

The Children's Museum, Inc.
Consolidated Financial Statements and Supplementary Information
For the Fiscal Years Ended June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Children's Museum, Inc.
Houston, Texas

We have audited the accompanying consolidated financial statements of The Children's Museum, Inc. (a Texas nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

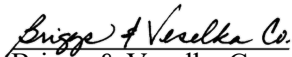
To the Board of Directors of
The Children's Museum, Inc.
Re: Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Children's Museum, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities as of and for the fiscal year ended June 30, 2020 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.


Briggs & Veselka Co.
Houston, Texas

October 29, 2020

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 3,923,136	\$ 3,421,716
Inventory	296,685	221,502
Accounts receivable	166,361	577,514
Operating pledges receivable, net	638,046	794,169
Pledges receivable for donated use of facilities, net	845,942	953,972
Property and equipment, net	15,811,123	16,734,773
Investments	19,921,747	19,964,063
Prepaid expenses and other assets	<u>40,396</u>	<u>246,684</u>
TOTAL ASSETS	<u>\$ 41,643,436</u>	<u>\$ 42,914,393</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 275,569	\$ 548,633
Deferred revenue	782,819	367,936
Deferred compensation	-	366,913
Refundable advance	<u>119,546</u>	<u>-</u>
Total liabilities	1,177,934	1,283,482
Net assets		
Without donor restrictions	19,844,136	21,637,266
With donor restrictions	<u>20,621,366</u>	<u>19,993,645</u>
Total net assets	<u>40,465,502</u>	<u>41,630,911</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,643,436</u>	<u>\$ 42,914,393</u>

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

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue			
Contributions	\$ 1,783,765	\$ 2,461,285	\$ 4,245,050
Membership contributions	735,227	-	735,227
Special events	1,373,065	-	1,373,065
Direct donor benefit costs of special events	(263,443)	-	(263,443)
Admissions	2,361,101	-	2,361,101
Program fees	957,274	-	957,274
Museum gift shop and café sales	1,098,866	-	1,098,866
Cost of goods sold	(549,604)	-	(549,604)
Government grants	1,095,669	-	1,095,669
Parking fees	643,891	-	643,891
Investment return, net	90,575	803,496	894,071
Other revenue	217,843	-	217,843
Total revenue	9,544,229	3,264,781	12,809,010
Net assets released from restrictions			
Program and capital campaign expenditures	2,119,060	(2,119,060)	-
Endowment earnings appropriated for operations	518,000	(518,000)	-
Totals	12,181,289	627,721	12,809,010
Expenses			
Program services:			
Exhibitions and education	9,606,497	-	9,606,497
Membership and public outreach	941,937	-	941,937
Gift shop and café	692,911	-	692,911
Visitor services	464,749	-	464,749
Total program services	11,706,094	-	11,706,094
Supporting services:			
Management and general	1,465,337	-	1,465,337
Fundraising and membership development	802,988	-	802,988
Total expenses	13,974,419	-	13,974,419
Changes in net assets	(1,793,130)	627,721	(1,165,409)
Net assets, beginning of fiscal year	21,637,266	19,993,645	41,630,911
NET ASSETS, END OF FISCAL YEAR	\$ 19,844,136	\$ 20,621,366	\$ 40,465,502

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

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue			
Contributions	\$ 2,009,990	\$ 1,584,099	\$ 3,594,089
Membership contributions	1,500,909	-	1,500,909
Special events	1,303,053	-	1,303,053
Direct donor benefit costs of special events	(287,976)	-	(287,976)
Admissions	3,611,860	-	3,611,860
Program fees	1,007,245	-	1,007,245
Museum gift shop and café sales	1,556,998	-	1,556,998
Cost of goods sold	(741,398)	-	(741,398)
Government grants	103,165	-	103,165
Parking fees	852,754	-	852,754
Investment return, net	86,772	1,039,329	1,126,101
Other revenue	324,461	-	324,461
Total revenue	11,327,833	2,623,428	13,951,261
Net assets released from restrictions			
Program and capital campaign expenditures	1,710,137	(1,710,137)	-
Endowment earnings appropriated for operations	440,000	(440,000)	-
Totals	13,477,970	473,291	13,951,261
Expenses			
Program services:			
Exhibitions and education	9,978,765	-	9,978,765
Membership and public outreach	1,163,047	-	1,163,047
Gift shop and café	822,758	-	822,758
Visitor services	535,967	-	535,967
Total program services	12,500,537	-	12,500,537
Supporting services:			
Management and general	1,515,091	-	1,515,091
Fundraising and membership development	757,034	-	757,034
Total expenses	14,772,662	-	14,772,662
Changes in net assets	(1,294,692)	473,291	(821,401)
Net assets, beginning of fiscal year	22,931,958	19,520,354	42,452,312
NET ASSETS, END OF FISCAL YEAR	\$ 21,637,266	\$ 19,993,645	\$ 41,630,911

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

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Program Services					Supporting Services		Total Expenses
	Exhibitions and Education	Membership and Public Outreach	Gift Shop and Café	Visitor Services	Total Program Services	Management and General	Fundraising and Membership Development	
Salaries and wages	\$ 4,070,706	\$ 462,260	\$ 395,957	\$ 209,884	\$ 5,138,807	\$ 725,327	\$ 443,259	\$ 6,307,393
Fringe benefits	653,076	56,480	27,398	11,770	748,724	121,773	55,196	925,693
Payroll taxes	321,342	35,527	32,942	10,655	400,466	58,428	34,239	493,133
Advertising	-	-	-	-	-	228,711	-	228,711
Bank and credit card fees	64,000	34,512	32,878	85,326	216,716	11,500	20,201	248,417
Contract labor	358,197	184,581	9,531	24,556	576,865	98,195	60,409	735,469
Depreciation	1,362,560	23,476	54,266	9,369	1,449,671	41,705	51,700	1,543,076
Dues and subscriptions	11,671	23,611	977	69	36,328	18,405	2,534	57,267
Electricity	172,439	3,266	7,655	1,322	184,682	5,883	4,384	194,949
Equipment rental	14,861	-	-	-	14,861	13,399	-	28,260
Exhibit maintenance	578,872	-	-	-	578,872	-	-	578,872
Insurance	234,911	4,445	10,417	8,519	258,292	8,006	6,002	272,300
Janitorial	277,105	6,180	24,777	2,048	310,110	9,118	8,232	327,460
Other occupancy	369,208	4,622	10,066	1,738	385,634	7,736	26,723	420,093
Other utilities	44,907	806	1,876	11,228	58,817	1,442	1,464	61,723
Postage and delivery	11,582	7,577	-	-	19,159	1,969	5,676	26,804
Printing	104,616	27,546	1,087	2,214	135,463	3,933	24,452	163,848
Professional fees	16,491	5,085	-	-	21,576	42,196	23,850	87,622
Rent and storage fees	146,725	-	-	-	146,725	8,384	-	155,109
Repair and maintenance	230,453	4,401	10,328	14,233	259,415	7,937	5,592	272,944
Supplies	451,825	52,909	68,600	70,753	644,087	39,060	19,897	703,044
Telephone	26,650	3,392	2,654	485	33,181	4,845	1,938	39,964
Travel	71,282	366	-	-	71,648	804	1,504	73,956
Other	13,018	895	1,502	580	15,995	6,581	5,736	28,312
Totals	<u>\$ 9,606,497</u>	<u>\$ 941,937</u>	<u>\$ 692,911</u>	<u>\$ 464,749</u>	<u>\$ 11,706,094</u>	<u>\$ 1,465,337</u>	<u>\$ 802,988</u>	<u>\$ 13,974,419</u>

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

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Program Services				Supporting Services			Total Expenses
	Exhibitions and Education	Membership and Public Outreach	Gift Shop and Café	Visitor Services	Total Program Services	Management and General	Fundraising and Membership Development	
Salaries and wages	\$ 4,116,070	\$ 587,628	\$ 445,748	\$ 226,884	\$ 5,376,330	\$ 695,769	\$ 446,213	\$ 6,518,312
Fringe benefits	614,045	71,051	33,896	3,403	722,395	111,494	51,931	885,820
Payroll taxes	329,487	40,372	37,083	13,606	420,548	47,946	34,199	502,693
Advertising	-	-	-	-	-	267,728	-	267,728
Bank and credit card fees	195	48,109	36,808	121,613	206,725	10,068	20,635	237,428
Contract labor	282,402	179,773	11,554	31,029	504,758	100,942	32,727	638,427
Depreciation	1,706,063	33,132	79,644	12,303	1,831,142	72,537	42,612	1,946,291
Dues and subscriptions	11,381	24,466	811	-	36,658	15,877	1,000	53,535
Electricity	188,868	3,708	8,860	1,424	202,860	7,635	4,224	214,719
Equipment rental	16,948	-	-	-	16,948	11,145	266	28,359
Exhibit maintenance	623,956	-	-	-	623,956	-	-	623,956
Insurance	212,736	4,180	9,982	8,328	235,226	8,574	4,725	248,525
Janitorial	305,662	5,953	25,055	2,230	338,900	12,833	7,432	359,165
Other occupancy	338,581	6,007	15,205	1,569	361,362	19,942	15,384	396,688
Other utilities	46,503	917	2,185	9,990	59,595	1,847	999	62,441
Postage and delivery	6,352	17,709	-	492	24,553	2,704	6,776	34,033
Printing	161,105	49,157	1,051	8,210	219,523	9,860	40,212	269,595
Professional fees	1,100	5,995	-	-	7,095	41,932	1,056	50,083
Rent and storage fees	124,703	-	-	-	124,703	6,714	-	131,417
Repair and maintenance	192,985	3,824	9,090	13,657	219,556	7,460	3,889	230,905
Supplies	559,578	75,989	101,994	79,716	817,277	51,477	33,872	902,626
Telephone	15,088	2,716	2,005	302	20,111	3,326	1,207	24,644
Travel	103,817	862	39	-	104,718	6,163	2,817	113,698
Other	21,140	1,499	1,748	1,211	25,598	1,118	4,858	31,574
Totals	<u>\$ 9,978,765</u>	<u>\$ 1,163,047</u>	<u>\$ 822,758</u>	<u>\$ 535,967</u>	<u>\$ 12,500,537</u>	<u>\$ 1,515,091</u>	<u>\$ 757,034</u>	<u>\$ 14,772,662</u>

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

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Changes in net assets	\$ (1,165,409)	\$ (821,401)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Net realized and unrealized gain on investments	(470,351)	(673,852)
Depreciation	1,543,076	1,946,291
Loss (gain) on disposal of property and equipment	10,525	(1,203)
Contributions restricted for endowment	(10,000)	(10,000)
Change in discount on pledges receivable	(80,097)	(69,118)
Donated use of facilities	180,000	180,000
Changes in operating assets and liabilities:		
Inventory	(75,183)	(387)
Accounts receivable	411,153	(211,802)
Operating pledges receivable	154,355	(150,567)
Prepaid expenses and other assets	206,288	(92,283)
Accounts payable and accrued expenses	(273,064)	46,435
Deferred revenue	414,883	(7,621)
Deferred compensation	(366,913)	51,422
Refundable advance	<u>119,546</u>	<u>-</u>
Net cash from operating activities	<u>598,809</u>	<u>185,914</u>
Cash flows from investing activities		
Purchases of property and equipment	(629,951)	(139,137)
Purchase of investments	(423,033)	(17,580,038)
Proceeds from sale of investments	568,787	17,127,307
Change in money market mutual funds held as investments	366,913	(51,423)
Change in certificates of deposit held as investments	<u>-</u>	<u>250,000</u>
Net cash from investing activities	<u>(117,284)</u>	<u>(393,291)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for capital expansion	9,895	107,973
Proceeds from contributions restricted for endowment	<u>10,000</u>	<u>10,000</u>
Net cash from financing activities	<u>19,895</u>	<u>117,973</u>
Net change in cash	<u>501,420</u>	<u>(89,404)</u>
Cash, beginning of fiscal year	<u>3,421,716</u>	<u>3,511,120</u>
Cash, end of fiscal year	<u>\$ 3,923,136</u>	<u>\$ 3,421,716</u>

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Children's Museum, Inc., operating as Children's Museum Houston (the "Museum"), a Texas nonprofit corporation, was founded in November 1980 to create a lifelong passion for learning through educational exhibits and programs that provoke curiosity and inspiration. The Museum's mission is to transform communities through innovative, child-centered learning. This mission is achieved through efforts to address six key community needs identified through community forums that involve 1) fostering the development of Houston's significant child population; 2) increasing and supporting parental engagement in their children's learning; 3) providing learning experiences that reinforce and supplement classroom instruction; 4) reducing the effects of poverty on learning; 5) serving a multicultural, multilingual population; and 6) promoting workforce readiness through the development of 21st century skills.

In July 2013, the Museum formed a limited liability company, Fort Bend Children's Discovery Center, LLC (the "LLC") to operate the Fort Bend Children's Discovery Center. The Museum is the sole member of the LLC.

In March 2020, due to the COVID-19 pandemic, the Museum closed both locations to the public at the request of the city and county officials in Houston, Harris County and Sugar Land, Fort Bend County to restrict the spread of the virus. The Museum initiated daily virtual learning programming on March 17, 2020. In May, the Governor of Texas allowed museums to open with restrictions on attendance in order to maintain social distancing. The Children's Museum Houston opened the building on June 3, 2020, providing programming five days a week versus seven days a week in prior years. Virtual programming remained at seven days a week. Fort Bend Children's Discover Center, LLC reopened on July 7, 2020.

During the summer, Children's Museum Houston and Fort Bend Children's Discovery Center, LLC served 21,561 museum visitors from June to August 2020, representing 7.4% of the 292,000 visitors we welcomed during the same period in summer 2019. This resulted in a reduction in earned income of \$1,600,000 or a 91% decline in earnings for the same period in 2019. Due to the decline in attendance and earned income because of COVID-19, the Museum closed both locations on August 31, 2020.

The Museum expanded its virtual footprint to "All Time Access" and is using this platform to carry out its philanthropic objectives even though the doors are closed. The Museum believes that parents will not want to return to venues like the Museum, until a vaccine is available. The Museum's intent is to open both locations as soon as the public demand will support doing so.

Basis of Consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of the Museum and the LLC (collectively, the "Organization"). All balances and transactions between the consolidated entities have been eliminated. The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Federal Income Tax Status – The Organization is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (IRC) and are classified as public charities under §170(b)(1)(A)(vi). Contributions to the Organization are tax deductible within the limitations prescribed by the IRC. The Organization files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress.

The Organization records charges for uncertain tax positions when they are considered probable. Based on their evaluation, the Organization has concluded that there are no significant uncertain tax positions requiring recognition in the financial statements.

Cash – Cash consists of demand deposit accounts which may exceed the federally insured limit per depositor, per institution.

Inventory – Inventories of merchandise purchased for resale through the Organization's gift shop and café are stated at lower of cost and net realizable value determined by the specific identification method.

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Account Receivable – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. No allowance for doubtful accounts was considered necessary at June 30, 2020 and 2019.

Pledges Receivable – Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

An allowance for uncollectible pledges is estimated based on management's periodic evaluation of past loss experience, known adverse situations that may affect the donor's ability to pay, and current economic conditions (*see Note 3*). It is possible that management's estimate regarding the collectability of these balances will change in the near term resulting in a change in the carrying value of pledges receivable.

Property and Equipment – Property and equipment are reported at cost if purchased or at fair value at the date of gift, if donated. Expenditures less than \$1,500 are expensed when incurred. Depreciation is calculated using the straight-line method over estimated useful lives of 10 to 30 years for parking garage and buildings and improvements, 10 years for permanent exhibits, and three to five years for furniture, fixtures and equipment.

Investments – Investments are reported at fair value. The Organization's management determines the investment valuation policies utilizing information provided by investment advisors and custodians. Investment return is reported in the consolidated statements of activities as an increase in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in net assets with donor restrictions until expended in accordance with donor-imposed restrictions.

Net Asset Classification – Contributions, investment return and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.
- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions – Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Donor-restricted contributions whose restrictions are satisfied in the same year the contribution is received are recorded as net assets without donor restrictions. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Donated Materials, Donated Use of Facilities and Services – Donated materials and use of facilities are recognized at fair value as contributions without donor restrictions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

THE CHILDREN’S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under U.S. GAAP.

During 2017, the LLC executed an agreement for the use of a building and land under an operating lease where the lease payments are below market rate. At the time the agreement was made, the contribution was calculated as the net present value of the fair rental value of space occupied under similar conditions and was recorded as a pledge receivable, discounted to its net present value and as an increase in net assets with donor restrictions. Annually, the value of using the space for the period is reported as rent expense in net assets without donor restrictions along with a reclassification of net assets from net assets with donor restrictions (*see Note 3*).

Fees for Service – Revenue from admissions and program fees, government grants, museum gift shop and café sales, and parking fees are recognized when the related services are provided or a sale occurs. Amounts received in advance of the services being provided are recognized as deferred revenue.

Advertising Costs – Advertising costs are expensed as incurred. The total advertising costs charged to expense were \$228,711 and \$267,728 for the fiscal years ended June 30, 2020 and 2019, respectively.

Use of Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with U.S. GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used. Significant estimates include, but are not limited to, the allowance for uncollectible pledges receivable, discounted present value of future pledges, and the estimated useful life of property and equipment.

Risks and Uncertainties – During the fiscal year ended June 30, 2020, many countries around the world, including the United States, were impacted by the coronavirus (the “virus” or COVID-19) outbreak. While the virus is continuing to evolve, its implications could involve interruptions to supply chains, unavailability of personnel, and reductions in revenues. In addition, the Organization may be impacted by the broader effects of COVID-19 as a result of the negative impact the virus has had on the global economy and major financial markets.

Functional Expenses – The costs of providing the Organization’s various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, these expenses require allocation on a reasonable basis that is consistently applied. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques as determined by management.

The expenses that are allocated include the following:

<u>Expense Type</u>	<u>Allocation Method</u>
Salaries and benefits	Time and effort
Exhibit maintenance	Time and effort
Other	Time and effort
Salaries and benefits – buildings and grounds	Square footage
Janitorial	Square footage
Utilities	Square footage
Other occupancy/facilities	Square footage

THE CHILDREN'S MUSEUM, INC.
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<u>Expense Type</u>	<u>Allocation Method</u>
Depreciation	Square footage
Telephone	Full-time equivalent
Contract labor	Full-time equivalent or time and effort

Recently Adopted Accounting Pronouncements - In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises.

The ASU clarifies and improves current guidance about whether a transfer of assets, or the reductions, settlement, or cancellations of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the Organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. With some exceptions, the guidance is effective for annual periods beginning after December 15, 2018. During the fiscal year ended June 30, 2020, the Organization adopted the new standard, which has been applied on a modified prospective basis.

Upcoming Accounting Pronouncements – In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This update provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Organization expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. In June 2020, the FASB issued ASU No. 2020-05, *Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, to defer these two standards. Under the deferral for revenue recognition rules, private not-for-profit organizations can apply the standard to fiscal years beginning after December 15, 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require most leases to be recognized on the statements of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. Under the deferral for leases rules, the guidance is effective for fiscal years beginning after December 15, 2021 for nonpublic entities.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This update modifies the disclosure requirements on fair value measurement in Topic 820, *Fair Value Measurement*. This amendment is effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this update may be early adopted and requires a prospective transition approach for certain prescribed disclosure requirements, with all other amendments applied retrospectively.

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The Organization is currently assessing the effects these pronouncements may have on the financial statements and related disclosures.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position dates, comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash	\$ 3,923,136	\$ 3,421,716
Accounts receivable	166,361	577,514
Pledges receivable, net	1,483,988	1,748,141
Investments	<u>19,921,747</u>	<u>19,964,063</u>
Total financial assets	<u>25,495,232</u>	25,711,434
Financial assets not available for general expenditure:		
Less: net assets with donor restrictions	(20,621,366)	(19,993,645)
Less: Board-designations:		
Reserve fund	(1,656,168)	(1,445,627)
Future exhibit programs	(445,793)	(585,000)
Facility replacement	(235,923)	(365,010)
Add: net assets with purpose restrictions to be met in less than one year	3,240,653	1,802,619
Add: endowment appropriation approved for upcoming year	<u>500,000</u>	<u>440,000</u>
Total financial assets available for general expenditure	<u>\$ 6,276,635</u>	<u>\$ 5,564,771</u>

Assets unavailable for general expenditures include receivable balances with donor-imposed restrictions, designated reserve to be used upon Board approval for general operations (*see Note 10*), as well as pledges receivable to be received after one year, and pledges receivable for donated building space (*see Note 3*).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Museum considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Museum regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of available funds. The Museum's Board of Directors has designated a portion of its resources without donor restrictions as Board-designated. Although the Museum does not intend to spend from the Board-designated funds, amounts from the Board-designated funds could be made available if necessary.

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NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable include operating pledges, pledges receivable for donated use of facilities and other pledges and are as follows at June 30:

	<u>2020</u>	<u>2019</u>
Pledges receivable in less than one year	\$ 627,750	\$ 672,000
Pledges receivable in one to five years	912,500	1,032,500
Pledges receivable in more than five years	<u>180,000</u>	<u>360,000</u>
Total pledges receivable	1,720,250	2,064,500
Less: allowance for uncollectible pledges	(1,105)	(1,105)
Discount to present value ranging from 0.19% to 8.0%	<u>(235,157)</u>	<u>(315,254)</u>
Total pledges receivable, net	<u>\$ 1,483,988</u>	<u>\$ 1,748,141</u>

The Fort Bend Children's Discovery Center – The Fort Bend Children's Discovery Center opened to the public on May 28, 2016 and occupies a 12,000 square-foot first floor space of a restored historical building and houses four exhibits. It gives the Organization the opportunity to enrich the educational lives of Fort Bend's children by expanding cultural and educational family-focused opportunities. Beginning in 2013, the Organization held a capital campaign to fund the new facility, with a goal of raising \$3,650,000. The Organization raised approximately \$4,000,000, of which \$9,895 and \$14,895 is included in net pledges receivable in the consolidated statements of financial position as of June 30, 2020 and 2019, respectively.

During 2017, the Organization received a promise for the use of the Fort Bend Children's Discovery Center's building and land through an operating lease agreement significantly below market value (*see Note 1*). The agreement is for a term of 99 years, which expires on May 20, 2115. The lease is cancelable by either party with a one-year written notice. Management has determined the estimated economic useful life of the assets to be equal to the useful life of the leasehold improvements, which is 10 years. The lease was recognized as a pledge receivable for \$1,800,000, discounted to net present value, and annual rent expense of \$180,000 is recorded over 10 years.

At June 30, 2020 and 2019, the pledge receivable and net assets with donor restrictions related to the donated use of the facilities was \$845,942 and \$953,972, respectively. Additionally, the unamortized discount at June 30, 2020 and 2019 related to this pledge receivable was \$234,558 and \$309,528, respectively. Management performed a risk-based analysis and determined the appropriate discount rate for this pledge was 8%.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,977,070	\$ 2,977,070
Buildings and improvements	18,570,923	18,482,577
Permanent exhibits	11,665,667	11,447,374
Education annex building	2,850,951	2,736,565
Parking garage	2,099,701	2,096,251
Equipment	620,274	495,923
Furniture and fixtures	<u>253,013</u>	<u>232,095</u>
	39,037,599	38,467,855
Less: accumulated depreciation	<u>(23,226,476)</u>	<u>(21,733,082)</u>
Total property and equipment, net	<u>\$ 15,811,123</u>	<u>\$ 16,734,773</u>

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Depreciation expense was \$1,543,076 and \$1,946,291 for the fiscal years ended June 30, 2020 and 2019, respectively.

Approximately \$1,200,000 of the total cost of the parking garage was paid through a federal grant passed through to the Organization from the Greater Southeast Management District (the “District”) and from the Federal Transportation Agency (the “FTA”). Upon completion of the parking garage in December 2007, the Organization entered into a 26½-year lease with the District at a cost of \$1 per year that allows for public parking for individuals not using public transit. Under the terms of the lease agreement and the grant award, the FTA will maintain an 80% ownership interest in the parking garage throughout the term of the lease, at which time all ownership interests transfer to the Organization. The lease may be canceled by the Organization upon return of a pro-rata share of the federal funding amortized over the life of the lease.

NOTE 5 – INVESTMENTS

Investments are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 17,173,549	\$ 16,733,718
Limited partnership	-	144,336
Certificates of deposit	2,748,198	2,719,096
Equity securities	<u>-</u>	<u>366,913</u>
Total investments	<u>\$ 19,921,747</u>	<u>\$ 19,964,063</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

Investment return includes earnings on cash and consists of the following for the fiscal years ended June 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 461,658	\$ 511,006
Net realized and unrealized gain on investments	470,351	673,852
Investment management fees	<u>(37,938)</u>	<u>(58,757)</u>
Investment return, net	<u>\$ 894,071</u>	<u>\$ 1,126,101</u>

NOTE 6 – FAIR VALUE MEASUREMENTS

U.S. GAAP requires that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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The three levels of the fair value hierarchy are as follows:

- **Level 1** – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- **Level 2** – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- **Level 3** – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2020				
Investments:				
Mutual funds:				
Investment grade bonds	\$ 6,856,096	\$ -	\$ -	\$ 6,856,096
International equity	4,131,422	-	-	4,131,422
U.S. small-cap equity	6,186,031	-	-	6,186,031
Certificates of deposit	<u>-</u>	<u>2,748,198</u>	<u>-</u>	<u>2,748,198</u>
Total assets measured at fair value	<u>\$ 17,173,549</u>	<u>\$ 2,748,198</u>	<u>\$ -</u>	<u>\$ 19,921,747</u>
June 30, 2019				
Investments:				
Mutual funds:				
Investment grade bonds	\$ 6,738,129	\$ -	\$ -	\$ 6,738,129
International equity	3,952,993	-	-	3,952,993
U.S. small-cap equity	6,042,596	-	-	6,042,596
Limited partnership:				
Black Stone Minerals, L.P. (a)	144,336	-	-	144,336
Certificates of deposit	-	2,719,096	-	2,719,096
Other securities:				
Large-cap equity (Note 7)	<u>366,913</u>	<u>-</u>	<u>-</u>	<u>366,913</u>
Total assets measured at fair value	<u>\$ 17,244,967</u>	<u>\$ 2,719,096</u>	<u>\$ -</u>	<u>\$ 19,964,063</u>

- (a) Black Stone Minerals, L.P. (BSM or the "Partnership") is a publicly traded Delaware limited partnership that owns oil and natural gas mineral interests, which make up the vast majority of the asset base. The Partnership's assets also include nonparticipating royalty interests and overriding royalty interests. These interests, which are substantially non-cost-bearing, are collectively referred to as "mineral and royalty interests." The Partnership's mineral and royalty interests are located in 41 states in the continental United States, including all of the major onshore producing basins. The Partnership also owns nonoperated working interests in certain oil and natural gas properties. The Partnership's common units trade on the New York Stock Exchange under the symbol "BSM."

The subordination period under BSM's partnership agreement ended on May 24, 2019. Accordingly, the 9,312 subordinated units were converted into 9,312 of common shares.

In October 2019 management sold 9,312 of BSM's common shares at \$13.15 per share for a total sales price of \$122,478.

Valuation methods used for assets measured at fair value are as follows:

- **Mutual Funds** – Mutual funds are valued at the reported net asset value (NAV) of shares held.

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Limited Partnership – The limited partnership is valued by the general partner based on the Organization’s percentage of ownership in the net equity of the partnership. The net is based on valuations provided by a third-party consultant using a weighted average of the NAV method, the guideline company method, the comparable transaction method, the exchange offer, and the dividend discount model. Significant Level 3 assumptions used in the calculation of the limited partnership’s valuation included estimates of future oil and gas prices, production costs, development expenditures, estimated timing of production of proved reserves, appropriate risk-adjusted discount rates, and other relevant data.

- **Certificates of Deposit, U.S. Treasury Securities, Corporate Bonds and Mortgage-Backed Securities** – Certificates of deposit, U.S. Treasury securities, corporate bonds and mortgage-backed securities are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas, which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- **Private Equity Funds** – Investment funds are valued at the NAV per share as determined by the issuer and these values are reported in the audited financial statements as a practical expedient because these investments do not have a readily determinable fair value. The NAV is calculated on the basis of pricing information obtained from various sources, including pricing vendors used by the administrator and custodian, the fund (or its investment manager), one or more broker/dealers as directed by the fund (or its investment manager), and administrators of funds in which the fund may have invested (Pricing Information).
- **Equity Securities** – Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets consists of the following for the fiscal years ended June 30:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ -	\$ 115,015
Net unrealized gain	-	29,321
Transfer out of Level 3	<u>-</u>	<u>(144,336)</u>
Ending balance	<u>\$ -</u>	<u>\$ -</u>

During 2019, the Organization transferred \$144,336 of the limited partnership securities from Level 3 into Level 1 based on the conversion of BSM subordinated shares to common shares. There were no transfers in Level 3 investments during 2020.

NOTE 7 – DEFERRED COMPENSATION

The Organization had a deferred compensation agreement with the Executive Director of the Museum that accrued at \$30,000 per year until attainment of age 65 or termination of employment. The Organization had restricted funds related to this agreement in large-cap equity investments. The deferred compensation liability was adjusted annually for the related investment unrealized gains and losses. The balance at June 30, 2019 was \$366,913. In March 2020, the outstanding liability of \$406,751, after adjustments for the related investment unrealized gains and losses during the year, was paid out to the Executive Director after meeting the age 65 requirement.

NOTE 8 – REFUNDABLE ADVANCE

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act commonly referred to as the CARES Act. One component of the CARES Act was the paycheck protection program (PPP), which provides small businesses and certain tax-exempt organizations with the resources needed to maintain their payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration (SBA) with support from the Department of the Treasury.

The PPP provides funds to pay up to 24 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities. The Organization applied for and was accepted to participate in this program. On April 28, 2020, the Organization received funding of approximately \$1,124,590. The loan is a two-year loan with a maturity date of April 28, 2022. The loan bears an annual interest rate of 1%. The loan shall be payable monthly with the first six monthly payments deferred. It is the Organization’s intent to apply for loan forgiveness under the provisions of Section 1106 of the CARES Act. Loan forgiveness is subject to the sole approval of the SBA.

During the fiscal year ended June 30, 2020, the Organization adopted ASU No. 2018-08 *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting.

In accordance with the ASU, the Organization recorded the PPP loan proceeds as a refundable advance in the consolidated statements of financial position until such time all conditions of the program are substantially met. Once the conditions are substantially met, the refundable advance is derecognized and the related amount is recorded as government grants. For the fiscal year ended June 30, 2020, \$1,005,044 was recognized as government grants in the consolidated statements of activities and changes in net assets as an increase in net assets without donor restrictions. At June 30, 2020, the remaining \$119,546 PPP contribution has not been recognized in the accompanying consolidated statements of activities and changes in net assets, because the conditions on which they depend have not yet been met. As such, \$119,546 is reported as a refundable advance at June 30, 2020 in the consolidated statements of financial position.

NOTE 9 – OPERATING LEASES

The Organization leases storage space and office equipment under noncancelable operating leases with total monthly payments ranging from approximately \$300 to \$5,700. The agreements having an original term of more than one year expire on various dates through November 2024. The Organization records these rent expenses on a straight-line basis over the term of the leases. Rent expense totaled \$118,973 and \$88,314 at June 30, 2020 and 2019, respectively.

Future minimum lease payments for noncancelable operating leases consist of the following:

For the Fiscal Year Ending June 30,	Amount
2021	\$ 120,543
2022	121,439
2023	109,308
2024	62,375
2025	<u>1,473</u>
Total	<u>\$ 415,138</u>

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NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 413,929	\$ 1,078,615
Board-designated:		
Property	14,438,655	15,113,519
Reserve fund	1,656,168	1,445,627
Future exhibit programs	445,793	585,000
Facility replacement	235,923	365,010
Fort Bend Children’s Discovery Center – property	1,372,471	1,619,615
Fort Bend Children’s Discovery Center	<u>1,281,197</u>	<u>1,429,880</u>
Total net assets without donor restrictions	<u>\$ 19,844,136</u>	<u>\$ 21,637,266</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2020</u>	<u>2019</u>
Accumulated endowment earnings for general operations	\$ 5,778,111	\$ 5,492,615
Fort Bend Children’s Discovery Center	21,500	35,580
Fort Bend Children’s Discovery Center donated use of facilities	845,442	950,472
Exhibition, curatorial and program support	1,995,199	1,904,789
Future operations	585,676	224,751
To be held in perpetuity	<u>11,395,438</u>	<u>11,385,438</u>
Net assets with donor restrictions	<u>\$ 20,621,366</u>	<u>\$ 19,993,645</u>

NOTE 12 – ENDOWMENT

The Organization’s endowment consists of two donor-restricted funds. One was established to support general operations and one was established to support the Organization’s Inclusion of Children with Disabilities and Their Families Program. The Board of Directors of the Organization has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) 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 Organization classifies the original value of gifts donated to the permanent endowment as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate the donor-restricted endowment fund:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

From time-to-time, the fair value of assets associated with the endowment fund may fall below the level that the donor or TUPMIFA requires the Organization to retain as a fund of perpetual duration as a result of temporary unfavorable market fluctuations. At June 30, 2020 and 2019, there were no deficiencies of this nature that required to be reported as net assets without donor restrictions.

Investment Policy – The overriding investment objective is to maintain purchasing power. That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the endowment’s investment horizon.

To meet the stated investment objective, the investment strategy shall be to emphasize total return, that is, the aggregate return from capital appreciation and dividend and interest income.

The primary objective of the investment policy is the management of investments in such a manner as to emphasize long-term growth of principal while managing risk. The long-term goal is 4% return, net of investment management fees and expenses plus inflation.

These objectives have been established after a comprehensive review of current and projected financial requirements. The Board of Directors recognizes and acknowledges that some risk must be assumed to achieve the long-term objectives of the investment policy and in establishing risk tolerances for this investment policy, the Organization’s ability to withstand short and intermediate-term variability were considered.

The investment horizon is defined as 10 years. However, due to capital market volatility, the return may vary significantly over shorter periods of time.

Spending Policy – Spending in any fiscal year will be no more than 4% of the endowment’s average portfolio value (calculated on the basis of market values determined quarterly) for the five-year period ending the last day of the immediately preceding fiscal year. Distributions from the endowment will be at the direction of the Board of Directors and budget approval process, to allow flexibility with regard to distributions for endowment growth or preservation in times of great market distress. This discretion does not supersede any restricted gifts that mandate annual support for a particular program or facility.

Changes in net assets of the donor-restricted endowment fund are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ -	\$ 16,268,724	\$ 16,268,724
Contributions	-	10,000	10,000
Investment return, net	-	1,039,329	1,039,329
Appropriations for expenditure	-	(440,000)	(440,000)
Endowment net assets, June 30, 2019	-	16,878,053	16,878,053

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	Without Donor Restriction	With Donor Restriction	Total
Contributions	-	10,000	10,000
Investment return:			
Investment return, net	-	803,496	803,496
Appropriations for expenditure	-	(518,000)	(518,000)
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 17,173,549</u>	<u>\$ 17,173,549</u>

Endowment net assets composition is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds:			
General operations fund	\$ -	\$ 15,878,053	\$ 15,878,053
Inclusion of Children with Disabilities and Their Families fund	-	1,000,000	1,000,000
Endowment net assets, June 30, 2019	<u>\$ -</u>	<u>\$ 16,878,053</u>	<u>\$ 16,878,053</u>
Donor-restricted endowment funds:			
General operations fund	\$ -	\$ 16,173,549	\$ 16,173,549
Inclusion of Children with Disabilities and Their Families fund	-	1,000,000	1,000,000
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 17,173,549</u>	<u>\$ 17,173,549</u>

NOTE 13 – CONCENTRATION OF CREDIT RISK

The Organization maintains cash in financial institution accounts which, at times, exceeds federally insured limits. The Organization has not experienced any losses related to such accounts. Cash is placed with highly-accredited, quality financial institutions and management believes it is not exposed to any significant credit risk.

NOTE 14 – RELATED PARTY TRANSACTIONS

During the fiscal years ended June 30, 2020 and 2019, approximately 27% and 28%, respectively, of the Organization's contribution revenue were from Board members and affiliates. At June 30, 2020 and 2019, the pledges receivable from these Board members and affiliates, approximated 4% and 8%, respectively, of total pledges receivable, net of discount.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 29, 2020, which is the date that the financial statements were available for issuance.

THE CHILDREN'S MUSEUM, INC.
SCHEDULE I – CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

	The Children's Museum, Inc.	Fort Bend Children's Discovery Center	Eliminations	Consolidated Total
ASSETS				
Cash	\$ 3,318,341	\$ 604,795	\$ -	\$ 3,923,136
Inventory	292,130	4,555	-	296,685
Accounts receivable	161,761	4,600	-	166,361
Intercompany receivable	29,637	-	(29,637)	-
Operating pledges receivable, net	628,151	9,895	-	638,046
Pledges receivable for donated use of facilities, net	-	845,942	-	845,942
Property and equipment, net	14,438,652	1,372,471	-	15,811,123
Investments	19,162,541	759,206	-	19,921,747
Prepaid expenses and other assets	36,653	3,743	-	40,396
TOTAL ASSETS	<u>\$ 38,067,866</u>	<u>\$ 3,605,207</u>	<u>\$ (29,637)</u>	<u>\$ 41,643,436</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 264,249	\$ 11,320	\$ -	\$ 275,569
Intercompany payable	-	29,637	(29,637)	-
Deferred revenue	739,179	43,640	-	782,819
Refundable advance	119,546	-	-	119,546
Total liabilities	1,122,974	84,597	(29,637)	1,177,934
Net assets				
Without donor restrictions	17,190,468	2,653,668	-	19,844,136
With donor restrictions	19,754,424	866,942	-	20,621,366
Total net assets	<u>36,944,892</u>	<u>3,520,610</u>	<u>-</u>	<u>40,465,502</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 38,067,866</u>	<u>\$ 3,605,207</u>	<u>\$ (29,637)</u>	<u>\$ 41,643,436</u>

THE CHILDREN'S MUSEUM, INC.
SCHEDULE II – CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	The Children's Museum, Inc.	Fort Bend Children's Discovery Center	Eliminations	Consolidated Total
Revenue				
Contributions	\$ 4,028,049	\$ 217,001	\$ -	\$ 4,245,050
Membership contributions	611,443	123,784	-	735,227
Special events	1,308,365	64,700	-	1,373,065
Direct donor benefit costs of special events	(259,895)	(3,548)	-	(263,443)
Admissions	2,138,622	222,479	-	2,361,101
Program fees	939,828	17,446	-	957,274
Museum gift shop and café sales	1,098,307	559	-	1,098,866
Cost of goods sold	(549,604)	-	-	(549,604)
Government grants	1,038,213	57,456	-	1,095,669
Parking fees	643,891	-	-	643,891
Investment return, net	874,294	19,777	-	894,071
Other revenue	<u>217,843</u>	<u>-</u>	<u>-</u>	<u>217,843</u>
Total revenue	12,089,356	719,654	-	12,809,010
Expenses				
Program services:				
Exhibitions and education	8,594,872	1,011,625	-	9,606,497
Membership and public outreach	926,916	15,021	-	941,937
Gift shop and café	692,911	-	-	692,911
Visitor services	<u>434,729</u>	<u>30,020</u>	<u>-</u>	<u>464,749</u>
Total program services	10,649,428	1,056,666	-	11,706,094
Supporting services:				
Management and general	1,448,821	16,516	-	1,465,337
Fundraising and membership development	<u>641,579</u>	<u>161,409</u>	<u>-</u>	<u>802,988</u>
Total expenses	<u>12,739,828</u>	<u>1,234,591</u>	<u>-</u>	<u>13,974,419</u>
Changes in net assets	(650,472)	(514,937)	-	(1,165,409)
Net assets, beginning of fiscal year	<u>37,595,364</u>	<u>4,035,547</u>	<u>-</u>	<u>41,630,911</u>
NET ASSETS, END OF FISCAL YEAR	<u><u>\$ 36,944,892</u></u>	<u><u>\$ 3,520,610</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 40,465,502</u></u>