's Small Business COVID-19 Relief Grant Program.

Educational Programs

The Museum provides on-site and outreach programs which complement its exhibits and support visitor interactions and learning opportunities. In 2020-2021, the Museum provided direct virtual programs for 1,251 participants. CDM's Virtual Purple Museum (VPM) programming transitioned to focus on preschool age children since older children have returned to school. The weekly broadcasts were filmed at CDM and highlighted beloved exhibits and spaces, such as the fire truck and garden, in combination with a story reading.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

1. NATURE OF OPERATIONS (continued)

Educational Programs (continued)

VPM also provided CDM a means to continue some its most popular programs, such as the Noon Year's Eve celebration, which had over 2,000 unique viewers on You Tube and Facebook. More than 150 party kits were distributed to registrants and an additional 50 kits provided to low-income families at Educare. The kits featured cornhusk doll making, bubble blowing and party hat crafting instructions and supplies.

CDM's commitment to provide a means for the local community to participate in various cultural festivals, which represent the region's ethnic composition, such as Mid-Autumn Festival, Dia de los Muertos, Diwali, Menorahs and Miracles, Dia de los Tres Reyes Magos, Lunar New Year, Children of the Dragon, and Proud of My Family, was evidenced by the decision of the city's Office of Cultural Affairs to fund the Museum's cultural festivals under its Parades Grant Program with a portion of its American Rescue Plan ("ARP") funding. The Office of Cultural Affairs also elected to apply ARP funds to ensure that CDM's annual arts grant remained fully funded.

The Museum's mission continues to support 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. However, the pandemic required modifications as to how arts programming is presented at CDM. The on-site Art Studio in The Wonder Cabinet and the LeRoy Neiman Art Studio, examples of the Museum's commitment to visual arts education experiences, were modified to reduce the facilitated and high-touch activities as well as those with manipulatives offered. The Lee and Diane Brandenburg Theatre and Cadence Amphitheatre evidence CDM's support for performing arts experiences. While programming in the Brandenburg Theatre has ceased during the pandemic, and all performances have been moved outdoors to the Cadence Amphitheatre, CDM has continued to seek new collaborations with local performing arts groups. This year CDM launched a partnership with the New San Jose Ballet to introduce young museum visitors to the world of ballet through a series of Dance Alongs with ballet dance instructors from the school.

Additional National Leadership Grant funding from the Institute of Museum and Library Services ("IMLS") in September 2021, will continue to fund the ongoing work of CDM's Cultural Competence Learning Institute ("CCLI") in collaboration with the Association of Children's Museums and the Association of Science and 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.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

1. NATURE OF OPERATIONS (continued)

Educational Programs (continued)

CDM entered into Year 2 of a 5-year program with the Exploratorium, leveraging CDM's decade-long CCLI planning and implementation with the Exploratorium's work to reach Latinx audiences, to launch Cambio, a professional development institute for informal science practitioners working with Latinx audiences, with funding from the National Science Foundation.

With a planning grant from IMLS, CDM has retained consultant, Maryam Eskandari, MIIM Designs, to explore the possibility of creating a traveling exhibit (and possible permanent exhibit at CDM) celebrating the Nowruz festival. Nowruz means “new day” and celebrates the first day of spring. This secular holiday is celebrated by both Muslim and non-Muslim people with origins in the former lands of Persia. This grant will be used to develop a fundraising plan and to convene community advisory groups to explore the commonalities and differences in Nowruz celebrations among people from different parts of the world.

CDM continuously strives to understand and to improve its service to its visitors. In 2019, CDM joined 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. During the pandemic, the COVES visitor survey was modified to solicit visitor feedback on safety and sanitation issues upon reopening. The information gleaned from these surveys was instrumental in program and facility modifications as CDM gradually reopened its interior spaces.

The Museum's Board's Facing Change Task Force completed year 2 of the American Alliance of Museums' Facing Change Initiative, working with other Bay Area museums involved in the national initiative. The focus of CDM's task force was two-fold: create a pipeline of Board candidates representing ethnic diversity and working in a field focused on children's health and development, or representing the social and cultural norms of CDM's audience; and develop ways to engage Board members more broadly with Museum staff in order to engender trust and to demystify the Board.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

2. CHANGE IN NET ASSETS

During the year ended August 31, 2021, the Museum experienced an increase in net assets of \$1,070,647 as reported in the statement of activities.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets	\$ 41,609	\$ 1,029,038	\$ 1,070,647
Add back:			
Depreciation expense	1,496,735	-	1,496,735
Donated rent receivable amortization (see Note 9)	-	326,384	326,384
	<u>1,496,735</u>	<u>326,384</u>	<u>1,823,119</u>
Less:			
Donated rent income	-	(826,000)	(826,000)
Donated property and equipment	-	(447,001)	(447,001)
	<u>-</u>	<u>(1,273,001)</u>	<u>(1,273,001)</u>
Change in net assets excluding depreciation expense, donated rent income and receivable amortization, and donated property and equipment	<u>\$ 1,538,344</u>	<u>\$ 82,421</u>	<u>\$ 1,620,765</u>

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

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. CDM initially closed its operation on March 5, 2020. The Museum submitted a Social Distancing Protocol to the Santa Clara County Department of Public Health and was permitted to open its outdoor 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 prepurchase admission tickets (free for Museum members) for each 2 ½ 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 and Santa Clara County elected to implement this order on December 4, 2020, effectively closing CDM for a second time due to COVID-19. The closing mandate was not rescinded until mid-February, 2021 for the outdoor space only; reopening of the interior spaces was allowed in early April, 2021. During the periods of mandated closure, CDM had essentially no earned income (see Note 1), and further chose to extend the expiration dates of current memberships to adjust for the 8 months of closure rather than risk refund requests from members unable to visit. CDM continues to monitor closely its investment portfolio and its liquidity, and is actively working to minimize the impact of any decline in liquidity. The extent of the impact of COVID-19 on CDM's operational and financial performance continues to have a negative impact as the Museum is not permitted to operate at full capacity, school groups are not permitted to schedule field trips and additional earned income avenues, such as birthday parties and facility rentals, are severely constrained. A San Jose City ordinance requires proof of vaccination for any indoor event hosting more than 50 persons at city-owned facilities, such as CDM. The ordinance does waive the 50-person requirement for general museum operations, which is deemed as “in circulation” rather than a gathering.

Throughout the pandemic, CDM continued efforts to identify and secure government funding successfully. A second Payment Protection Program (PPP2) loan for \$924,422 was approved on March 23, 2021 and full forgiveness for the PPP2 was received on November 29, 2021 (see Note 20). Additional funding received included \$80,030 through a City of San Jose Coronavirus Relief Grant on November 6, 2020; \$1,000 from the city's Greater Downtown COVID-19 Assistance Grant on January 22, 2021, \$15,000 from former District #4 Councilmember Lan Diep, and \$25,000 from the state of California's Small Business COVID-19 Relief Grant Program on May 17, 2021. Prior year's federal funding support received included: on April 21, 2020, CDM received \$10,000 from the Economic Injury Disaster Loan (EIDL) Grant program as an advance payment toward its Paycheck Protection Program (PPP) forgivable loan; and on May 3, 2020, CDM received PPP forgivable loan proceeds in the amount of \$924,422, which was fully forgiven on May 13, 2021 (see Note 11). CDM also received an Economic Injury Disaster Loan (EIDL) in the amount of \$150,000 on May 22, 2020 (see Note 12), repayment of this loan was deferred an additional 12 months, with repayment commencing in May 2022.

In addition, CDM received tax credits of \$15,493 from the U.S. Department of Labor through the Families First Coronavirus Response Act and two Employee Retention Tax Credit payments (Form 7200) with the Internal Revenue Service for \$155,973 for Q1 2021 on June 4, 2021, and for \$104,197 for partial Q3 2021 on September 29, 2021.

Children's Discovery Museum of San Jose
Notes to Financial Statements
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3. COVID-19 IMPACT (continued)

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.

Over the fiscal year, the Museum provided a safe environment for families to return to public activities to just over 62,000 visitors. No group visits occurred during the year as most schools were closed. See Note 1.

4. CONDITIONAL GRANTS AND CONTRIBUTIONS

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

Conditional grants and contributions as of August 31, 2021 consisted of the following:

Recognizable in one year or less	
Cambio project - reimbursement based	\$ 302,772
IMLS - CCLI #2	142,508
IMLS - Nowruz Planning grant	102,452
FIRST 5 - Community Engagement	50,000
Paycheck Protection Program (see Note 11)	<u>924,422</u>
	<u>1,522,154</u>
 Recognizable in more than one year	
Cambio project - reimbursement based and contingent on the availability of funds and the scientific progress of the project	570,567
IMLS - CCLI #2	168,009
Santa Clara Valley Water Project B3 grant	<u>144,500</u>
	<u>883,076</u>
	<u>\$ 2,405,230</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.

Children's Discovery Museum of San Jose
Notes to Financial Statements
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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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.

Adoption of new accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including consideration to include in the transaction price and allocating the transaction price to each performance obligation. Revenue from contribution and investment income are not impacted by this new standard. The Museum adopted ASU 2014-09 with a date of the initial application of September 1, 2020, using the full retrospective method.

The Museum previously accounted for proceeds from the Paycheck Protection Program under the debt model. During the year ended August 31, 2021, the Museum changed the accounting policy from the debt model to the conditional contribution model. The Museum believes that the conditional contribution model is a more accurate financial representation of its business and operations. In addition, the Museum has determined that the conditional contribution model is preferable because it will result in better matching of revenues and expenses and align the accounting for the Paycheck Protection Program with the Museum's accounting for other government grants and contracts.

The Museum applied the change in accounting principle using the retrospective method of adoption. With the change in accounting principle, the proceeds from the Paycheck Protection Program which were previously reported as a forgivable loan as of August 31, 2020 was reclassified as a refundable advance.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Museum closed the gift shop in December 2018 given the rise of major online retailers. The remaining inventory on hand as of August 31, 2021 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.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

- *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 and donated construction services related to the development and 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, 2021, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2021 was \$171,895.

Deferred revenue

As of August 31, 2021, the Museum had deferred revenue of \$281,576 from membership fees, advance admissions, the sale of gift cards and prepaid events.

Customer deposits

As of August 31, 2021, the Museum has received deposits of \$2,000 for future 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. The Museum uses the following steps to determine revenue recognition:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),
- Determining the transaction price,

Children's Discovery Museum of San Jose
Notes to Financial Statements
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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Museum satisfies a performance obligation.

The memberships are primarily comprised of an exchange element based on the value of benefits provided and are recognized as revenue over the membership period. The membership fees arrangement generally consist of performance obligations to provide one year admission and member discounts.

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.

Conditional grants and contributions

Conditional grants and contributions are not included as revenue receivable until such time as the barriers and right of release/return have been overcome (see Note 4).

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 services and support services. Expenses related to more than one function are charged to program services 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, 2021 was \$29,092 and is included in printing on the statement of functional expenses.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2021 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, 2021 (see Note 20). Subsequent events have been evaluated through the date the financial statements became available to be issued, January 31, 2022.

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, 2021. Unrestricted short-term grants, bequests and contributions receivable will be available to support general operations of the Museum.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

6. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE (continued)

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.

The following is a quantitative disclosure which describes assets that are available within one year of August 31, 2021 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 5,068,232
Short term investment	1,002,002
Investments	3,599,273
Contributions receivable	<u>974,538</u>
	<u>10,644,045</u>
Less: amounts unavailable for general expenditure within one year	
Net assets restricted for a specified purpose	(1,128,160)
Board-designated endowment	(3,736,081)
Board-designated for fixed assets reserve	(1,000,000)
Perpetual endowment	(1,161,095)
Short term investment as a collateral of the line of credit	<u>(1,000,000)</u>
	<u>(8,025,336)</u>
	<u>\$ 2,618,709</u>

As of August 31, 2021, the Museum had \$2,618,709 of financial assets available to meet cash needs for general expenditures. In addition, the board-designated endowment of \$3,736,081 and the board-designated for fixed assets reserve of \$1,000,000 could be made available in their entirety if needed.

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Stocks and mutual funds	\$ 3,235,186	\$ -	\$ -	\$ 3,235,186
Cash and cash equivalents	341,075	-	-	341,075
Venture capital funds	-	-	22,962	22,962
Interest receivable	<u>50</u>	<u>-</u>	<u>-</u>	<u>50</u>
	<u>\$ 3,576,311</u>	<u>\$ -</u>	<u>\$ 22,962</u>	<u>\$ 3,599,273</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. The Museum also has a certificate of deposit valued at \$1,002,002 as of August 31, 2021 which is reported as short-term investment in the statement of financial position.

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

	<u>ENF VII Fund</u>
Balance, beginning of year	\$ 27,537
Distribution	<u>(4,575)</u>
Balance, end of year	<u>\$ 22,962</u>

The net decrease in venture capital funds investments included in the change in unrestricted net assets is composed of \$4,575 in a return of capital.

Net investment income during the year consist of the following:

Interest and dividends	\$ 65,887
Net realized and unrealized gain on investments	724,448
Investment expenses	<u>(1,400)</u>
	<u>\$ 788,935</u>

8. CONTRIBUTIONS RECEIVABLE

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

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

8. CONTRIBUTIONS RECEIVABLE (continued)

Contributions receivable consisted of the following:

Receivable in less than one year	\$ 724,538
Receivable in one to five years	<u>250,000</u>
	<u>\$ 974,538</u>

Of the contributions receivable at August 31, 2021, 51%, and 17% 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.

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.

On October 7, 2020, the Museum entered into a lease agreement with the City of San Jose for authorized use of San Jose Airport Premises. The exhibit space located in Terminal B of the Airport is used by the Museum for the purposes of placing and maintaining exhibits to educate and entertain children. The lease has no charges to the Museum, and will expire in October 2025.

The Museum recognized the benefit of this lease agreement as donated rent receivable and restricted contribution from the City of San Jose. The Museum established the fair market value of the rent under the agreement at \$165,200 per year for a total of \$826,000 for the 5-year term. Since the lease commenced on October 7, 2020, the Museum recognized \$151,437 as rent expense for the year ended August 31, 2021. The Museum estimated the discount rate of net present value of the future contribution is 2.35% based upon prevailing rates when the lease agreement was entered into. Due to immaterial impact, the Museum did not record the discount to the rent receivable.

Children's Discovery Museum of San Jose
Notes to Financial Statements
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9. DONATED RENT RECEIVABLE (continued)

Donated rent receivable consisted of the following:

Year ending August 31,

2022	\$ 351,833
2023	364,300
2024	377,600
2025	391,788
2026	255,491
Thereafter	<u>6,918,087</u>
	8,659,099
Current portion	<u>(351,833)</u>
	<u><u>\$ 8,307,266</u></u>

The current rent expense consists of the following

Current year in-kind rent contribution - Museum facility	\$ 545,053
Donated rent receivable amortization - Museum facility	174,947
Donated rent receivable amortization - San Jose Airport exhibit	<u>151,437</u>
	<u><u>\$ 871,437</u></u>

10. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Exhibits	\$ 10,894,641
Leasehold improvements	4,355,256
Equipment	2,600,266
Furniture and fixtures	123,364
Vehicles	37,494
Construction in progress	<u>1,010,308</u>
	19,021,329
Accumulated depreciation	<u>(13,183,891)</u>
	<u><u>\$ 5,837,438</u></u>

Depreciation expense for the year ended August 31, 2021 was \$1,496,735.

Children's Discovery Museum of San Jose
Notes to Financial Statements
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11. REFUNDABLE ADVANCE - PAYCHECK PROTECTION PROGRAM

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 ("SBA"). The PPP loan accrued interest at a rate of 1% and had an original maturity date in 2022. Under the terms of the CARES Act, PPP loan recipients 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 within certain limitations.

CDM elected to record this loan under the conditional contribution model and recognizes revenues as qualifying expenditures are incurred and barriers are met. CDM incurred qualifying expenses and maintained its headcount as required. CDM has considered whether conditional grant revenue should be retrospectively recognized since a portion of the qualifying expenditures were incurred during the fiscal year ended August 31, 2020. On May 13, 2021, CDM received notification that the SBA issued a judgment of full forgiveness of the first PPP loan, with amount of \$924,422. CDM has determined that recognition of the amount during the fiscal year ended August 31, 2021 is appropriate due to the level of uncertainty around the program in 2020.

On March 23, 2021, CDM received the second loan proceeds in the amount of \$924,422 under PPP. The loan maturity date is March 2026, and with an annual interest rate of 1%. Payments of principal and interest are deferred for the first ten 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 within certain limitations.

On November 29, 2021, CDM received notification of forgiveness for the second PPP loan (see Note 20).

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 were 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 payments of \$641, including principal and interest were scheduled to begin twelve months from the loan effective date, with the balance of principal and interest due on thirty years.

On March 12, 2021, SBA announced extended deferment periods for all disaster loans, including EIDL. As a result, the principal and interest payment commence May 22, 2022.

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August 31, 2021

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, 2021.

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donated rent receivable	\$ 8,659,099
Programs and exhibits	1,127,659
Unappropriated earnings on perpetual endowment	501
Perpetual endowment	1,161,095
Property and equipment	<u>735,679</u>
	<u><u>\$ 11,684,033</u></u>

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

Donated rent receivable amortization	\$ 326,384
Programs and exhibits	<u>326,373</u>
	<u><u>\$ 652,757</u></u>

15. DONATIONS IN-KIND

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

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

Rent - San Jose Airport exhibit	\$ 826,000
Rent - Museum facility	545,054
Construction	409,501
Equipment	37,500
Consulting services	37,000
Supplies	<u>1,577</u>
	<u><u>\$ 1,856,632</u></u>

Children's Discovery Museum of San Jose
Notes to Financial Statements
August 31, 2021

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, 2021, 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.

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, 2021, cash contributions received from board members totaled \$315,525, and cash contributions from their employers or affiliations totaled \$555,787. During the year ended August 31, 2021, there were no in-kind donations received from the board members.

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.

Children's Discovery Museum of San Jose
Notes to Financial Statements
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19. ENDOWMENT (continued)

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

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.

Children's Discovery Museum of San Jose
Notes to Financial Statements
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19. ENDOWMENT (continued)

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

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, 2021.

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. During the year ended August 31, 2021, no appropriation was made.

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

Children's Discovery Museum of San Jose
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19. ENDOWMENT (continued)

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
Unappropriated earnings on perpetual endowment	-	501	501
Board-designated endowment funds	<u>3,736,081</u>	<u>-</u>	<u>3,736,081</u>
	<u><u>\$ 3,736,081</u></u>	<u><u>\$ 1,161,596</u></u>	<u><u>\$ 4,897,677</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	\$ -	\$ 1,161,095	\$ 1,161,095
Interest	<u>501</u>	<u>-</u>	<u>501</u>
Balance, end of year	<u><u>\$ 501</u></u>	<u><u>\$ 1,161,095</u></u>	<u><u>\$ 1,161,596</u></u>

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

Balance, beginning of year	<u>\$ 2,433,769</u>
Interest and dividends	65,386
Net realized and unrealized gain on investments	724,448
Investment expenses	<u>(1,400)</u>
Total investment return	788,434
Contribution	<u>513,878</u>
Balance, end of year	<u><u>\$ 3,736,081</u></u>

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20. SUBSEQUENT EVENTS

A City of San Jose ordinance requires proof of vaccination for indoor events with over 50 persons at city-owned facilities, such as CDM. It does, however, exclude regular Museum visitation, which is viewed as “circulation” rather than a “gathering.” For those persons with medical or religious exemptions, they need to provide a negative COVID-19 test result administered within 72 hours prior to the event. Children under the age of 12 are exempted at this time. This ordinance may be extended to cover children over the age of 5 now that vaccinations are available. It is important to note that a significant number of the Museum's audience are below the age of 5 years, and are not approved for vaccinations at this time.

The City of San Jose has requested, although not yet required, that all local businesses adopt a Mandatory Vaccination Policy for Workforce. CDM has developed and will seek Board approval on a policy that requires all staff, volunteers and outside contractors who work directly with the Museum's audience to provide proof of vaccination. The policy does provide accommodation for religious and medical exemptions.

While President Biden's mandate that all businesses with 100+ employees require their workers to be vaccinated by January 8, 2022 has temporarily been rescinded, the President's Executive Order requiring all federal workers and those receiving federal monies be vaccinated by November 22, 2021 remains in effect.

With FDA approval of the Pfizer COVID-19 vaccination for children 5 years and older, CDM contacted the Santa Clara County Public Health Department to offer its site as a pop-up vaccination clinic, and to provide free Museum admission to support parents. With funding support from the Silicon Valley Community Foundation, San Jose City Councilmember Raul Peralez and The Health Trust, CDM hosted its inaugural clinic on January 2, 2022, and will focus on its adjacent neighborhoods. Two additional pop-up clinics in January and February will be underwritten by funding from the Santa Clara Family Health Plan, which focuses on Medi-Cal families. Funding has also been secured from Anthem Blue Cross for a future clinic also focused on attracting Medi-Cal families.

On November 29, 2021, the Museum received the notification from SBA, and the second PPP loan of \$924,422 was forgiven in full.