

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

Financial Statements

August 31, 2022



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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

### Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Children's Discovery Museum of San Jose and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Children's Discovery Museum of San Jose's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Children's Discovery Museum of San Jose's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children's Discovery Museum of San Jose's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



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

January 26, 2023

Children's Discovery Museum of San Jose  
Statement of Financial Position  
August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 5,117,492	\$ 345,321	\$ 5,462,813
Short-term investment	500,000	-	500,000
Contributions receivable	420,960	679,927	1,100,887
Donated rent receivable, current portion	-	364,300	364,300
Inventory	14,054	-	14,054
Prepaid expenses	127,737	-	127,737
Other current assets	3,870	-	3,870
Total current assets	<u>6,184,113</u>	<u>1,389,548</u>	<u>7,573,661</u>
Property and equipment, net	<u>4,904,683</u>	<u>191,555</u>	<u>5,096,238</u>
Other assets			
Investments	2,056,005	1,756,173	3,812,178
Donated rent receivable, net of current portion	-	7,942,966	7,942,966
Total other assets	<u>2,056,005</u>	<u>9,699,139</u>	<u>11,755,144</u>
Total assets	<u>\$ 13,144,801</u>	<u>\$ 11,280,242</u>	<u>\$ 24,425,043</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 115,756	\$ -	\$ 115,756
Accrued payroll and related benefits	353,197	-	353,197
Deferred revenue	378,848	-	378,848
Customer deposits	2,000	-	2,000
Total current liabilities	<u>849,801</u>	<u>-</u>	<u>849,801</u>
Economic Injury Disaster loan	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total liabilities	<u>999,801</u>	<u>-</u>	<u>999,801</u>
Net assets			
Without donor restrictions			
Board-designated			
Endowment	4,240,317	-	4,240,317
Operating reserve	2,000,000	-	2,000,000
Fixed asset reserve	1,000,000	-	1,000,000
Total board-designated	<u>7,240,317</u>	<u>-</u>	<u>7,240,317</u>
Property and equipment	<u>4,904,683</u>	<u>-</u>	<u>4,904,683</u>
Total without donor restrictions	<u>12,145,000</u>	<u>-</u>	<u>12,145,000</u>
With donor restrictions			
Restricted for a specified purpose	-	1,615,218	1,615,218
Donated rent receivable	-	8,307,266	8,307,266
Unappropriated earnings on perpetual endowment	-	5,108	5,108
Perpetual endowment	-	1,161,095	1,161,095
Property and equipment	-	191,555	191,555
Total with donor restrictions	<u>-</u>	<u>11,280,242</u>	<u>11,280,242</u>
Total net assets	<u>12,145,000</u>	<u>11,280,242</u>	<u>23,425,242</u>
Total liabilities and net assets	<u>\$ 13,144,801</u>	<u>\$ 11,280,242</u>	<u>\$ 24,425,043</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Support			
Grants and contributions	\$ 1,404,613	\$ 816,559	\$ 2,221,172
Special events, net of direct donor benefits of \$163,766	1,021,725	-	1,021,725
Contribution - Paycheck Protection Program	924,422	-	924,422
Donations in-kind	595,968	-	595,968
Government grants	<u>104,032</u>	<u>-</u>	<u>104,032</u>
Total support	<u>4,050,760</u>	<u>816,559</u>	<u>4,867,319</u>
Revenue			
Admissions	1,369,983	-	1,369,983
Membership	329,990	-	329,990
Retail services	33,471	-	33,471
Other income	17,140	-	17,140
Exhibit rental	670	-	670
Program fees	600	-	600
Investment income (loss), net	<u>(174,342)</u>	<u>4,607</u>	<u>(169,735)</u>
Total revenue	<u>1,577,512</u>	<u>4,607</u>	<u>1,582,119</u>
Total support and revenue	5,628,272	821,166	6,449,438
Net assets released from restriction	<u>1,224,957</u>	<u>(1,224,957)</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>6,853,229</u>	<u>(403,791)</u>	<u>6,449,438</u>
Functional expenses			
Program services			
Exhibits	2,801,716	-	2,801,716
Educational programs	2,376,096	-	2,376,096
Retail services	<u>6,473</u>	<u>-</u>	<u>6,473</u>
Total program services	<u>5,184,285</u>	<u>-</u>	<u>5,184,285</u>
Support services			
Management and general	925,701	-	925,701
Development and fundraising	<u>436,083</u>	<u>-</u>	<u>436,083</u>
Total support services	<u>1,361,784</u>	<u>-</u>	<u>1,361,784</u>
Total functional expenses	<u>6,546,069</u>	<u>-</u>	<u>6,546,069</u>
Change in net assets	307,160	(403,791)	(96,631)
Net assets, beginning of year	<u>11,837,840</u>	<u>11,684,033</u>	<u>23,521,873</u>
Net assets, end of year	<u>\$ 12,145,000</u>	<u>\$ 11,280,242</u>	<u>\$ 23,425,242</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, 2022

	Program Services				Support Services			Total
	Exhibits	Educational Programs	Retail Services	Total Program Services	Management and General	Development and Fundraising	Total Support Services	
Expenses								
Salaries and benefits								
Salaries	\$ 414,303	\$ 946,379	\$ -	\$ 1,360,682	\$ 577,574	\$ 170,886	\$ 748,460	\$ 2,109,142
Employee benefits	45,182	65,370	-	110,552	56,916	68,375	125,291	235,843
Payroll taxes	<u>28,825</u>	<u>70,357</u>	<u>-</u>	<u>99,182</u>	<u>36,701</u>	<u>11,495</u>	<u>48,196</u>	<u>147,378</u>
Total salaries and benefits	488,310	1,082,106	-	1,570,416	671,191	250,756	921,947	2,492,363
Occupancy, in-kind	518,000	331,200	-	849,200	21,600	14,400	36,000	885,200
Outside services	30,593	456,792	-	487,385	129,418	47,062	176,480	663,865
Repairs and maintenance	240,860	188,549	-	429,409	(6,752)	8,467	1,715	431,124
Utilities	102,711	88,346	-	191,057	10,263	4,109	14,372	205,429
Small equipment	109,479	21,332	-	130,811	16,026	2,951	18,977	149,788
Conferences and meetings	-	3,247	-	3,247	14,171	75,838	90,009	93,256
Insurance	38,710	40,292	-	79,002	3,327	1,680	5,007	84,009
Printing	497	59,514	-	60,011	-	40	40	60,051
Travel	1,969	31,306	-	33,275	22	-	22	33,297
Telephone	4,570	6,434	-	11,004	7,251	4,348	11,599	22,603
Dues and subscriptions	3,536	7,214	-	10,750	1,604	-	1,604	12,354
Office supplies	1,766	802	-	2,568	1,699	235	1,934	4,502
Postage and shipping	487	-	1,234	1,721	2,049	664	2,713	4,434
Training	-	-	-	-	2,986	-	2,986	2,986
Automobile	<u>1,137</u>	<u>-</u>	<u>-</u>	<u>1,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,137</u>
Total expenses before depreciation	1,542,625	2,317,134	1,234	3,860,993	874,855	410,550	1,285,405	5,146,398
Depreciation	<u>1,259,091</u>	<u>58,962</u>	<u>5,239</u>	<u>1,323,292</u>	<u>50,846</u>	<u>25,533</u>	<u>76,379</u>	<u>1,399,671</u>
	<u>\$ 2,801,716</u>	<u>\$ 2,376,096</u>	<u>\$ 6,473</u>	<u>\$ 5,184,285</u>	<u>\$ 925,701</u>	<u>\$ 436,083</u>	<u>\$ 1,361,784</u>	<u>\$ 6,546,069</u>
Percentage of total	<u>43 %</u>	<u>36 %</u>	<u>- %</u>	<u>79 %</u>	<u>14 %</u>	<u>7 %</u>	<u>21 %</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, 2022

Cash flows from operating activities	
Change in net assets	\$ (96,631)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net realized and unrealized loss on investments	255,147
Donated rent receivable amortization	351,833
Proceeds from contributions restricted for purchase of property and equipment	(529,567)
Depreciation	1,399,671
Changes in operating assets and liabilities	
Contributions receivable	(126,349)
Prepaid expenses	42,778
Accounts payable and accrued liabilities	(5,388)
Accrued payroll and related benefits	20,275
Deferred revenue	97,272
Refundable advance - Paycheck Protection Program	(924,422)
Net cash provided by operating activities	<u>484,619</u>
Cash flows from investing activities	
Purchase of investments	(1,520,265)
Proceeds from sale of investments	1,554,215
Purchase of property and equipment	<u>(653,555)</u>
Net cash used in investing activities	<u>(619,605)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for purchase of property and equipment	<u>529,567</u>
Net cash provided by financing activities	<u>529,567</u>
Net increase in cash and cash equivalents	394,581
Cash and cash equivalents, beginning of year	<u>5,068,232</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,462,813</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, 2022

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. With over 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 to 10 interactive exhibits that address the distinctive need for children to learn through concrete interactions. An adjacent 30,000 square foot outdoor nature education center, Bill's Backyard: Bridge to Nature, offers exhibit signage in English, Spanish and Vietnamese that 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 majority of CDM's exhibits are designed for 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 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. With sponsorship from CEFCU, the Amazing AirMaze exhibit was installed by Mindsplash and Stealth Enterprise Inc. The new exhibit spans two floors inside the Museum and features scarves and yarn balls moving through a series of plexiglass tubes and emerging from one of six exits, much to the delight of Museum visitors. The new Potter the Otter: A Healthy Adventure exhibit, sponsored with funding from FIRST 5 Santa Clara County, re-opened in the Museum's Central Park space in July 2021, and is scheduled to begin its 3-year tour in January, 2023.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2022

1. NATURE OF OPERATIONS (continued)

Exhibits (continued)

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. Acting with an abundance of caution due to COVID-19, the Museum closed to the public on March 5, 2020 and remained closed for 14 months. During that time, Museum staff and its Board of Directors worked to develop a Restoration and Revitalization Plan. Major facility improvements were made to enhance air filtration and to install touchless plumbing and hydration stations. Current year projects included a major HVAC control system upgrade from pneumatic to direct digital controls and a renovation of the Cadence Amphitheatre by Stealth Enterprise Inc. As the COVID-19 pandemic began to wane, the Museum slowly reopened its interior exhibits and relaunched programming. Recognizing that young children were not eligible for COVID-19 vaccinations until August 2022, the Museum chose to follow guidelines established for schools and to require all visitors, regardless of vaccination status, to wear masks inside and outside while at the Museum. Museum visitation was defined as "circulation" rather than a "gathering," which exempted CDM from the city ordinance requiring all city-owned venues, with indoor attendance of 50 persons or more, to provide proof of vaccination. In the fall of 2021, the Museum adopted a single 2½ hours play session for Wednesday through Friday and two 2½ hour play sessions on Saturday, Sunday and on holidays. In June 2022, the weekday schedule was increased to two play sessions. Over the fiscal year, the Museum provided a safe and engaging environment for families returning to public activities to 144,000 visitors and members.

In early fall of 2021, CDM opened Zoom Zone, 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 International 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.

Progress continues on Exploration Portal, with a preliminary set of exhibit designs selected from Scientific Art Studio. The space will continue to focus on the intersection of math and nature for its content, 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 was secured from FIRST 5 Santa Clara County and the Santa Clara Valley Water District through the Safe, Clean Water and Natural Flood Protection program (Measure B – November 2012).

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2022

1. NATURE OF OPERATIONS (continued)

Exhibits (continued)

Continuing the Museum's Board and executive staff focus on operating feasibility in terms of mission and financial liquidity, commitments from the City of San Jose were secured for several future projects, including modernization of the freight elevator; and security measures, which include a specially designed wall to secure the amphitheater and additional security cameras, through a special grant from the Mayor's Office of \$175,500. CDM's sinking fund, a 1-to-1 match with the city, will be utilized to upgrade and make ADA accessible the audio, lighting and projection systems in the Lee and Diane Brandenburg Theatre in the fall. The Museum's Paycheck Protection Program – Second Draw was approved by the SBA for loan forgiveness in the fall of 2021.

Educational Programs

The Museum provides on-site and outreach programs which complement its exhibits and support visitor interactions and learning opportunities. 2021-2022 saw the return of group visits to the Museum, with 5,800 served and an additional 512 served through on-site or virtual programs. The Santa Clara County Office of Education sponsored a private use day at CDM in spring of 2022 to accommodate students and their families in the District's special needs programs. In response to the ongoing COVID-19 pandemic, the Museum hosted a total of four pop-up vaccination clinics and, as an incentive, provided free museum admission, for up to 8 persons, to each family receiving a vaccination. Sponsors stepping forward to support this initiative included the Silicon Valley Community Foundation, The Health Trust, San Jose Council member Raul Perez, Santa Clara Family Health Plan, and Anthem BlueCross. The first three clinics were conducted by the Santa Clara County Public Health Department, with the Stanford Flu Crew providing vaccines for the 4th clinic.

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. The National Endowment of the Arts awarded CDM a \$100,000 grant to re-establish arts programming. With the reopening of the LeRoy Neiman Art Studio, a new Artist-in-Residence program was initiated in summer of 2022 with CDM's newly hired Arts Program Manager. The program will host a professional visual artist for a 3-month residency to lead children in art-making activities and to share their professional talents. The Museum served as an evaluation site for the AlegreMENTE! Happy Brain traveling exhibit, built by OMSI (Oregon Museum of Science and Industry.) The theme of this bilingual exhibit (English and Spanish) is how everyday interactions build social/emotional, language, cognitive and motor skills for a lifetime.

The Juneteenth celebration was added to CDM's numerous cultural festivals, which offer a means for the local community to participate in various cultural festivals that represent the region's ethnic diversity. The festivals, 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, featured both onsite and virtual programming.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2022

1. NATURE OF OPERATIONS (continued)

Educational Programs (continued)

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, the Association of Science and Technology Centers and the Garibay Group 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.

CDM entered into Year 3 of a 5-year collaboration with the Exploratorium to improve STEM participation by Latinx audiences, leveraging CDM's decade-long CCLI planning and implementation with the Exploratorium's work to reach Latinx audiences. While Cohort 1 participants met virtually in year 2, Cohort 2 participants gathered in person with 5 teams from across the country attending: New York Hall of Science (NY), Bronx Zoo (NY), International Museum of Art and Science (TX), Children's Museum Tucson (AZ) and The Tech Interactive (CA). Funding for this initiative was secured from the National Science Foundation.

In partnership with Maryam Eskandari, MIIM Designs, CDM launched a multi-year initiative about Persian Culture by exploring how Nowruz, the New Year celebration occurring on the spring equinox, is celebrated around the world today. CDM reached out to its supporter base to identify persons willing to serve as Cultural Ambassadors. These Cultural Ambassadors are community volunteers who share their personal knowledge, experience and understanding of Nowruz with CDM staff. Their role is to provide introductions to other Persian community members, who can provide cultural expertise, artistic talent or resources to the project. Over the course of the year, three group meetings were conducted with the Cultural Ambassadors. Resulting from these sessions, a multi-year road map was developed beginning with building a strong foundation of cultural knowledge, community advocates and potential resources, and culminating in a world-class interactive exhibit for children called Nowruz Around the World, and an authentic festival celebrated annually at CDM.

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.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2022

1. NATURE OF OPERATIONS (continued)

Educational Programs (continued)

As culmination of the two-year American Alliance of Museum's ("AAM") Facing Change Initiative, the Museum's Board's Facing Change Task Force participated in an annual retreat of the Bay Area Cohorts. CDM produced a video documenting its learning and acknowledging the AAM 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.

With support from The David and Lucile Packard Foundation, CDM retained Elisa Diana Huerta, Ph.D., to develop a six-month professional development program for staff that will support CDM's goals of identifying and dismantling systems of oppression in its management and operations. Phase I included staff interviews and Phase II provided training workshops.

Looking forward, the Museum will continue to restore programs, which were ceased due to COVID-19, and to embrace new program opportunities. With COVID-19 vaccines now available for children 6 months and older, the Museum will continue to work the Stanford Flu Crew to provide vaccination clinics prior to the ending of the federal government's subsidy in February 2023. The Museum will also restore its Play Your Way evening, a small event to which families with children on the Autism spectrum are welcomed into the Museum. New programs include the return of Great Big Family Fun Day, which will be hosted inside of the Museum, rather than in the park. Over 2,000 attendees are anticipated to visit on that single day, and a Reading Festival in summer of 2023. The Reading Festival will be a collaboration with Kristi Yamaguchi's Always Dream Foundation and the San Jose Public Libraries, which will culminate in a day-long Reading Festival for the public featuring community officials and celebrities.

The current timeline for construction of the new outdoor Exploration Portal calls for groundbreaking in late spring of 2023 and public opening in 2024.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2022

2. CHANGE IN NET ASSETS

During the year ended August 31, 2022, the Museum experienced an decrease in net assets of \$96,631 as reported in the statement of activities.

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	\$ 307,160	\$ (403,791)	\$ (96,631)
Add back:			
Depreciation expense	1,399,671	-	1,399,671
Donated rent receivable amortization (see Note 8)	-	351,833	351,833
	<u>1,399,671</u>	<u>351,833</u>	<u>1,751,504</u>
Change in net assets excluding depreciation expense and donated rent receivable amortization	<u>\$ 1,706,831</u>	<u>\$ (51,958)</u>	<u>\$ 1,654,873</u>

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2022

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, 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. In the 2021-2022 fiscal year, the negative impact of COVID-19 on CDM's operational and financial performance continued. The Museum slowly reopened its interior exhibits and relaunched programming. Recognizing that young children were not eligible for COVID-19 vaccinations until August 2022, the Museum chose to follow guidelines established for schools and to require all visitors, regardless of vaccination status, to wear masks inside and outside while at the Museum. A San Jose City ordinance was passed, on January 11, 2022, that required proof of vaccination for any indoor event hosting more than 50 persons at city-owned facilities, such as CDM. The ordinance did waive the 50-person requirement for general museum operations, which is deemed as "in circulation" rather than a "gathering". However, it was applicable to CDM's additional earned income avenues, such as birthday parties and facility rentals, and did have a negative financial impact on revenue.

On March 1, 2022, the San Jose City Council passed an urgency ordinance repealing the January 11, 2022 ordinance. On April 5, 2022, the City Council voted to end the COVID mask mandate, implemented in June 2022, to conform with county and state requirements. Individuals, regardless of vaccination status, are no longer required to wear a mask except in certain high-risk settings, such as hospitals, jail, homeless shelters, and long-term care facilities or on public transit.

Recognizing that young children (under 5 years) were not eligible for COVID-19 vaccinations until mid-June 2022, and the subsequent time period for full vaccine protection, the Museum chose to follow guidelines established for schools and to require all visitors, regardless of vaccination status, to wear masks inside and outside while at the Museum. This requirement was lifted at the end of September 2022. The Museum will continue to work the Stanford Flu Crew to provide vaccination clinics prior to the ending of the federal government's subsidy in February, 2023.

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3. COVID-19 IMPACT (continued)

Over the course of the pandemic, CDM continued to monitor closely its investment portfolio and its liquidity, and worked actively to minimize the impact of any decline in liquidity. CDM continued efforts to identify and secure government funding successfully. The second Paycheck Protection Program ("PPP") loan for \$924,422, was approved on March 23, 2021, and received full forgiveness on November 29, 2021. Additional 2020-2021 fiscal year funding 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, and \$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: \$10,000, on April 21, 2020, from the Economic Injury Disaster Loan (EIDL) Grant program as an advance payment of Paycheck Protection Program (PPP); on May 3, 2020, PPP loan proceeds in the amount of \$924,422, which was fully forgiven on May 13, 2021; and an Economic Injury Disaster Loan (EIDL) in the amount of \$150,000 on May 22, 2020 (see Note 11), repayment of this loan, originally deferred 12 months, was deferred an additional 6 months, with repayment commencing in November 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 \$104,032 for partial Q3 2021 on September 29, 2021.

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. Acting with an abundance of caution due to COVID-19, the Museum closed to the public on March 5, 2020 and remained closed for 14 months. During that time, Museum staff and its Board of Directors worked to develop a Restoration and Revitalization Plan. Major facility improvements were made to enhance air filtration and to install touchless plumbing and hydration stations. Current year projects included a major HVAC control system upgrade from pneumatic to direct digital controls and a renovation of the Cadence Amphitheatre by Stealth Enterprise Inc. As the COVID-19 pandemic began to wane, the Museum slowly reopened its interior exhibits and relaunched programming. Recognizing that young children were not eligible for COVID-19 vaccinations until August, 2022, the Museum chose to follow guidelines established for schools and to require all visitors, regardless of vaccination status, to wear masks inside and outside while at the Museum. In the fall of 2021, the Museum adopted a single 2½ hours play session for Wednesday through Friday and two 2½ hour play sessions on Saturday, Sunday and on holidays. In June, the weekday schedule was increased to two play sessions. Over the fiscal year, the Museum provided a safe and engaging environment for families returning to public activities to 144,000 visitors and members.



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4. 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.

Adoption of accounting standards updated

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Museum adopted ASU 2020-07 with a date of the initial application of September 1, 2021, using the full retrospective method.

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, 2022 was \$14,054.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

The Museum reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of August 31, 2022, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of August 31, 2022, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2022 was \$205,767.

Deferred revenue

As of August 31, 2022, the Museum had deferred revenue of \$378,848 from membership fees, advance admissions, the sale of gift cards and prepaid events.

Customer deposits

As of August 31, 2022, 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,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Museum satisfies a performance obligation.

Children's Discovery Museum of San Jose  
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 receivable

Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the barriers on which they depend are substantially met and the promises become unconditional. The Museum makes estimates as to the ability to collect all of its outstanding receivables and provides allowances for amounts when collection becomes doubtful. Provisions are made based upon a specific review of past due and other outstanding balances for which collection is considered uncertain. The Museum considers all contributions receivable to be fully collectible at year end; accordingly, an allowance for doubtful accounts is not considered necessary.

Grants and contributions

Grants and contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Grants and contributions are recorded as without donor restrictions or with donor restrictions, depending on the nature of donor restrictions. Grants and 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 5).

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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 was \$48,425 and is 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.

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, 2022 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, 2022 (see Note 19). Subsequent events have been evaluated through the date the financial statements became available to be issued, January 26, 2023.

Children's Discovery Museum of San Jose  
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5. 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, 2022 consisted of the following:

Recognizable in one year or less	
Cambio project - reimbursement based	\$ 285,918
Santa Clara Valley Water Project B3 grant	<u>144,500</u>
	430,418
Recognizable in more than one year	
Cambio project - reimbursement based	<u>431,584</u>
	<u><u>\$ 862,002</u></u>

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, 2022. Unrestricted short-term grants, bequests and contributions 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 18, 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, 2022 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 5,462,813
Short-term investment	500,000
Investments	3,812,178
Contributions receivable	<u>1,100,887</u>
	<u>10,875,878</u>
Less: amounts unavailable for general expenditure within one year	
Net assets restricted for a specified purpose	(1,615,218)
Board-designated endowment	(4,240,317)
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>(500,000)</u>
	<u>(8,516,630)</u>
	<u><u>\$ 2,359,248</u></u>

As of August 31, 2022, the Museum had \$2,359,248 of financial assets available to meet cash needs for general expenditures. In addition, the board-designated endowment of \$4,240,317 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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Stocks and mutual funds	\$ 2,963,452	\$ -	\$ -	\$ 2,963,452
Cash and cash equivalents	842,037	-	-	842,037
Interest receivable	<u>6,689</u>	<u>-</u>	<u>-</u>	<u>6,689</u>
	<u><u>\$ 3,812,178</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,812,178</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. The Museum also has a certificate of deposit valued at \$500,000 as of August 31, 2022 which is reported as short-term investment in the statement of financial position.

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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 VII Fund</u>
Balance, beginning of year	\$ 22,962
Distribution	<u>(22,962)</u>
Balance, end of year	<u><u>\$ -</u></u>

The net decrease in venture capital funds investments included in the change in unrestricted net assets is composed of \$22,962 in a return of capital.

Net investment income (loss) during the year consist of the following:

Interest and dividends	\$ 87,012
Net realized and unrealized loss on investments	(255,147)
Investment expenses	<u>(1,600)</u>
	<u><u>\$ (169,735)</u></u>

8. 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.



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8. DONATED RENT RECEIVABLE (continued)

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 \$165,200 as rent expense for the year ended August 31, 2022. 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.

Donated rent receivable consisted of the following:

<u>Year ending August 31,</u>	
2023	\$ 364,300
2024	377,600
2025	391,788
2026	255,487
2027	257,872
Thereafter	<u>6,660,219</u>
	8,307,266
Current portion	<u>(364,300)</u>
	<u><u>\$ 7,942,966</u></u>

The current rent expense consists of the following

Current year in-kind rent contribution - Museum facility	\$ 533,367
Donated rent receivable amortization - Museum facility	186,633
Donated rent receivable amortization - San Jose Airport exhibit	<u>165,200</u>
	<u><u>\$ 885,200</u></u>

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9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Exhibits	\$ 11,776,216
Leasehold improvements	4,835,893
Equipment	2,600,266
Furniture and fixtures	129,794
Vehicles	37,494
Construction in progress	<u>292,787</u>
	19,672,450
Accumulated depreciation	<u>(14,576,212)</u>
	<u><u>\$ 5,096,238</u></u>

Depreciation expense for the year ended August 31, 2022 was \$1,399,671.

10. REFUNDABLE ADVANCE - PAYCHECK PROTECTION PROGRAM

On March 23, 2021, CDM received a Paycheck Protection Program – Second Draw loan in the amount of \$924,422. The loan maturity date was March 2026, with an annual interest rate of 1%. Payments of principal and interest were deferred for the first ten months of the loan. This loan program was established under terms of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and administered by the U.S. Small Business Administration ("SBA"). CDM was eligible to apply for and be granted forgiveness for all or a portion of the loan proceeds. Such forgiveness was 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. On November 29, 2021, CDM received notification of the full forgiveness of the PPP.

CDM elected to record this loan under the conditional contribution model, as was done with the Museum's first PPP loan, and recognized revenue as qualifying expenditures were incurred and barriers were met. CDM recorded the second PPP loan as contribution revenue in the statement of activities for the year ended August 31, 2022.

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11. ECONOMIC INJURY DISASTER LOAN

On May 22, 2020, CDM received an Economic Injury Disaster Loan ("EIDL") of \$150,000 from the Small Business Administration. The loan proceeds were to be 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 in thirty years. On March 12, 2021, the SBA announced extended deferment periods for all disaster loans, including EIDL, thereby moving CDM's repayment date to May 22, 2022. On March 16, 2022, CDM was notified by the SBA that its EIDL term had received an additional 6-month deferment, scheduling the first repayment date for November 22, 2022. With approval from the Board of Directors, CDM's EIDL of \$150,000 was fully repaid on November 9, 2022 (see Note 19).

12. 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. The Museum contributed \$60,785 during the year ended August 31, 2022.

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donated rent receivable	\$ 8,307,266
Programs and exhibits	1,615,218
Unappropriated earnings on perpetual endowment	5,108
Perpetual endowment	1,161,095
Property and equipment	<u>191,555</u>
	<u>\$ 11,280,242</u>

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

Donated rent receivable amortization	\$ 351,833
Programs and exhibits	329,000
Property and equipment	<u>544,124</u>
	<u>\$ 1,224,957</u>

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14. 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 - Museum facility	\$ 533,367
Consulting services	42,500
Supplies	<u>20,101</u>
	<u>\$ 595,968</u>

The Museum recognizes contributed nonfinancial assets within support and revenue, which includes various rent, professional services, and supplies. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Donated rent consists of facilities rented to the Museum valued based on the rent price for comparable space in the same area on the date of contribution. Contributed professional services consisted of consulting services. The value of these professional services are measured using the estimated hourly rate for the consultant providing the services. Donated supplies are valued at the price paid by the donor to acquire these items.

15. 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 were due on May 5, 2022. On May 25, 2022, the Museum renewed the line of credit and the amount available was decreased to \$500,000. All outstanding principal and unpaid interest are due on May 25, 2024. As of August 31, 2022, there was no balance outstanding on the line of credit. The renewed line of credit is secured by the Museum's \$500,000 certificate of deposit at Heritage Bank of Commerce and tangible and intangible assets stated in the Assignment of Deposit Account.

16. 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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17. 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, 2022, cash contributions received from board members totaled \$254,948, and cash contributions from their employers or affiliations totaled \$831,635. During the year ended August 31, 2022, there were no in-kind donations received from the board members.

18. 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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18. 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, 2022.

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, 2021. 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, 2022, no appropriation was made due to current investment market conditions.

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

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18. 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	-	5,108	5,108
Board-designated endowment funds	<u>4,240,317</u>	<u>-</u>	<u>4,240,317</u>
	<u><u>\$ 4,240,317</u></u>	<u><u>\$ 1,166,203</u></u>	<u><u>\$ 5,406,520</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	\$ 501	\$ 1,161,095	\$ 1,161,596
Interest	<u>4,607</u>	<u>-</u>	<u>4,607</u>
Balance, end of year	<u><u>\$ 5,108</u></u>	<u><u>\$ 1,161,095</u></u>	<u><u>\$ 1,166,203</u></u>

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

Balance, beginning of year	<u>\$ 3,736,081</u>
Interest and dividends	82,405
Net realized and unrealized loss on investments	(255,147)
Investment expenses	<u>(1,600)</u>
Total investment return	(174,342)
Transfer to board-designated endowment fund	<u>678,578</u>
Balance, end of year	<u><u>\$ 4,240,317</u></u>

19. SUBSEQUENT EVENTS

On November 9, 2022, with approval from the Board of Directors, the EIDL of \$150,000 was fully repaid (see Note 11).