Children's Discovery Museum of San Jose

Financial Statements

August 31, 2025

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INDEPENDENT AUDITOR'S REPORT

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

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, 2025, 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, 2025, 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 LLP

San Jose, California

January 28, 2026

Children's Discovery Museum of San Jose
Statement of Financial Position
August 31, 2025

		Without Donor Restrictions		With Donor Restrictions		Total
ASSETS						
Current assets						
Cash and cash equivalents	$	4,482,855	$	357,009	$	4,839,864
Short-term investment		506,559		-		506,559
Contributions receivable, current portion		389,528		27,246		416,774
Accounts receivable		170,248		-		170,248
Donated rent receivable, current portion		-		255,487		255,487
Prepaid expenses		122,416		-		122,416
Other current assets		3,870		-		3,870
Total current assets		5,675,476		639,742		6,315,218
Property and equipment, net		5,578,739		20,409		5,599,148
Other assets						
Investments		4,425,886		1,284,522		5,710,408
Contributions receivable, net of current portion		47,054		-		47,054
Donated rent receivable, net of current portion		-		6,918,091		6,918,091
Total other assets		4,472,940		8,202,613		12,675,553
Total assets	$	15,727,155	$	8,862,764	$	24,589,919
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and accrued liabilities	$	143,245	$	-	$	143,245
Accrued payroll and related benefits		596,675		-		596,675
Deferred revenue		667,476		-		667,476
Total current liabilities		1,407,396		-		1,407,396
Net assets						
Without donor restrictions						
Board-designated						
Endowment		5,741,020		-		5,741,020
Operating reserve		2,000,000		-		2,000,000
Fixed asset reserve		1,000,000		-		1,000,000
Total board-designated		8,741,020		-		8,741,020
Property and equipment		5,578,739		-		5,578,739
Total without donor restrictions		14,319,759		-		14,319,759
With donor restrictions						
Restricted for a specified purpose		-		384,255		384,255
Donated rent receivable		-		7,173,578		7,173,578
Unappropriated earnings on perpetual endowment		-		123,427		123,427
Perpetual endowment		-		1,161,095		1,161,095
Property and equipment		-		20,409		20,409
Total with donor restrictions		-		8,862,764		8,862,764
Total net assets		14,319,759		8,862,764		23,182,523
Total liabilities and net assets	$	15,727,155	$	8,862,764	$	24,589,919

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, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Support			
Grants and contributions	$ 1,304,743	$ 570,292	$ 1,875,035
Special events, net of direct donor benefits of $224,346	906,604	-	906,604
Donations in-kind	685,777	-	685,777
Government grants	35,955	-	35,955
Total support	2,933,079	570,292	3,503,371
Revenue			
Admissions	2,221,255	-	2,221,255
Membership	589,825	-	589,825
Investment income, net	659,961	39,511	699,472
Other income	261,407	-	261,407
Total revenue	3,732,448	39,511	3,771,959
Total support and revenue	6,665,527	609,803	7,275,330
Net assets released from restriction	804,630	(804,630)	-
Total support, revenue, and net assets released from restriction	7,470,157	(194,827)	7,275,330
Functional expenses			
Program services			
Exhibits	2,611,163	-	2,611,163
Educational programs	3,074,834	-	3,074,834
Total program services	5,685,997	-	5,685,997
Support services			
Management and general	1,930,963	-	1,930,963
Development and fundraising	523,184	-	523,184
Total support services	2,454,147	-	2,454,147
Total functional expenses	8,140,144	-	8,140,144
Change in net assets	(669,987)	(194,827)	(864,814)
Net assets, beginning of year	14,989,746	9,057,591	24,047,337
Net assets, end of year	$ 14,319,759	$ 8,862,764	$ 23,182,523

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, 2025

	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	$ 435,067	$ 1,585,684	$ 2,020,751	$ 1,079,131	$ 205,658	$ 1,284,789	$ 3,305,540
Employee benefits	64,549	102,440	166,989	105,049	89,675	194,724	361,713
Payroll taxes	30,140	119,155	149,295	68,333	13,587	81,920	231,215
Total salaries and benefits	529,756	1,807,279	2,337,035	1,252,513	308,920	1,561,433	3,898,468
Outside services	4,383	334,889	339,272	506,736	150,319	657,055	996,327
Occupancy, in-kind	518,000	331,200	849,200	21,600	14,400	36,000	885,200
Repairs and maintenance	318,511	196,817	515,328	22,788	8,732	31,520	546,848
Small equipment	186,124	52,888	239,012	54,263	122	54,385	293,397
Utilities	144,594	124,351	268,945	14,459	5,784	20,243	289,188
Printing	-	126,152	126,152	445	78	523	126,675
Insurance	37,014	32,751	69,765	2,782	1,481	4,263	74,028
Telephone	14,677	20,191	34,868	20,279	13,156	33,435	68,303
Conferences and meetings	1,983	5,634	7,617	8,811	11,695	20,506	28,123
Office supplies	4,095	61	4,156	10,264	6,160	16,424	20,580
Dues and subscriptions	2,451	13,426	15,877	4,000	-	4,000	19,877
Travel	-	16,552	16,552	299	-	299	16,851
Automobile	2,597	-	2,597	-	-	-	2,597
Postage and shipping	-	-	-	2,185	241	2,426	2,426
Training	-	-	-	1,748	-	1,748	1,748
Total expenses before depreciation	1,764,185	3,062,191	4,826,376	1,923,172	521,088	2,444,260	7,270,636
Depreciation	846,978	12,643	859,621	7,791	2,096	9,887	869,508
	$ 2,611,163	$ 3,074,834	$ 5,685,997	$ 1,930,963	$ 523,184	$ 2,454,147	$ 8,140,144
Percentage of total	32 %	38 %	70 %	24 %	6 %	30 %	100 %

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, 2025

Cash flows from operating activities		
Change in net assets	$	(864,814)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments		(480,788)
Donated rent receivable amortization		391,788
Contributions restricted for purchase of property and equipment		(276,400)
Depreciation		869,508
Changes in operating assets and liabilities		
Contributions receivable		505,891
Accounts receivable		(170,248)
Inventory		14,054
Prepaid expenses		14,881
Accounts payable and accrued liabilities		46,122
Accrued payroll and related benefits		67,540
Deferred revenue		212,599
Customer deposits		(2,000)
Net cash provided by operating activities		328,133
Cash flows from investing activities		
Purchase of investments		(379,816)
Proceeds from sale of investments		29,748
Purchase of property and equipment		(498,366)
Net cash used in investing activities		(848,434)
Cash flows from financing activities		
Proceeds from contributions restricted for purchase of property and equipment		276,400
Net cash provided by financing activities		276,400
Net decrease in cash and cash equivalents		(243,901)
Cash and cash equivalents, beginning of year		5,083,765
Cash and cash equivalents, end of year	$	4,839,864

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

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.

<u>Exhibits *</u>

Over its 35 years of operation, the Museum has welcomed more than 10.5 million visitors. During the year ended August 31, 2025, the Museum provided engaging learning opportunities to over 223,800 family visitors and 24,200 in groups. An increase of 5% over the prior year, attributable to the ongoing recovery after COVID and directed marketing strategies. The Museum maintained a full-day schedule on weekends, holidays, and during the summer, operating from 9:30 a.m. to 4:30 p.m., and a shorter weekday schedule, Tuesday through Friday from 9:30 a.m. to 1:00 p.m..

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.

Since opening its doors in the spring of 1990, the Museum and its staff have worked 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 to 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.

1. NATURE OF OPERATIONS (continued)

Exhibits * (continued)

In June 2025, the Museum opened Bubbling Up! a new, immersive bubbles exhibit, designed in conjunction with the Denver Children's Museum's design division. The new exhibit is located outside in Bill's Backyard and features a high number of unique activities. In the fall, the Museum presented "Dinosaurs: Land of Fire and Ice," a traveling exhibit from the Minnesota Children's Museum as a way to test the success of hosting a traveling exhibit during the fall/winter months as opposed to the typical summer timeframe, which has been shortened over the years due to changing school schedules. The exhibit was popular and did help to increase attendance during the months of its tenure. The Museum also chose to present a new type of temporary exhibit during the winter/spring months. Potential Space: A Serious Look at Children's Play, was created by photographer/author Nancy Richards Farese and is comprised of over 50 photographs from 14 different worldwide locations showcasing children's uncanny ability to figure out how to play despite the severe circumstances in which they live, such as refugee camps and communities hit by natural disasters. Museum staff enhanced the experience by replicating some of the activities featured in the photos.

Visitor amenities were addressed through the reopening of food service in the Museum in January with iJava Cafe as the proprietor. In addition, with Board-approval to utilize some reserve funding, the Museum's bathrooms were renovated and carpeting on the second floor and grand stairway replaced.

In spring 2025, the Museum was awarded a City of San Jose Capitalization and Sustainability Grant (CAPSUS). This competitive grant is designed to help organizations be more efficient and sustainable. CDM's grant requested support toward the purchase of a zero-emission electric Rizon stake bed truck to replace its 2007 gasoline-powered Ford truck. The total cost of the truck purchase was over $176,000, but offset by the $130,000 in HVIP Innovative Small E-Fleet Vouchers approved by the State of California and the CAPSUS grant of $33,000. The total cost for purchase to CDM will be less than $20,000.

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 City of San Jose (the "City"). The City has requested that CDM renew its lease for this space for an additional 5 years. In addition, in preparation for the major sports events to be hosted in the Bay Area in 2026, the City has asked CDM to create a second interactive space. Discussions have begun to identify a suitable space to house a "sensory room" exhibit which will serve families traveling with children on the autism spectrum. The space will be sponsored by Nutanix and pro bono construction support provided by Swinerton Construction.

1. NATURE OF OPERATIONS (continued)

Exhibits * (continued)

In addition, the Museum has begun discussion with the Berryessa Union School District and Kidango to develop a children's center at the Toyon Elementary School location, which closed in June. The site will provide local families with childcare services, a children's library and activities. CDM is considering the installation of the FIRST5-funded "Potter the Otter" exhibit, which will complete its California-wide tour in winter of 2026. CDM has also been approached by Child Advocates of Santa Clara County to participate in the development of two program spaces in its new headquarters to serve foster children and their CASAs.

* 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 over 24,200 served, which represents 7% increase in group attendance over the prior year and an additional 8,800 served through on-site or outreach programs. In early spring, CDM reactivated its birthday party program in the Teal Party Room adjacent to the Museum's front entrance, which has been well received by Museum visitors.

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 2025 fiscal year. Adventure, CDM's outreach partnership with Somos Mayfair, a non-profit organization, continued for a second year by offering early learning programs in the Mayfair Family Resource Centers, which engage the whole family to ensure school readiness, was underwritten by the PNC Foundation.

The 2nd Kristi Yamaguchi Family Literacy Festival occurred in early September 2024 with over 1,400 visitors and several celebrity readers in attendance. In mid-September, CDM launched a month-long Hispanic Heritage Month celebration, featuring local groups such as the Boulevard Bombs, a lowriders group who displayed their rides to Museum visitors, and a Lucha Libre group, along with music and art activities and traditional games. A Hall of Fame display recognized local Hispanic individuals who have contributed to the Santa Clara community.

1. NATURE OF OPERATIONS (continued)

Educational Programs * (continued)

With the cessation of federal grant funding, CDM's 6-year collaboration (1 year extension approved by the National Science Foundation) with The Exploratorium was terminated in June, 2025. The collaboration was designed 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. The project was largely completed with just minor deliverables outstanding, such as disseminating results through a Web site. The culminating summit meeting was held in April 2025 with 90 participants representing 19 informal science institutions, 7 national advisors, 6 VIP guests and 10 Cambio Leadership Team members.

After 35 years of operation, the Museum took the opportunity to build upon the findings of 2 pro bono marketing partnerships to develop strategic marketing plans to increase its reach to visitors and donors. The Adobe project focused 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 built upon the Adobe findings through analytical analyses of CDM visitors and members, and identified microsegments in terms of their propensity to visit; propensity to become a member; and propensity to donate, and their geographic locations. New marketing messages were created to reach out to both new visitors and new donors. In addition, the creative input from the PwC team led the Museum staff to seek out both a new Museum logo and a new Web site. Both were designed by G-W Designs, based in Sweden, launched in summer 2025, and well-received by staff, Board members and the public.

After 35 years of operation, there will be significant staff changes in the 2025-2026 year. In spring 2024-2025, the Museum hired a Chief Financial and Administrative Officer to assume the responsibilities of the retiring Director of Finance and Administration and Director of Information Systems and Compliance. Starting in the 2025-2026 fiscal year, the Board retained a recruitment firm, Shelli Herman and Associates, to identify and hire a new Executive Director.

* Statistics unaudited

2. CHANGE IN NET ASSETS

During the year ended August 31, 2025, the Museum experienced a decrease in net assets of $864,814 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	$ (669,987)	$ (194,827)	$ (864,814)
Add back:			
Depreciation expense	869,508	-	869,508
Donated rent receivable amortization (see Note 8)	-	391,788	391,788
	869,508	391,788	1,261,296
Change in net assets excluding depreciation expense and donated rent receivable amortization	$ 199,521	$ 196,961	$ 396,482

3. COVID-19 IMPACT

The impact of the COVID-19 pandemic, whose effects first became known in January 2020, has fundamentally ceased. Over the past four years, CDM has adopted a new operating schedule, added new exhibits, and relaunched hands-on activities and programming.

The result of COVID-19 still has an impact on Museum attendance levels. 2024-2025 attendance was 33% below that of the 2018-2019 year (prior to COVID). This variance is due in part to parents' concern for their children's health, the shift to more outdoor-based activities or stay-at-home leisure time, and the declining birthrate.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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

- *Net assets without donor restrictions* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Museum. Under this category, the Museum maintains an operating fund, any net assets designated by the Board for specific purposes and the unrestricted property and equipment fund. Board designations are not donor-imposed restrictions and are subject to change at the Board's discretion.
- *Net assets with donor restrictions* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period and also include those assets which are subject to a non-expiring donor restriction, such as endowments.

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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.

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, 2025, 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, 2025, and is included in "accrued payroll and related benefits" on the statement of financial position. The accrued vacation balance as of August 31, 2025 was $296,080.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue

As of August 31, 2025, the Museum had deferred revenue of $667,476 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, 2025.

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.

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.

Accounts receivable

Accounts receivable are recorded at the amounts expected to be collected, with an allowance established for estimated uncollectible balances based on historical experience and management’s review. The Museum considers all accounts receivable to be fully collectible at year end; accordingly, an allowance for credit losses is not considered necessary.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

The Museum's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the year ended August 31, 2025 was $99,127 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, 2025 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, 2025 (see Note 16). Subsequent events have been evaluated through the date the financial statements became available to be issued, January 28, 2026.

5. CONDITIONAL GRANTS AND CONTRIBUTIONS

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

5. CONDITIONAL GRANTS AND CONTRIBUTIONS (continued)

Conditional grants and contributions as of August 31, 2025 consisted of the following:

State of California HVIP Innovative Small E-Fleet Vouchers	$ 130,000
City of San Jose Capitalization and Sustainability Grant	33,000
	$ 163,000

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, 2025. 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 15, the endowment had a spending rate of up to 5% prior to March 2020, and the Board approved to adjust the rate to 7% to maximize the spending to protect the Museum.

The following is a quantitative disclosure which describes assets that are available within one year of August 31, 2025 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	$ 4,839,864
Short-term investment	506,559
Investments	5,710,408
Accounts receivable	170,248
Contributions receivable	463,828
	11,690,907
Less: amounts unavailable for general expenditure within one year	
Net assets restricted for a specified purpose	(384,255)
Board-designated endowment	(5,741,020)
Board-designated for fixed assets reserve	(1,000,000)
Unappropriated earnings on perpetual endowment	(123,427)
Perpetual endowment	(1,161,095)
	(8,409,797)
	$ 3,281,110

6. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE (continued)

As of August 31, 2025, the Museum had $3,281,110 of financial assets available to meet cash needs for general expenditures, which included an operating reserve of $2,000,000. In addition, the board-designated endowment of $5,741,020 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, 2025:

	Level 1	Level 2	Level 3	Fair Value
Equity securities	$ 4,423,384	$ -	$ -	$ 4,423,384
Cash and cash equivalents	1,287,024	-	-	1,287,024
	$ 5,710,408	$ -	$ -	$ 5,710,408

The donor-restricted endowment funds totaling $1,284,522 was in included in the above investments as of August 31, 2025.

Level 1 investments consist of publicly traded equity securities and mutual funds. Fair values are based on unadjusted quoted prices in active markets. The Museum also has a certificate of deposit valued at $506,559 as of August 31, 2025 which is reported as short-term investment in the statement of financial position.

Net investment income during the year consist of the following:

Interest and dividends	$ 248,933
Net realized and unrealized gains on investments	480,788
Investment expenses	(30,249)
	$ 699,472

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.

8. DONATED RENT RECEIVABLE (continued)

As the lease is non-cancelable, the Museum recognized the benefit of this lease agreement as donated rent receivable and net assets with donor restrictions. The Museum has established the fair market value of the rent under the agreement at $720,000 per year. The annual rent expense is included in the statement of activities and statement of functional expenses. The net present value of the future contribution benefit has been computed at a discount rate of 6.68% based upon prevailing rates when the lease agreement was entered into and is recorded as donated rent receivable 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. The original lease expired in October 2025. The Museum renewed the lease on October 7, 2025 (see Note 16).

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, 2025. The Museum estimated the discount rate of net present value of the future contribution is 2.35% based upon prevailing rates when the lease agreement was entered into. Due to immaterial impact, the Museum did not record the discount to the rent receivable.

Donated rent receivable consisted of the following:

Year ending August 31,	
2026	$ 255,487
2027	257,872
2028	275,097
2029	293,474
2030	313,078
Thereafter	5,778,570
	7,173,578
Current portion	(255,487)
	$ 6,918,091

The current rent expense consists of the following:

Current year in-kind rent contribution - Museum facility	$ 493,412
Donated rent receivable amortization - Museum facility	226,588
Donated rent receivable amortization - San Jose Airport exhibit	165,200
	$ 885,200

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Exhibits	$	14,457,931
Leasehold improvements		5,186,734
Equipment		2,445,971
Furniture and fixtures		129,794
Vehicles		37,494
Construction in progress		20,409
		22,278,333
Accumulated depreciation		(16,679,185)
	$	5,599,148

Depreciation expense for the year ended August 31, 2025 was $869,508.

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 $124,950 during the year ended August 31, 2025.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Donated rent receivable	$	7,173,578
Programs and exhibits		384,255
Unappropriated earnings on perpetual endowment		123,427
Perpetual endowment		1,161,095
Property and equipment		20,409
	$	8,862,764

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

Donated rent receivable amortization	$	391,788
Programs and exhibits		274,647
Property and equipment		138,195
	$	804,630

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	$ 493,412
Consulting services	182,106
Supplies	10,259
	$ 685,777

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. 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.

14. 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, 2025, cash contributions received from board members totaled $207,413, and cash contributions from their employers or affiliations totaled $991,000. During the year ended August 31, 2025, in-kind donations received from board members totaled $6,160, and in-kind donations received from their employers or affiliations totaled $174,000.

15. 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.

<u>Interpretation of relevant law</u>

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

<u>Investment return objectives, risk parameters and strategies - goals and performance measurement</u>

- 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.)

15. 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, 2025.

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, 2025. 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, 2025, no appropriation was made due to current investment market conditions.

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

15. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Perpetual endowment	$ -	$ 1,161,095	$ 1,161,095
Unappropriated earnings on perpetual endowment	-	123,427	123,427
Board-designated endowment funds	5,741,020	-	5,741,020
	$ 5,741,020	$ 1,284,522	$ 7,025,542

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

	Unappropriated Earnings on Perpetual Endowment	Perpetual Endowment	Total
Balance, beginning of year	$ 83,916	$ 1,161,095	$ 1,245,011
Investment income	39,511	-	39,511
Balance, end of year	$ 123,427	$ 1,161,095	$ 1,284,522

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

Balance, beginning of year	$ 6,178,060
Interest and dividends	209,422
Net realized and unrealized gains on investments	480,788
Investment expenses	(30,249)
Total investment return	659,961
Appropriations	(1,097,001)
Balance, end of year	$ 5,741,020

16. SUBSEQUENT EVENTS

In September 2025, the Museum's Board of Directors approved the hiring of Shelli Herman and Associates to conduct a new Executive Director search, with an anticipated hire date of December 2025/January 2026.

16. SUBSEQUENT EVENTS (continued)

The purchase of a zero-emission electric Rizon stake bed truck to replace its 2007 gasoline-powered Ford truck will be made after receipt of the State of California HVIP Innovative Small E-Fleet Vouchers ($130,000) are paid to the truck manufacturer. CDM will apply the $33,000 CAPSUS grant from the City of San Jose and the remaining due from its unrestricted funds.

On October 7, 2025, the Museum renewed its lease agreement with the City of San Jose for the authorized use of the San Jose Airport premises. The lease now expires on October 6, 2030.