

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

Financial Statements

August 31, 2023



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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, 2023, 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, 2023, 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 for 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

February 1, 2024

Children's Discovery Museum of San Jose  
Statement of Financial Position  
August 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 5,656,259	\$ 117,381	\$ 5,773,640
Short-term investment	500,509	-	500,509
Contributions receivable	447,966	521,201	969,167
Donated rent receivable, current portion	-	377,600	377,600
Inventory	14,054	-	14,054
Prepaid expenses	97,061	-	97,061
Other current assets	3,870	-	3,870
Total current assets	<u>6,719,719</u>	<u>1,016,182</u>	<u>7,735,901</u>
Property and equipment, net	<u>4,069,459</u>	<u>837,815</u>	<u>4,907,274</u>
Other assets			
Investments	2,925,152	1,197,312	4,122,464
Donated rent receivable, net of current portion	-	7,565,366	7,565,366
Total other assets	<u>2,925,152</u>	<u>8,762,678</u>	<u>11,687,830</u>
Total assets	<u>\$ 13,714,330</u>	<u>\$ 10,616,675</u>	<u>\$ 24,331,005</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 118,609	\$ -	\$ 118,609
Accrued payroll and related benefits	493,602	-	493,602
Deferred revenue	486,795	-	486,795
Customer deposits	2,000	-	2,000
Total current liabilities	<u>1,101,006</u>	<u>-</u>	<u>1,101,006</u>
Net assets			
Without donor restrictions			
Board-designated			
Endowment	5,543,865	-	5,543,865
Operating reserve	2,000,000	-	2,000,000
Fixed asset reserve	1,000,000	-	1,000,000
Total board-designated	<u>8,543,865</u>	<u>-</u>	<u>8,543,865</u>
Property and equipment	<u>4,069,459</u>	<u>-</u>	<u>4,069,459</u>
Total without donor restrictions	<u>12,613,324</u>	<u>-</u>	<u>12,613,324</u>
With donor restrictions			
Restricted for a specified purpose	-	638,514	638,514
Donated rent receivable	-	7,942,966	7,942,966
Unappropriated earnings on perpetual endowment	-	36,285	36,285
Perpetual endowment	-	1,161,095	1,161,095
Property and equipment	-	837,815	837,815
Total with donor restrictions	<u>-</u>	<u>10,616,675</u>	<u>10,616,675</u>
Total net assets	<u>12,613,324</u>	<u>10,616,675</u>	<u>23,229,999</u>
Total liabilities and net assets	<u>\$ 13,714,330</u>	<u>\$ 10,616,675</u>	<u>\$ 24,331,005</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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Support			
Grants and contributions	\$ 1,365,045	\$ 1,019,068	\$ 2,384,113
Special events, net of direct donor benefits of \$150,973	951,071	-	951,071
Donations in-kind	555,013	-	555,013
Total support	<u>2,871,129</u>	<u>1,019,068</u>	<u>3,890,197</u>
Revenue			
Admissions	2,009,279	-	2,009,279
Membership	537,191	-	537,191
Investment income	440,265	31,177	471,442
Other income	28,047	-	28,047
Total revenue	<u>3,014,782</u>	<u>31,177</u>	<u>3,045,959</u>
Total support and revenue	5,885,911	1,050,245	6,936,156
Net assets released from restriction	<u>1,713,812</u>	<u>(1,713,812)</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>7,599,723</u>	<u>(663,567)</u>	<u>6,936,156</u>
Functional expenses			
Program services			
Exhibits	2,658,419	-	2,658,419
Educational programs	2,904,622	-	2,904,622
Total program services	<u>5,563,041</u>	<u>-</u>	<u>5,563,041</u>
Support services			
Management and general	1,218,137	-	1,218,137
Development and fundraising	350,221	-	350,221
Total support services	<u>1,568,358</u>	<u>-</u>	<u>1,568,358</u>
Total functional expenses	<u>7,131,399</u>	<u>-</u>	<u>7,131,399</u>
Change in net assets	468,324	(663,567)	(195,243)
Net assets, beginning of year	<u>12,145,000</u>	<u>11,280,242</u>	<u>23,425,242</u>
Net assets, end of year	<u>\$ 12,613,324</u>	<u>\$ 10,616,675</u>	<u>\$ 23,229,999</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, 2023

	Program Services			Support Services			
	Exhibits	Educational Programs	Total Program Services	Management and General	Development and Fundraising	Total Support Services	Total
Expenses							
Salaries and benefits							
Salaries	\$ 418,026	\$ 1,296,282	\$ 1,714,308	\$ 828,030	\$ 111,239	\$ 939,269	\$ 2,653,577
Employee benefits	56,851	87,069	143,920	74,734	73,888	148,622	292,542
Payroll taxes	<u>30,401</u>	<u>96,264</u>	<u>126,665</u>	<u>51,000</u>	<u>7,167</u>	<u>58,167</u>	<u>184,832</u>
Total salaries and benefits	505,278	1,479,615	1,984,893	953,764	192,294	1,146,058	3,130,951
Occupancy, in-kind	518,004	331,200	849,204	21,596	14,400	35,996	885,200
Outside services	61,121	537,204	598,325	140,949	96,472	237,421	835,746
Repairs and maintenance	251,757	173,655	425,412	17,614	7,653	25,267	450,679
Utilities	121,413	104,417	225,830	12,141	4,857	16,998	242,828
Small equipment	96,078	50,075	146,153	13,442	782	14,224	160,377
Printing	122	102,464	102,586	66	3,371	3,437	106,023
Insurance	43,671	37,557	81,228	4,367	1,747	6,114	87,342
Conferences and meetings	8	25,184	25,192	7,656	15,380	23,036	48,228
Telephone	6,378	9,135	15,513	9,864	6,427	16,291	31,804
Travel	-	26,233	26,233	2,126	-	2,126	28,359
Dues and subscriptions	3,730	11,381	15,111	1,731	113	1,844	16,955
Office supplies	5,151	1,362	6,513	9,947	604	10,551	17,064
Interest	-	-	-	10,249	-	10,249	10,249
Automobile	7,081	-	7,081	-	-	-	7,081
Training	-	-	-	5,036	-	5,036	5,036
Postage and shipping	<u>456</u>	<u>58</u>	<u>514</u>	<u>1,585</u>	<u>190</u>	<u>1,775</u>	<u>2,289</u>
Total expenses before depreciation	1,620,248	2,889,540	4,509,788	1,212,133	344,290	1,556,423	6,066,211
Depreciation	<u>1,038,171</u>	<u>15,082</u>	<u>1,053,253</u>	<u>6,004</u>	<u>5,931</u>	<u>11,935</u>	<u>1,065,188</u>
	<u>\$ 2,658,419</u>	<u>\$ 2,904,622</u>	<u>\$ 5,563,041</u>	<u>\$ 1,218,137</u>	<u>\$ 350,221</u>	<u>\$ 1,568,358</u>	<u>\$ 7,131,399</u>
Percentage of total	<u>37 %</u>	<u>41 %</u>	<u>78 %</u>	<u>17 %</u>	<u>5 %</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, 2023

Cash flows from operating activities	
Change in net assets	\$ (195,243)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net realized and unrealized gains on investments	(272,902)
Donated rent receivable amortization	364,300
Proceeds from contributions restricted for purchase of property and equipment	(275,410)
Depreciation	1,065,188
Changes in operating assets and liabilities	
Contributions receivable	131,720
Prepaid expenses	30,676
Accounts payable and accrued liabilities	2,853
Accrued payroll and related benefits	140,405
Deferred revenue	107,947
Net cash provided by operating activities	<u>1,099,534</u>
Cash flows from investing activities	
Purchase of investments	(1,044,741)
Proceeds from sale of investments	1,006,848
Purchase of property and equipment	<u>(876,224)</u>
Net cash used in investing activities	<u>(914,117)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for purchase of property and equipment	275,410
Payments on Economic Injury Disaster loan	<u>(150,000)</u>
Net cash provided by financing activities	<u>125,410</u>
Net increase in cash and cash equivalents	310,827
Cash and cash equivalents, beginning of year	<u>5,462,813</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,773,640</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, 2023

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

In June 2023, Children's Discovery Museum of San Jose surpassed the 10 million visitorship level. During the year ended August 31, 2023, the Museum provided engaging learning opportunities to 234,322 family and 17,699 group visitors. As the COVID pandemic waned, CDM experienced a 50% increase in family visits over the prior year and more than a 100% growth in group visits. The increase in visitors was attributable, in part, by the high levels of rainfall in January and February, and the official end of the COVID-19 State of Emergency in California on May 11, 2023.

Since opening its doors in the spring of 1990, 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, and an adjacent outdoor exhibit space, Bill's Backyard, which essentially doubled the Museum's exhibit space. Exhibit signage in English, Spanish and Vietnamese focuses visitor interactions on the uniqueness of outdoor play, such as build, roll, climb, plant, and observe to name a few. Ten different local species of animals and insects were cast in bronze and placed appropriately throughout the area to allow children to discover them in their natural habitat. A 7,200-gallon rain-harvest system is used to irrigate the native landscape and to teach visitors about water conservation at the same time. By bringing nature to children, CDM hopes to create a spark so that children will then seek out other outdoor opportunities close to their home and become environmental stewards as they grow up.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2023

1. NATURE OF OPERATIONS (continued)

Exhibits (continued)

The majority of CDM's exhibits, which focus on children to age 10 and their parents and caregivers, are highly tactile and encourage touching, exploring, manipulating and experimenting, while cutting across the disciplines of art, science and the humanities. 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. The Amazing AirMaze exhibit, which 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, fosters predictive learning and provides great delight to Museum visitors. The Potter the Otter: A Healthy Adventure exhibit, sponsored by FIRST 5 Santa Clara County, began its 3-year tour in January 2023 and will visit smaller institutions in California in which FIRST 5 has a strong community presence. In its place, CDM hosted its first traveling exhibit, Thomas & Friends, toured by the Minnesota Children's Museum, since 2019. In summer of 2023, CDM reinstalled Voyage to Vietnam, the traveling exhibit built by CDM after its 9-city tour. The exhibit was developed with extensive input from San Jose's Vietnamese community and offers an aesthetic and deeply moving glimpse into the cultural traditions of Vietnamese families. It will serve as a model as the Nowruz Around the World traveling exhibit is developed and fabricated.

CDM's presence in Terminal B at the Mineta San Jose Airport, Zoom Zone, which opened in 2021, provides an educational and interactive play space for very young children around the theme of "things that fly". This space has been well-received by traveling families and promoted as an airport amenity by the city.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2023

1. NATURE OF OPERATIONS (continued)

Exhibits (continued)

Substantial progress was made on the development on Exploration Portal, the 4,000 square foot outdoor space connected to Bill's Backyard and adjacent with Woz Way during the fiscal year. Architect Brad Cox working with the landscape design firm Callander & Associates, submitted construction drawings to the city's Cultural Facilities Architectural Services, within the General Services Department, for review and approval. Bids will be solicited from three construction companies, and CDM will work with the selected company to value engineer the project, as project costs have increased substantially since the project's inception, to ensure that the space continues to focus on the intersection of math and nature for its content, and to provide more places for families to interact with exhibits and the natural world. Introduced at the 2022 Legacy Event, the Smartflower is a sunflower-design installation that tracks the movement of the sun and generates solar power. CDM entered into a contract for the purchase of three (3) Smartflower components. Scientific Art Studio was selected to design and fabricate the outdoor exhibits and will work in conjunction with the architect. While the Xu Family Charitable Foundation remains the major sponsor for this space, with additional funding, in prior years, 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), additional commitments from Barron Ranches (Molly and Barry Swenson,) the Open Space Authority, and the County of Santa Clara, through the effort of County Supervisor Cindy Chavez, were secured during the year. A community campaign to achieve the Exploration Portal fundraising was launched at the Legacy 2023 event and will seek contributions ranging from \$250 to \$100,000, and offer recognition on items such as boulders, trees, benches and various garden areas. Construction of Exploration Portal is slated to begin in winter of 2023 with a public opening slated for early summer of 2024.

Continuing the Museum's Board and executive staff focus on operating feasibility in terms of mission and financial liquidity, CDM utilized its "Sinking Fund" with the city, which is a 1 to 1 match, with CDM committing a small portion its annual operating support from the city. This year's allocation was used to update, and make ADA accessible, the lighting, audit and projection systems in the Lee and Diane Brandenbrug Theatre. A \$175,500 Special Mayor's Grant, recommended by City Council member Raul Peralez, was approved and will be used to replace amphitheater lighting and AV equipment, which had been stolen; to install a security wall for the Cadence Amphitheater; and to purchase and 30 additional security cameras, with 24-hour monitoring on the exterior cameras. The city's General Services Department continues to provide major infrastructure upgrades. During the year, the Museum's 30+ year old boiler was replaced and plans to replace the freight elevator began. Work on both the freight and passenger elevators are slated for the fall of 2023. CDM repaid its \$150,000 EIDL loan from the Small Business Administration in November 2022. At this time, all support from federal COVID-19-specific programs has been fully expended.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2023

1. NATURE OF OPERATIONS (continued)

Educational Programs

The Museum provides on-site and outreach programs which complement its exhibits and support visitor interactions and learning opportunities. During the year, CDM saw the return of group visits to the Museum, with 17,699 served, which represents 50% of the group attendance for 2018-2019, and an additional 6,374 served through on-site or outreach programs. In conjunction with the Stanford Flue Crew and Anthem Blue Cross, which provided free family passes to those receiving the vaccine, CDM offered two on-site COVID vaccination clinics in September and January, when the federal-funded COVID vaccine program ended.

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 new Artist-in-Residence program was launched in fall of 2022 in the LeRoy Neiman Art Studio, under the direction of CDM's Arts Program Manager. The program will host a professional visual artist for a 3-month residency, leading children in art-making activities and sharing their professional talents.

Through various cultural 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, and Juneteenth, CDM continues to offer its local community the opportunity to celebrate the region's diverse ethnic composition. Play Your Way, CDM's event specifically designed for families with children on the autism spectrum, was relaunched in fall of 2022. Additional community events during the year included the Big Family Play Day and Kristi Yamaguchi Family Literacy Festival. The Big Family Play Day, initially hosted in Discovery Meadow in 2019, moved inside as a facility use and provided activities and product samples to families. The Kristi Yamaguchi Family Literacy Festival, a partnership with Kristi Yamaguchi's Always Dream Foundation and the San Jose Public Library, premiered in June 2023 and featured children's book authors, celebrity story reading, children's performers and special hands-on activities focused on reading. PNC Bank joined the event as a Presenting Sponsor and exhibited its Mobile Learning Adventure. CDM was also accepted into PNC Bank's Grow Up Great network, a national program dedicated to serving children from birth to age 5. Participation in this network will allow CDM access to resources for its work with its CBO partners: Educare, ICAN and Somos Mayfair in East San Jose.

CDM's Cultural Competence Learning Institute (CCLI), working with its national partners: the Association of Children's Museums and the Association of Science and Technology Centers and the Garibary Group, has been funded by two National Leadership Grants from IMLS. CDM hosted a two-day meeting of the national partners to acknowledge the decade-long effort to support museums across the country in their efforts to achieve inclusive practice and to advance Diversity, Equity, Inclusion and Access initiatives. The previous model of a year-long professional development institute for museums has been transitioning to individual online learning courses. With generous support from Adobe of its Captivate and Adobe Learning Manager software, ten courses are in development, featuring content gleaned from the previous professional development institutes and testimonial videos from museum professionals around the country. Future plans to steward the CCLI program and its intellectual property are in discussion with the national partners.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2023

1. NATURE OF OPERATIONS (continued)

Educational Programs (continued)

CDM completed year 4 of a 6-year collaboration (1 year extension approved by the National Science Foundation) 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. Cohort 3 was comprised of Discovery Science Center (NV), Boston Science Center (MA), Space Center Houston (TX), The Butterfly Pavilion (CO) and Sierra Nevada Children's Museum (CA).

In partnership with Maryam Eskandari, MIIM Designs, CDM launched a multi-year initiative about Nowruz, the Persian New Year celebration of the spring equinox, which is celebrated around the world today. After identifying a group of Cultural Ambassadors, community volunteers who share their personal knowledge, experience and understanding of Nowruz and will provide introductions to other Persian community members, who can provide cultural expertise, artistic talent or resources to the project, three meetings were held in 2021-2022. Resulting from these sessions, four working committees were created, and a multi-year road map was developed to create a world-class interactive exhibit for children called Nowruz Around the World, and an authentic festival celebrated annually at CDM. Exhibit design planning with MIIM resulted in an initial conceptual design for a 2,000 square foot traveling exhibit in spring 2023. Revision of initial concept was made and an extensive community listening campaign was begun with those representing difference perspectives on celebrating Norwuz, which is celebrated in more than 20 countries, in order to surface issues prior to final design. The initial cost estimates for the traveling exhibit are \$1.5 million to \$2 million. A pilot Nowruz Around the World event was held at CDM in March 2023 with over 2,800 participants and featured a traditional "Haft Sin" table, hands-on activities and children's performances, and volunteers from Applied Materials.

CDM continuously strives to understand and to improve its service to its visitors. Moving forward, the Museum will continue to restore programming, which was ceased due to COVID-19, and to embrace new program opportunities, as resources permit and audience demand is evidenced. 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. In summer of 2023, COVES ceased accepting online visitor surveys and moved back to in-person responses. CDM used this shift to create and hire for a new position: a Visitor Engagement Representative. Additionally, CDM contracted with Alexander Babbage for its TruTrade Software and Consulting Services, which uses ESRI to provide mapping and advanced data analytics of CDM's visitors, to understand better the Museum's reach and the impact of its programs. In fall of 2023, the Museum's senior management team will begin the Creating an Adaptive Plan program through Bridgespan, a non-profit consultant which was possible by tuition underwriting from The David and Lucile Packard Foundation. The result is to develop a 2-year vision, the priorities and actions needed to achieve the vision.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2023

2. CHANGE IN NET ASSETS

During the year ended August 31, 2023, the Museum experienced an decrease in net assets of \$195,243 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	\$ 468,324	\$ (663,567)	\$ (195,243)
Add back:			
Depreciation expense	1,065,188	-	1,065,188
Donated rent receivable amortization (see Note 8)	-	364,300	364,300
	<u>1,065,188</u>	<u>364,300</u>	<u>1,429,488</u>
Change in net assets excluding depreciation expense and donated rent receivable amortization	<u>\$ 1,533,512</u>	<u>\$ (299,267)</u>	<u>\$ 1,234,245</u>

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2023

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 to Sunday), with two daily play sessions. Visitors were required to prepurchase admission tickets (free for Museum members) for each 2.5-hour play session. Face masks were required for all visitors two years old or older, and no food service was provided. Signage was added in English, Spanish and Vietnamese to provide important information about entrances or exits, occupancy and 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. During the fiscal year August 31, 2022, 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 that required proof of vaccination for any indoor event hosting more than 50 persons at city-owned facilities. 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 to conform with county and state requirements. Individuals, regardless of vaccination status, were no longer required to wear a mask except in certain high-risk settings, such as hospitals, jails, 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 of 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 continued to work with the Stanford Flu Crew to provide vaccination clinics prior to the ending of the federal government's subsidy in February 2023. With ending of the California COVID-19 State of Emergency on February 28, 2023 and the end of the federal Public Health Emergency for COVID-19 on May 11, 2023, the requirement to wear masks was lifted at the Museum. Continuing the 2.5-hour play session daily schedule, with 2 sessions on weekends and holidays, CDM increased its days of operation to 6 days per week (Tuesday to Sunday) and offered two play sessions starting in mid-June 2023. Over the fiscal year, the Museum provided a safe and engaging environment to 234,322 visitors and members.

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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. Prior years' federal funding support included: \$10,000 from the Economic Injury Disaster Loan (EIDL) Grant program as an advance payment of on the Museum's first Paycheck Protection Program (PPP) in the amount of \$924,422, fully forgiven on May 13, 2021; an Economic Injury Disaster Loan (EIDL) in the amount of \$150,000, which was repaid on November 9, 2022; and a second Payment Protection Program (PPP) loan for \$924,422, also fully forgiven on November 29, 2021. Local government funding included \$80,030 through a City of San Jose Coronavirus Relief Grant; \$1,000 from the city's Greater Downtown COVID-19 Assistance Grant; and \$15,000 from former District #4 Councilmember Lan Diep. In addition to \$25,000 received from the State of California's Small Business COVID-19 Relief Grant Program in 2021, the Museum received an additional \$25,000 on May 23, 2023. 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) from the Internal Revenue Service totaling \$260,005.

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.



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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of accounting standards updated

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). ASU 2016-02 aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12 months as right-of-use ("ROU") assets and corresponding lease liabilities on the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liabilities should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liabilities will bear interest expense and be reduced for lease payments.

ASU 2016-02 is effective for the fiscal year beginning after December 15, 2021. CDM adopted ASU 2016-02 on September 1, 2022, using the modified retrospective approach. The adoption of the new lease accounting standard had no impact on the Museum's statement of financial position, operating results and cash flows.

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, 2023 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."

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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 \$2,500 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, 2023, 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, 2023, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2023 was \$264,340.

Deferred revenue

As of August 31, 2023, the Museum had deferred revenue of \$486,795 from membership fees, advance admissions, the sale of gift cards and prepaid events that have been deferred as performance obligations not yet met at August 31, 2023.

Customer deposits

As of August 31, 2023, 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.

Children's Discovery Museum of San Jose  
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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, 2023 was \$81,100 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, 2023 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, 2023 (see Note 18). Subsequent events have been evaluated through the date the financial statements became available to be issued, February 1, 2024.

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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, 2023 consisted of the following:

Recognizable in one year or less	
Cambio project - reimbursement based	\$ 290,656
Santa Clara Valley Water Project B3 grant	107,747
IMLS - CCLI #2	27,856
NEA - Promotion of the Arts	<u>6,728</u>
	432,987
Recognizable in more than one year	
Cambio project - reimbursement based	<u>157,946</u>
	<u><u>\$ 590,933</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, 2023. 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 17, 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.

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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, 2023 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 5,773,640
Short-term investment	500,509
Investments	4,122,464
Contributions receivable	<u>969,167</u>
	<u>11,365,780</u>
Less: amounts unavailable for general expenditure within one year	
Net assets restricted for a specified purpose	(638,514)
Board-designated endowment	(5,543,865)
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>(500,509)</u>
	<u>(8,843,983)</u>
	<u><u>\$ 2,521,797</u></u>

As of August 31, 2023, the Museum had \$2,521,797 of financial assets available to meet cash needs for general expenditures. In addition, the board-designated endowment of \$5,543,865 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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Stocks and mutual funds	\$ 3,232,383	\$ -	\$ -	\$ 3,232,383
Cash and cash equivalents	875,949	-	-	875,949
Interest receivable	<u>14,132</u>	<u>-</u>	<u>-</u>	<u>14,132</u>
	<u><u>\$ 4,122,464</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,122,464</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 \$500,509 as of August 31, 2023 which is reported as short-term investment in the statement of financial position.

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7. INVESTMENTS (continued)

Net investment income during the year consist of the following:

Interest and dividends	\$ 199,740
Net realized and unrealized gains on investments	272,902
Investment expenses	<u>(1,200)</u>
	<u><u>\$ 471,442</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 in 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 \$165,200 as rent expense for the year ended August 31, 2023. 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.



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8. DONATED RENT RECEIVABLE (continued)

Donated rent receivable consisted of the following:

Year ending August 31,

2024	\$ 377,600
2025	391,788
2026	255,487
2027	257,872
2028	275,097
Thereafter	<u>6,385,122</u>
	7,942,966
Current portion	<u>(377,600)</u>
	<u><u>\$ 7,565,366</u></u>

The current rent expense consists of the following:

Current year in-kind rent contribution - Museum facility	\$ 520,900
Donated rent receivable amortization - Museum facility	199,100
Donated rent receivable amortization - San Jose Airport exhibit	<u>165,200</u>
	<u><u>\$ 885,200</u></u>

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Exhibits	\$ 11,809,161
Leasehold improvements	4,941,219
Equipment	2,600,266
Furniture and fixtures	129,794
Vehicles	37,494
Construction in progress	<u>1,030,740</u>
	20,548,674
Accumulated depreciation	<u>(15,641,400)</u>
	<u><u>\$ 4,907,274</u></u>

Depreciation expense for the year ended August 31, 2023 was \$1,065,188.

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10. 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.

11. 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 \$96,468 during the year ended August 31, 2023.

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donated rent receivable	\$ 7,942,966
Programs and exhibits	638,514
Unappropriated earnings on perpetual endowment	36,285
Perpetual endowment	1,161,095
Property and equipment	<u>837,815</u>
	<u>\$ 10,616,675</u>

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

Donated rent receivable amortization	\$ 364,300
Programs and exhibits	<u>1,349,512</u>
	<u>\$ 1,713,812</u>

13. DONATIONS IN-KIND

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

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13. DONATIONS IN-KIND (continued)

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

Rent - Museum facility	\$ 520,900
Consulting services	20,500
Supplies	<u>13,613</u>
	<u>\$ 555,013</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.

14. 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, 2023, 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.

15. COMMITMENTS AND 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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16. 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, 2023, cash contributions received from board members totaled \$219,323, and cash contributions from their employers or affiliations totaled \$502,355. During the year ended August 31, 2023, there were no in-kind donations received from the board members.

17. 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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17. 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, 2023.

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, 2022. 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 its donor-restricted endowment to its 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, 2023, 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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17. 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	-	36,285	36,285
Board-designated endowment funds	<u>5,543,865</u>	<u>-</u>	<u>5,543,865</u>
	<u>\$ 5,543,865</u>	<u>\$ 1,197,380</u>	<u>\$ 6,741,245</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	\$ 5,108	\$ 1,161,095	\$ 1,166,203
Interest	<u>31,177</u>	<u>-</u>	<u>31,177</u>
Balance, end of year	<u>\$ 36,285</u>	<u>\$ 1,161,095</u>	<u>\$ 1,197,380</u>

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

Balance, beginning of year	<u>\$ 4,240,317</u>
Interest and dividends	168,563
Net realized and unrealized gains on investments	272,902
Investment expenses	<u>(1,200)</u>
Total investment return	<u>440,265</u>
Transfer to board-designated endowment fund	<u>863,283</u>
Balance, end of year	<u>\$ 5,543,865</u>

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18. SUBSEQUENT EVENTS

Progress on the Museum's Restoration and Revitalization Plan, developed in 2020, included retrofitting by the City of San Jose of the Museum's passenger in September 2023 and replacement of the 30+ year old freight elevator. In September 2023, the Museum's Board of Directors approved moving forward on the Exploration Portal exhibit space and the retention of Pacific Ridge Builders as the project contractor. In mid-November 2023, the project's community fundraising campaign was launched with a goal of \$345,000.