

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

Financial Statements

August 31, 2024



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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, 2024, 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, 2024, 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

January 30, 2025

Children's Discovery Museum of San Jose  
Statement of Financial Position  
August 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 4,992,581	\$ 91,184	\$ 5,083,765
Short-term investment	503,529	-	503,529
Contributions receivable, current portion	757,335	20,166	777,501
Donated rent receivable, current portion	-	391,788	391,788
Inventory	14,054	-	14,054
Prepaid expenses	137,297	-	137,297
Other current assets	3,870	-	3,870
Total current assets	6,408,666	503,138	6,911,804
Property and equipment, net	5,811,686	158,604	5,970,290
Other assets			
Investments	3,727,529	1,155,053	4,882,582
Contributions receivable, net of current portion	125,000	67,218	192,218
Donated rent receivable, net of current portion	-	7,173,578	7,173,578
Total other assets	3,852,529	8,395,849	12,248,378
Total assets	\$ 16,072,881	\$ 9,057,591	\$ 25,130,472
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 97,123	\$ -	\$ 97,123
Accrued payroll and related benefits	529,135	-	529,135
Deferred revenue	454,877	-	454,877
Customer deposits	2,000	-	2,000
Total current liabilities	1,083,135	-	1,083,135
Net assets			
Without donor restrictions			
Board-designated			
Endowment	6,178,060	-	6,178,060
Operating reserve	2,000,000	-	2,000,000
Fixed asset reserve	1,000,000	-	1,000,000
Total board-designated	9,178,060	-	9,178,060
Property and equipment	5,811,686	-	5,811,686
Total without donor restrictions	14,989,746	-	14,989,746
With donor restrictions			
Restricted for a specified purpose	-	88,610	88,610
Donated rent receivable	-	7,565,366	7,565,366
Unappropriated earnings on perpetual endowment	-	83,916	83,916
Perpetual endowment	-	1,161,095	1,161,095
Property and equipment	-	158,604	158,604
Total with donor restrictions	-	9,057,591	9,057,591
Total net assets	14,989,746	9,057,591	24,047,337
Total liabilities and net assets	\$ 16,072,881	\$ 9,057,591	\$ 25,130,472

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, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Support			
Grants and contributions	\$ 1,939,239	\$ 721,733	\$ 2,660,972
Special events, net of direct donor benefits of \$172,147	897,266	-	897,266
Donations in-kind	708,798	-	708,798
Total support	3,545,303	721,733	4,267,036
Revenue			
Admissions	2,073,840	-	2,073,840
Membership	606,347	-	606,347
Investment income	944,763	47,631	992,394
Other income	18,410	-	18,410
Total revenue	3,643,360	47,631	3,690,991
Total support and revenue	7,188,663	769,364	7,958,027
Net assets released from restriction	2,328,448	(2,328,448)	-
Total support, revenue, and net assets released from restriction	9,517,111	(1,559,084)	7,958,027
Functional expenses			
Program services			
Exhibits	2,265,512	-	2,265,512
Educational programs	3,185,537	-	3,185,537
Total program services	5,451,049	-	5,451,049
Support services			
Management and general	1,281,551	-	1,281,551
Development and fundraising	408,089	-	408,089
Total support services	1,689,640	-	1,689,640
Total functional expenses	7,140,689	-	7,140,689
Change in net assets	2,376,422	(1,559,084)	817,338
Net assets, beginning of year	12,613,324	10,616,675	23,229,999
Net assets, end of year	\$ 14,989,746	\$ 9,057,591	\$ 24,047,337

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, 2024

	Program Services			Support Services			Total
	Exhibits	Educational Programs	Total Program Services	Management and General	Development and Fundraising	Total Support Services	
Expenses							
Salaries and benefits							
Salaries	\$ 308,845	\$ 1,588,150	\$ 1,896,995	\$ 839,718	\$ 140,285	\$ 980,003	\$ 2,876,998
Employee benefits	60,949	90,213	151,162	96,630	76,899	173,529	324,691
Payroll taxes	<u>21,713</u>	<u>117,207</u>	<u>138,920</u>	<u>56,169</u>	<u>9,377</u>	<u>65,546</u>	<u>204,466</u>
Total salaries and benefits	391,507	1,795,570	2,187,077	992,517	226,561	1,219,078	3,406,155
Occupancy, in-kind	518,004	331,200	849,204	21,596	14,400	35,996	885,200
Outside services	17,308	500,989	518,297	140,181	114,052	254,233	772,530
Repairs and maintenance	382,735	175,959	558,694	20,808	8,033	28,841	587,535
Utilities	136,911	117,744	254,655	13,691	5,476	19,167	273,822
Small equipment	94,205	43,730	137,935	23,177	552	23,729	161,664
Printing	126	104,931	105,057	1,096	1,993	3,089	108,146
Insurance	50,898	44,675	95,573	4,853	2,036	6,889	102,462
Telephone	12,805	18,635	31,440	20,754	13,503	34,257	65,697
Conferences and meetings	9,580	13,555	23,135	17,527	18,177	35,704	58,839
Travel	1,471	18,015	19,486	8,185	-	8,185	27,671
Dues and subscriptions	3,236	9,482	12,718	1,441	-	1,441	14,159
Office supplies	770	477	1,247	3,309	2,500	5,809	7,056
Training	-	-	-	5,568	-	5,568	5,568
Postage and shipping	612	353	965	2,380	46	2,426	3,391
Automobile	<u>179</u>	<u>-</u>	<u>179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179</u>
Total expenses before depreciation	1,620,347	3,175,315	4,795,662	1,277,083	407,329	1,684,412	6,480,074
Depreciation	<u>645,165</u>	<u>10,222</u>	<u>655,387</u>	<u>4,468</u>	<u>760</u>	<u>5,228</u>	<u>660,615</u>
	<u>\$ 2,265,512</u>	<u>\$ 3,185,537</u>	<u>\$ 5,451,049</u>	<u>\$ 1,281,551</u>	<u>\$ 408,089</u>	<u>\$ 1,689,640</u>	<u>\$ 7,140,689</u>
Percentage of total	<u>32 %</u>	<u>45 %</u>	<u>77 %</u>	<u>17 %</u>	<u>6 %</u>	<u>23 %</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, 2024

Cash flows from operating activities	
Change in net assets	\$ 817,338
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net realized and unrealized gains on investments	(717,044)
Donated rent receivable amortization	377,600
Contributions restricted for purchase of property and equipment	(670,607)
Depreciation	660,615
Changes in operating assets and liabilities	
Contributions receivable	(552)
Prepaid expenses	(40,236)
Accounts payable and accrued liabilities	(21,486)
Accrued payroll and related benefits	35,533
Deferred revenue	<u>(31,918)</u>
Net cash provided by operating activities	<u>409,243</u>
Cash flows from investing activities	
Purchase of investments	(250,234)
Proceeds from sale of investments	204,140
Purchase of property and equipment	<u>(1,723,631)</u>
Net cash used in investing activities	<u>(1,769,725)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for purchase of property and equipment	<u>670,607</u>
Net cash provided by financing activities	<u>670,607</u>
Net decrease in cash and cash equivalents	(689,875)
Cash and cash equivalents, beginning of year	<u>5,773,640</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,083,765</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, 2024

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 \*

Since its opening in 1990, Children's Discovery Museum of San Jose (CDM) has welcomed almost 10,300,000 visitors. During the year ended August 31, 2024, the Museum provided engaging learning opportunities to over 208,000 families and 22,532 group visitors. While CDM continues to restore operations after COVID, attendance was down slightly from the prior year due to a decrease in the rainfall level of 2023. In January 2024, the Museum returned to a full day operating schedule on weekends, holidays and for the summer months. Tuesday – Friday operations continued to follow a 9:30 a.m. – 12:30 p.m. schedule.

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, 2024

1. NATURE OF OPERATIONS (continued)

Exhibits \* (continued)

In June 2024, the Museum opened a new 4,000 square foot STEM in nature-themed outdoor space, Exploration Portal, connected to Bill's Backyard and adjacent to Woz Way. This play space was designed by Architect Brad Cox working with the landscape design firm Callander & Associates. Pacific Ridge Builders was the construction lead, and project support was provided by BKF Engineers; Biggs & Cardoso; New Age Electric; Jim Doble Elemental Design; SOME Graphic Design; and Irongrain. The area features exhibit components, designed and fabricated by Scientific Arts Studios, such as the Beehive Climber; Patterns Everywhere, which magnifies common patterns, such as strawberry seeds and fish scales; and a mechanical Solar Flower, a hand-cranked version that allows children to mimic the operations of the three SmartFlower installations. The SmartFlower is a solar-based installation that tracks the path of the sun – opening and closing each day. While the Xu Family Charitable Foundation was the major sponsor for this space, additional funding included 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); Barron Ranches (Molly and Barry Swenson); the Open Space Authority; and the County of Santa Clara, through the effort of County Supervisor Cindy Chavez; PNC Financial Services Group; PricewaterhouseCoopers; San Jose Rotary Club Foundation, and Google. A community campaign to complete fundraising for the Exploration Portal secured over \$350,000 in contributions ranging from \$250 to \$100,000 and offering recognition on items such as boulders, trees, benches and various garden areas.

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, continued its 3-year tour in January 2023 visiting smaller institutions in California in which FIRST 5 has a strong community presence. 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. In conjunction with Mayan Eskandari, principal of MIIM Designs, CDM completed a two-year process to engage the Persian community in the conceptual design of the 2,000 square foot exhibit about the celebration of Nowruz. Current work focuses on a timeline for fundraising and exhibit design/fabrication, estimated at a cost of \$1.5 -2.0 M and a two-year horizon.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2024

1. NATURE OF OPERATIONS (continued)

Exhibits \* (continued)

CDM's presence in Terminal B at the Mineta San Jose Airport, Zoom Zone, which opened in 2021, continues to provide 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.

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 of its annual operating support from the city, to repaint the Museum's exterior. The city's General Services Department continued to provide major infrastructure upgrades by upgrading both the service and passenger elevators.

\* Statistics unaudited

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 an increase in group visits to the Museum, with 22,532 served, which represents 27% increase in group attendance over the prior year and an additional 4,318 served through on-site or outreach programs.

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 Artist-in-Residence program, housed in the LeRoy Neiman Arts Studio, continues to showcase local professional visual artists over a three-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. CDM's event specifically designed for families with children on the autism spectrum, Play Your Way, was offered on three evenings in the 2024 fiscal year. CDM's outreach partnership with Somos Mayfair, a non-profit organization which offers early learning programs in the Mayfair Family Resource Centers, which engage the whole family to ensure school readiness, was underwritten by the PNC Foundation.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2024

1. NATURE OF OPERATIONS (continued)

Educational Programs \* (continued)

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 Garibay Group, completed its funding of two National Leadership Grants from IMLS. With generous support from Adobe of its Captivate and Adobe Learning Manager software, CDM created ten individual self-directed on-line courses based on 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 potential national partners. As a result of the CCLI initiative, in part, CDM's Director of Strategic Initiatives Jenni Martin was recognized for her leadership and excellence on diversity and inclusion practices in the museum field by the American Alliance of Museums, the only organization that represents the full museum field. The award recognizes individuals for their career-long commitment and exceptional impact on the field and the role they play in building strong museums, thriving communities, and a better world.

CDM completed year 5 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 4, the final cohort, was comprised of Kid Museum (Bethesda, MD); Children's Museum of Indianapolis (Indianapolis, IN); Scott Family Amazeum (Bentonville, AR), Science Center of Minnesota (St. Paul, MN); Museum of Life and Science (Durham, NC); and Louisiana Children's Museum (New Orleans, LA).

CDM continuously strives to understand and to improve its service to its visitors. Senior staff participated in the BridgeSpan Adaptive Capacity program, underwritten by the David and Lucile Packard Foundation, which resulted in a 2-year capacity-building plan with deliverables, and was shared with the Board of Directors at the annual strategic planning offsite.

With visitor surveys tabulated by COVES ("Collaboration for Ongoing Visitor Engagement Surveys"), led by the Museum of Science, Boston, CDM receives systematic visitor information about their museum experience and demographic information. Additionally, CDM has 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. Moving into the 2024-2025 year, CDM has secured two pro-bono partnerships with Adobe Systems and Pricewaterhouse Coopers ("PwC") to understand better its visitors. The Adobe project will focus on creating personas for the "fence-sitters" (those persons who fit the propensity to visit profile, but do not visit CDM, and crafting potential marketing messages to reach these persons. The pro-bono team from PwC will employ analytical analyses of CDM visitors and members to identify microsegments in terms of their propensity to visit; propensity to become a member; and propensity to donate, and their geographic locations. Both of these projects will allow CDM to develop more targeted marketing messages. In fall 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, 2024

1. NATURE OF OPERATIONS (continued)

Educational Programs \* (continued)

\* Statistics unaudited

2. CHANGE IN NET ASSETS

During the year ended August 31, 2024, the Museum experienced an increase in net assets of \$817,338 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	\$ 2,376,422	\$ (1,559,084)	\$ 817,338
Add back:			
Depreciation expense	660,615	-	660,615
Donated rent receivable amortization (see Note 8)	-	377,600	377,600
	660,615	377,600	1,038,215
Change in net assets excluding depreciation expense and donated rent receivable amortization	\$ 3,037,037	\$ (1,181,484)	\$ 1,855,553

3. COVID-19 IMPACT

The impact of the COVID-19 pandemic, whose effects first became known in January, 2020, has significantly decreased. Over the past three years, CDM has slowly reintroduced longer operating hours, more hands-on activities and relaunched programming, especially the cultural festivals, for which CDM is known.

The impact of COVID-19 can still be seen in the attendance levels at the Museum, which have not yet recovered to 2019 levels. Children's museums are among the last segment of museums to return to pre-pandemic levels. Reasons for this slow recovery include: the move by families to choose outdoor activities, such as parks and zoos over museums; and the move by families to choose stay-at-home leisure time.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2024

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 June 2016, the Financial Accounting Standards Board issued guidance, Accounting Standards Codification 326, *Financial Instruments-Credit Losses*, which significantly changed how entities measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. The guidance doesn't have an impact to the Museum's financial statements.

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, 2024 was \$14,054.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2024

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 \$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.

Children's Discovery Museum of San Jose  
Notes to Financial Statements  
August 31, 2024

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, 2024, 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, 2024, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2024 was \$270,431.

Deferred revenue

As of August 31, 2024, the Museum had deferred revenue of \$454,877 from membership fees, advance admissions, city operating subsidy payment and an early Legacy payment that have been deferred as performance obligations have not yet met at August 31, 2024.

Customer deposits

As of August 31, 2024, 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.



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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. The Museum recognizes revenue from admissions upon the visit to the Museum.

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, 2024 was \$91,108 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 23701d 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, 2024 for potential recognition or disclosure in the financial statements. The Museum had subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended August 31, 2024 (see Note 17). Subsequent events have been evaluated through the date the financial statements became available to be issued, January 30, 2025.

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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, 2024 consisted of the following:

Recognizable in one year or less	
Cambio project - reimbursement based	\$ 205,564
Santa Clara Valley Water Project B3 grant	4,556
Santa Clara Valley Water Project Mini-grant	<u>5,000</u>
Recognizable in more than one year	
	<u><u>\$ 215,120</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, 2024. 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 16, 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, 2024 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 5,083,765
Short-term investment	503,529
Investments	4,882,582
Contributions receivable	<u>969,719</u>
	<u>11,439,595</u>
Less: amounts unavailable for general expenditure within one year	
Net assets restricted for a specified purpose	(88,610)
Board-designated endowment	(6,178,060)
Board-designated for fixed assets reserve	(1,000,000)
Unappropriated earnings on perpetual endowment	(83,916)
Perpetual endowment	(1,161,095)
Short term investment as a collateral of the line of credit	<u>(503,529)</u>
	<u>(9,015,210)</u>
	<u>\$ 2,424,385</u>

As of August 31, 2024, the Museum had \$2,424,385 of financial assets available to meet cash needs for general expenditures. In addition, the board-designated endowment of \$6,178,060 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, 2024:

	Level 1	Level 2	Level 3	Fair Value
Stocks and mutual funds	\$ 3,944,003	\$ -	\$ -	\$ 3,944,003
Cash and cash equivalents	923,378	-	-	923,378
Interest receivable	<u>15,201</u>	<u>-</u>	<u>-</u>	<u>15,201</u>
	<u>\$ 4,882,582</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,882,582</u>

Fair values for investments, except venture capital funds, are determined by reference to quoted market prices and other 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 \$503,529 as of August 31, 2024 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	\$ 277,750
Net realized and unrealized gains on investments	717,044
Investment expenses	<u>(2,400)</u>
	<u>\$ 992,394</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. The Museum recognized \$165,200 as rent expense for the year ended August 31, 2024. 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,

2025	\$ 391,788
2026	255,487
2027	257,872
2028	275,097
2029	293,474
Thereafter	<u>6,091,648</u>
	7,565,366
Current portion	<u>(391,788)</u>
	<u><u>\$ 7,173,578</u></u>

The current rent expense consists of the following:

Current year in-kind rent contribution - Museum facility	\$ 507,600
Donated rent receivable amortization - Museum facility	212,400
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	\$ 13,402,646
Leasehold improvements	5,011,992
Equipment	2,633,472
Furniture and fixtures	129,794
Vehicles	37,494
Construction in progress	<u>1,056,907</u>
	22,272,305
Accumulated depreciation	<u>(16,302,015)</u>
	<u><u>\$ 5,970,290</u></u>

Depreciation expense for the year ended August 31, 2024 was \$660,615.

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10. 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 \$113,429 during the year ended August 31, 2024.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donated rent receivable	\$ 7,565,366
Programs and exhibits	88,610
Unappropriated earnings on perpetual endowment	83,916
Perpetual endowment	1,161,095
Property and equipment	<u>158,604</u>
	<u><u>\$ 9,057,591</u></u>

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

Donated rent receivable amortization	\$ 377,600
Programs and exhibits	1,271,637
Property and equipment	<u>679,211</u>
	<u><u>\$ 2,328,448</u></u>

12. 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	\$ 507,600
Consulting services	91,500
Supplies	<u>109,698</u>
	<u><u>\$ 708,798</u></u>

Children's Discovery Museum of San Jose  
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12. DONATIONS IN-KIND (continued)

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.

13. 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 were due on September 25, 2024. As of August 31, 2024, there was no balance outstanding on the line of credit. The renewed line of credit was 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. The line of credit was closed on September 20, 2024.

14. 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.

15. 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, 2024, cash contributions received from board members totaled \$371,973, and cash contributions from their employers or affiliations totaled \$762,700. During the year ended August 31, 2024, in-kind donations received from board members totaled \$2,500, and in-kind donations received from their employers or affiliations totaled \$100,828.



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16. 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

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.)

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16. ENDOWMENT (continued)

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

- 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, 2024.

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, 2023. 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, 2024, 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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16. 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	-	83,916	83,916
Board-designated endowment funds	<u>6,178,060</u>	<u>-</u>	<u>6,178,060</u>
	<u>\$ 6,178,060</u>	<u>\$ 1,245,011</u>	<u>\$ 7,423,071</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	\$ 36,285	\$ 1,161,095	\$ 1,197,380
Investment income	<u>47,631</u>	<u>-</u>	<u>47,631</u>
Balance, end of year	<u>\$ 83,916</u>	<u>\$ 1,161,095</u>	<u>\$ 1,245,011</u>

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

Balance, beginning of year	<u>\$ 5,543,865</u>
Interest and dividends	230,119
Net realized and unrealized gains on investments	717,044
Investment expenses	<u>(2,400)</u>
Total investment return	<u>944,763</u>
Appropriations	<u>(310,568)</u>
Balance, end of year	<u>\$ 6,178,060</u>

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17. SUBSEQUENT EVENTS

In September 2024, the Museum's Board of Directors approved allocating \$320,000 in realized gains from the sale of CDM's Fixed Asset and Operating Reserves investments to fund renovations to the Museum flooring, which will include renovation of six bathrooms and new carpeting for the main stairway and second floor exhibit spaces.