

**The Children's Museum, Inc.**  
Consolidated Financial Statements and Supplementary Information  
For the Fiscal Years Ended June 30, 2017 and 2016

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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 nonprofit organization) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, cash flows, and functional expenses 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 (U.S. GAAP); 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.

### **Auditors' 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 Organization'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 Organization'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, 2017 and 2016, and the changes in their net assets and their cash flows for the fiscal years then ended in accordance with U.S. GAAP.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of 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, 2017 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

December 6, 2017

**THE CHILDREN'S MUSEUM, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 2,759,588	\$ 2,298,481
Inventory	224,895	216,785
Accounts receivable	558,074	380,491
Prepaid expenses and other assets	129,732	154,017
Operating pledges receivable, net	1,030,433	741,570
Pledges receivable for Fort Bend Children's Discovery Center donated use of facilities, net	1,137,762	-
Pledges receivable for Fort Bend Children's Discovery Center, net	293,868	493,175
Cash restricted for Fort Bend Children's Discovery Center	280,676	1,263,183
Property and equipment, net	20,505,600	22,223,467
Investments	<u>18,172,356</u>	<u>16,120,818</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 45,092,984</u></b>	<b><u>\$ 43,891,987</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 539,137	\$ 758,584
Deferred revenue	336,888	434,320
Deferred compensation	<u>254,138</u>	<u>221,477</u>
<b>Total liabilities</b>	<b>1,130,163</b>	1,414,381
<b>Net assets</b>		
Unrestricted	25,074,380	25,835,594
Temporarily restricted	7,513,003	5,516,574
Permanently restricted	<u>11,375,438</u>	<u>11,125,438</u>
<b>Total net assets</b>	<b><u>43,962,821</u></b>	<b><u>42,477,606</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 45,092,984</u></b>	<b><u>\$ 43,891,987</u></b>

*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, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Revenue</b>				
Contributions	\$ 2,007,655	\$ 1,494,190	\$ 250,000	\$ 3,751,845
Membership contributions	1,463,182	-	-	1,463,182
Special events	1,297,712	-	-	1,297,712
Direct donor benefit costs of special events	(235,681)	-	-	(235,681)
Admissions	3,608,773	-	-	3,608,773
Program fees	1,357,563	-	-	1,357,563
Museum gift shop and café sales	1,541,630	-	-	1,541,630
Cost of goods sold	(680,380)	-	-	(680,380)
Government grants	139,297	-	-	139,297
Parking fees	751,950	-	-	751,950
Donated use of facilities	-	1,317,762	-	1,317,762
In-kind support	-	20,455	-	20,455
Investment return, net	6,004	1,858,591	-	1,864,595
Other revenue	318,937	-	-	318,937
<b>Total revenue</b>	<b>11,576,642</b>	<b>4,690,998</b>	<b>250,000</b>	<b>16,517,640</b>
<b>Net assets released from restrictions</b>				
Program and capital campaign expenditures	2,144,569	(2,144,569)	-	-
Endowment earnings appropriated for operations	550,000	(550,000)	-	-
<b>Totals</b>	<b>14,271,211</b>	<b>1,996,429</b>	<b>250,000</b>	<b>16,517,640</b>
<b>Expenses</b>				
<b>Program services:</b>				
Exhibitions and education	10,285,335	-	-	10,285,335
Membership and public outreach	1,041,628	-	-	1,041,628
Gift shop and café	785,682	-	-	785,682
Visitor services	544,286	-	-	544,286
<b>Total program services</b>	<b>12,656,931</b>	<b>-</b>	<b>-</b>	<b>12,656,931</b>
Management and general	1,732,044	-	-	1,732,044
Fundraising and membership development	643,450	-	-	643,450
<b>Total expenses</b>	<b>15,032,425</b>	<b>-</b>	<b>-</b>	<b>15,032,425</b>
Changes in net assets	(761,214)	1,996,429	250,000	1,485,215
Net assets, beginning of year	25,835,594	5,516,574	11,125,438	42,477,606
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 25,074,380</b>	<b>\$ 7,513,003</b>	<b>\$ 11,375,438</b>	<b>\$ 43,962,821</b>

*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, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>Revenue</b>				
Contributions	\$ 2,586,818	\$ 578,635	\$ 250,000	\$ 3,415,453
Membership contributions	1,262,281	-	-	1,262,281
Special events	1,290,188	-	-	1,290,188
Direct donor benefit costs of special events	(269,680)	-	-	(269,680)
Admissions	3,256,055	-	-	3,256,055
Program fees	818,891	-	-	818,891
Museum gift shop and café sales	1,705,377	-	-	1,705,377
Cost of goods sold	(704,921)	-	-	(704,921)
Government grants	234,655	-	-	234,655
Parking fees	755,421	-	-	755,421
Investment return (loss), net	13,587	(589,071)	-	(575,484)
Other revenue	383,145	-	-	383,145
Total revenue	<u>11,331,817</u>	<u>(10,436)</u>	<u>250,000</u>	<u>11,571,381</u>
<b>Net assets released from restrictions</b>				
Program and capital campaign expenditures	3,129,902	(3,129,902)	-	-
Endowment earnings appropriated for operations	<u>560,000</u>	<u>(560,000)</u>	<u>-</u>	<u>-</u>
Totals	15,021,719	(3,700,338)	250,000	11,571,381
<b>Expenses</b>				
Program services:				
Exhibitions and education	9,265,284	-	-	9,265,284
Membership and public outreach	997,667	-	-	997,667
Gift shop and café	764,822	-	-	764,822
Visitor services	567,918	-	-	567,918
Total program services	<u>11,595,691</u>	<u>-</u>	<u>-</u>	<u>11,595,691</u>
Management and general	1,564,533	-	-	1,564,533
Fundraising and membership development	678,382	-	-	678,382
Total expenses	<u>13,838,606</u>	<u>-</u>	<u>-</u>	<u>13,838,606</u>
Changes in net assets	1,183,113	(3,700,338)	250,000	(2,267,225)
Net assets, beginning of year	<u>24,652,481</u>	<u>9,216,912</u>	<u>10,875,438</u>	<u>44,744,831</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 25,835,594</u></u>	<u><u>\$ 5,516,574</u></u>	<u><u>\$ 11,125,438</u></u>	<u><u>\$ 42,477,606</u></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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Changes in net assets	\$ 1,485,215	\$ (2,267,225)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Net realized and unrealized (gain) loss on investments	(1,612,185)	787,289
Depreciation	2,139,474	1,825,846
Contributions restricted for endowment	(250,000)	(250,000)
Change in discount on pledges	484,737	4,660
Fort Bend Children's Discovery Center donated use of facilities	(1,620,000)	-
Changes in operating assets and liabilities:		
Inventory	(8,110)	(88,777)
Accounts receivable	(177,583)	(148,282)
Prepaid expenses and other assets	24,285	(42,835)
Operating pledges receivable	(298,975)	32,500
Accounts payable and accrued expenses	(219,447)	196,767
Deferred revenue	(97,432)	(24,598)
Deferred compensation	32,661	19,128
Net cash from operating activities	<u>(117,360)</u>	<u>44,473</u>
Cash flows from investing activities		
Purchase of investments	(1,012,541)	(5,171,537)
Proceeds from sale of investments	816,763	6,377,151
Increase (decrease) in money market mutual funds held as investments	(245,939)	122,815
Decrease in cash restricted for Fort Bend Children's Discovery Center	982,507	81,059
Decrease in certificates of deposit held as investments	2,364	19,372
Purchases of property and equipment	(421,607)	(2,891,183)
Net cash from investing activities	<u>121,547</u>	<u>(1,462,323)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for capital expansion	206,920	359,918
Proceeds from contributions restricted for endowment	250,000	250,000
Net cash from financing activities	<u>456,920</u>	<u>609,918</u>
Net change in cash	461,107	(807,932)
Cash, beginning of year	<u>2,298,481</u>	<u>3,106,413</u>
Cash, end of year	<u>\$ 2,759,588</u>	<u>\$ 2,298,481</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, 2017**

	Exhibitions and Education	Membership and Public Outreach	Gift Shop and Café	Visitor Services	Total Program Services	Management and General	Fundraising and Membership Development	Total Expenses
Salaries and wages	\$ 4,077,436	\$ 433,495	\$ 434,690	\$ 276,680	\$ 5,222,301	\$ 722,104	\$ 379,183	\$ 6,323,588
Fringe benefits	520,194	64,986	29,577	9,726	624,483	106,248	32,869	763,600
Payroll taxes	327,599	33,998	37,048	18,322	416,967	48,901	29,478	495,346
Advertising	-	-	-	-	-	295,425	-	295,425
Depreciation	1,904,626	37,983	79,619	15,488	2,037,716	68,940	32,819	2,139,475
Contract labor	344,545	172,026	9,421	20,944	546,936	177,491	32,592	757,019
Supplies	483,617	120,005	91,777	65,585	760,984	82,938	39,201	883,123
Exhibit maintenance	745,993	-	-	-	745,993	-	-	745,993
Janitorial	360,732	7,442	20,637	2,933	391,744	13,057	6,408	411,209
Electricity	205,045	4,093	8,764	11,633	229,535	7,429	3,537	240,501
Printing	165,771	51,234	1,851	2,030	220,886	3,339	39,778	264,003
Insurance	222,980	4,458	9,965	8,639	246,042	8,093	3,853	257,988
Repair and maintenance	205,812	4,120	9,442	2,358	221,732	7,479	3,561	232,772
Travel	117,059	2,152	1,213	1	120,425	4,480	1,378	126,283
Other occupancy	377,647	7,415	9,709	3,012	397,783	13,458	6,407	417,648
Bank and credit card fees	630	53,000	33,716	105,276	192,622	37,977	14,158	244,757
Dues and subscriptions	18,161	14,590	601	30	33,382	6,873	1,003	41,258
Rent and storage fees	106,698	217	-	-	106,915	7,619	1,953	116,487
Other	11,854	725	3,401	2,049	18,029	41,542	3,700	63,271
Professional fees	6,673	1,650	-	-	8,323	46,420	-	54,743
Postage and delivery	1,190	23,480	-	-	24,670	4,850	8,964	38,484
Other utilities	50,956	1,022	2,413	417	54,808	1,854	883	57,545
Equipment rental	13,642	24	-	(1,575)	12,091	22,010	4	34,105
Telephone	16,475	3,513	1,838	738	22,564	3,517	1,721	27,802
Totals	<u>\$ 10,285,335</u>	<u>\$ 1,041,628</u>	<u>\$ 785,682</u>	<u>\$ 544,286</u>	<u>\$ 12,656,931</u>	<u>\$ 1,732,044</u>	<u>\$ 643,450</u>	<u>\$ 15,032,425</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, 2016**

	Exhibitions and Education	Membership and Public Outreach	Gift Shop and Café	Visitor Services	Total Program Services	Management and General	Fundraising and Membership Development	Total Expenses
Salaries and wages	\$ 3,639,218	\$ 455,144	\$ 423,799	\$ 188,328	\$ 4,706,489	\$ 724,652	\$ 419,923	\$ 5,851,064
Fringe benefits	489,028	64,540	25,853	18,746	598,167	115,419	44,410	757,996
Payroll taxes	290,037	35,477	35,833	15,485	376,832	46,052	32,755	455,639
Advertising	-	-	-	-	-	276,896	-	276,896
Depreciation	1,621,543	31,788	74,828	12,858	1,741,017	57,505	27,324	1,825,846
Contract labor	443,126	121,302	8,606	87,449	660,483	141,618	32,507	834,608
Supplies	451,483	91,552	96,704	113,782	753,521	79,343	30,344	863,208
Exhibit maintenance	761,550	-	-	-	761,550	-	-	761,550
Janitorial	319,400	6,117	14,400	2,474	342,391	11,066	5,258	358,715
Electricity	220,691	4,386	10,323	8,188	243,588	7,933	3,770	255,291
Printing	92,471	69,059	843	3,726	166,099	2,615	30,533	199,247
Insurance	217,605	4,374	10,295	8,356	240,630	7,912	3,759	252,301
Repair and maintenance	207,831	4,105	9,664	6,518	228,118	7,427	3,529	239,074
Travel	113,328	1,013	1,196	190	115,727	3,590	2,167	121,484
Other occupancy	183,884	3,696	8,700	1,496	197,776	6,686	3,177	207,639
Bank and credit card fees	194	47,497	32,942	95,479	176,112	6,911	15,561	198,584
Dues and subscriptions	20,009	16,775	1,238	164	38,186	6,665	1,626	46,477
Rent and storage fees	110,092	-	-	-	110,092	6,758	2,108	118,958
Other	4,172	4,949	6,480	4,020	19,621	-	3,671	23,292
Professional fees	2,026	6,550	-	-	8,576	37,763	325	46,664
Postage and delivery	2,050	26,058	190	-	28,298	3,593	12,547	44,438
Other utilities	43,388	856	2,014	346	46,604	1,548	736	48,888
Equipment rental	13,449	-	-	-	13,449	10,152	1,125	24,726
Telephone	18,709	2,429	914	313	22,365	2,429	1,227	26,021
Totals	<u>\$ 9,265,284</u>	<u>\$ 997,667</u>	<u>\$ 764,822</u>	<u>\$ 567,918</u>	<u>\$ 11,595,691</u>	<u>\$ 1,564,533</u>	<u>\$ 678,382</u>	<u>\$ 13,838,606</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 The Children's Museum of Houston (the "Museum"), a Texas nonprofit corporation, was founded in November 1980 primarily to create a lifelong passion for learning through educational exhibits and programs that provoke curiosity and inspiration. The mission of the Museum is transforming communities through innovative child-centered learning. The Museum encourages hands-on experimentation utilizing all of the senses, including listening, touching, tasting, smelling, and looking, as well as role-playing. The Museum is an education institution where children and families, through multi-lingual and nonverbal information, learn about history and culture, health and human development, science and technology, and the arts, and is a resource center for parents, childcare workers and educators.

Effective 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. Fort Bend Children's Discovery Center opened to the public on May 28, 2016.

**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 Museum and the LLC are 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 Museum and the LLC are tax deductible within the limitations prescribed by the IRC. The Museum and the LLC file 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 or market determined by the specific identification method.

**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. 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 3 to 5 years for furniture, fixtures and equipment.

**THE CHILDREN'S MUSEUM, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016

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**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 unrestricted net assets 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 temporarily restricted net assets 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:

- **Unrestricted Net Assets** – Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulation, even though their use may be limited in other respects, such as by contract or board designation.
- **Temporarily Restricted Net Assets** – Temporarily restricted net assets include contributions and investment return restricted by the donor for specific purposes or time periods and through endowment spending policies. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- **Permanently Restricted Net Assets** – Permanently restricted net assets include contributions that donors have restricted in perpetuity. The earnings may be used to support the operations of the Organization.

**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 unrestricted net assets. 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 unrestricted contributions 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. 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 and as such, a contribution was recognized at fair value. 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 temporarily restricted net assets. Annually, the value of using the space for the period is reported as rent expense in unrestricted net assets along with a reclassification of net assets from temporarily restricted net assets (*see Note 2*).

**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.

**THE CHILDREN'S MUSEUM, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016

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**Advertising Costs** – Advertising costs are expensed as incurred. The total advertising costs charged to expense were \$295,425 and \$276,896 for the fiscal years ended June 30, 2017 and 2016, 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.

**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, certain costs have been allocated among the various programs and supporting services benefited.

**Recent Accounting Pronouncements** – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 a company expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities. The Organization is currently assessing the impact this new accounting standard and its subsequent amendments will have on its financial statements and related disclosures.

In February 25, 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require most leases to be recognized on the consolidated balance sheets 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. The guidance is effective beginning after December 19, 2019, for nonpublic companies. The standard may be early adopted and requires a modified retrospective transition approach to apply. The Organization is evaluating the effect that ASU No. 2016-02 will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes; investment return; expenses; liquidity and availability of resources; and presentation of operating cash flows. Effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments is permitted. The Organization is currently evaluating the effect that the adoption of this standard would have on its financial statements and disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. For nonpublic companies, ASU No. 2016-18 is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption permitted.

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The Organization elected not to early adopt ASU No. 2016-18 including retrospective adoption for all prior periods. The impact of the adoption is the addition of a reconciliation of the total in the consolidated statements of cash flows to the related captions in the consolidated balance sheets and was not material to the results.

**Reclassifications** – Certain reclassifications have been made to the prior year financial statements to conform to the current financial statement presentation. These reclassifications had no effect on net earnings.

**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable are as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Pledges receivable in less than one year	\$ 857,080	\$ 752,000
Pledges receivable in one to five years	1,386,719	526,719
Pledges receivable in more than five years	<u>720,000</u>	<u>-</u>
Total pledges receivable	2,963,799	1,278,719
Allowance for uncollectible pledges	(5,404)	(32,379)
Discount to present value ranging from 0.5% to 8.0%	<u>(496,332)</u>	<u>(11,595)</u>
Total contributions, pledges and other receivables, net of discount	<u>\$ 2,462,063</u>	<u>\$ 1,234,745</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 \$3.65 million. The Organization raised approximately \$4 million, of which \$293,868 and \$493,175 is included in net pledges receivable in the consolidated statements of financial position as of June 30, 2017 and 2016, 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 in 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, 2017, the Organization has recorded \$1,317,762 as temporarily restricted contribution revenue and \$1,137,762 as pledge receivable and temporarily restricted net assets in connected with the donated use of the facilities. Additionally, the unamortized discount at June 30, 2017 was \$482,238. Management performed a risk based analysis and determined the appropriate discount rate for this pledge is 8%.

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**NOTE 3 – PROPERTY AND EQUIPMENT**

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

	<u>2017</u>	<u>2016</u>
Land	\$ 2,977,070	\$ 2,977,070
Buildings and improvements	18,440,908	18,346,639
Permanent exhibits	11,326,578	11,052,301
Education annex building	2,714,143	2,714,143
Parking garage	2,089,701	2,089,701
Equipment	414,188	381,357
Furniture and fixtures	<u>136,323</u>	<u>116,092</u>
	<u>38,098,911</u>	<u>37,677,303</u>
Less: accumulated depreciation	<u>(17,593,311)</u>	<u>(15,453,836)</u>
Total property and equipment, net	<u>\$ 20,505,600</u>	<u>\$ 22,223,467</u>

Depreciation expense was \$2,139,474 and \$1,825,846 for the fiscal years ended June 30, 2017 and 2016, respectively.

Approximately \$1.2 million 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 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 cancelled by the Organization upon return of a pro-rata share of the federal funding amortized over the life of the lease.

During the fiscal year ended June 30, 2016, the Organization completed the construction of the S.E.C.R.E.T. exhibit which was launched November 8, 2015. Depreciation on the exhibit commenced November 2015.

**NOTE 4 – INVESTMENTS**

Investments are comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 13,845,713	\$ 12,389,768
Limited partnerships	205,947	212,583
Certificates of deposit	2,219,277	1,749,452
Private equity funds	1,647,281	1,547,538
Equity securities	<u>254,138</u>	<u>221,477</u>
Total investments	<u>\$ 18,172,356</u>	<u>\$ 16,120,818</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.

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Investment return (loss) includes earnings on cash and consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 346,151	\$ 304,388
Net realized and unrealized gain (loss) on investments	1,612,185	(787,289)
Investment management fees	<u>(93,741)</u>	<u>(92,583)</u>
Investment return (loss), net	<u>\$ 1,864,595</u>	<u>\$ (575,484)</u>

**NOTE 5 – 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. 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 at June 30, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
U.S. large-cap equity	\$ 3,581,982	\$ -	\$ -	\$ 3,581,982
Money market	720,559	-	-	720,559
U.S. taxable fixed income	2,181,713	-	-	2,181,713
Commodities	790,051	-	-	790,051
International equity	6,126,099	-	-	6,126,099
U.S. small-cap equity	237,576	-	-	237,576
Real estate	207,733	-	-	207,733
Limited partnership:				
Black Stone Minerals Company, L.P. (a)	112,022	-	93,925	205,947
Certificates of deposit	-	2,219,277	-	2,219,277
Private Equity	-	-	1,647,281	1,647,281
Other securities:				
Large-cap equity (Note 6)	<u>254,138</u>	<u>-</u>	<u>-</u>	<u>254,138</u>
Total assets measured at fair value	<u>\$ 14,211,873</u>	<u>\$ 2,219,277</u>	<u>\$ 1,741,206</u>	<u>\$ 18,172,356</u>



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Assets measured at fair value at June 30, 2016 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
U.S. large-cap equity	\$ 3,327,410	\$ -	\$ -	\$ 3,327,410
Money market	524,670	-	-	524,670
U.S. taxable fixed income	2,203,559	-	-	2,203,559
Commodities	949,027	-	-	949,027
International equity	4,917,333	-	-	4,917,333
U.S. small-cap equity	198,805	-	-	198,805
Real estate	268,964	-	-	268,964
Limited partnership:				
Black Stone Minerals Company, L.P. (a)	110,885	-	101,699	212,584
Certificates of deposit	-	1,749,451	-	1,749,451
Private Equity	-	-	1,547,538	1,547,538
Other securities:				
Large-cap equity (Note 6)	<u>221,477</u>	<u>-</u>	<u>-</u>	<u>221,477</u>
Total assets measured at fair value	<u>\$ 12,722,130</u>	<u>\$ 1,749,451</u>	<u>\$ 1,649,237</u>	<u>\$ 16,120,818</u>

- (a) Black Stone Minerals, L.P. (BSM or the "Partnership") is a publicly traded Delaware limited partnership formed on September 16, 2014. On May 6, 2015, BSM completed its initial public offering (the "IPO") of 22,500,000 common units representing limited partner interests at a price to the public of \$19.00 per common unit. Black Stone Minerals Company, L.P., a Delaware limited partnership, and its subsidiaries (collectively referred to as BSMC) own oil and natural gas mineral interests in the United States. In connection with the IPO, BSMC was merged into a wholly-owned subsidiary of BSM, with BSMC as the surviving entity. In addition to mineral interest, which makes up the vast majority of the asset base, the Partnership's assets also include nonparticipating and overriding royalty interests. The Partnership also owns nonoperated working interests in certain oil and natural gas properties.

The Partnership is one of the largest owners of oil and natural gas mineral interest in the United States. Their principal business is maximizing the value of their existing portfolio of mineral and royalty assets through active management and expanding their asset base through acquisitions of additional mineral and royalty interest. They maximize value through marketing their mineral assets for lease, creatively structuring terms on those leases to encourage and accelerate drilling activity, and selectively participating alongside their lessees on a working-interest basis in low-risk development-drilling opportunities on their interests. Their primary business objective is to grow their reserves, production, and cash generated from operations over the long term, while paying to the extent practicable, a growing quarterly distribution to their unitholders.

There are no unfunded commitments at June 30, 2017 and 2016 for these investments.

**THE CHILDREN'S MUSEUM, INC.**  
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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.
- **Limited Partnerships** – 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. Ironwood 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. 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 for the fiscal years ended June 30, consists of the following:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 1,649,237	\$ 1,793,294
Purchases	-	-
Redemptions	-	-
Net realized gain	-	(23,665)
Net unrealized loss	<u>91,969</u>	<u>(120,392)</u>
Ending balance	<u>\$ 1,741,206</u>	<u>\$ 1,649,237</u>

**THE CHILDREN'S MUSEUM, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 6 – DEFERRED COMPENSATION**

The Organization has a deferred compensation agreement with the Executive Director of the Museum that accrues at \$30,000 per year until attainment of age 65 or termination of employment. The Organization has restricted funds related to this agreement in large-cap equity investments totaling \$254,138 and \$221,477 at June 30, 2017 and 2016, respectively (*see Note 5*).

**NOTE 7 – OPERATING LEASES**

The Museum leases storage space and office equipment under noncancelable operating leases with total monthly payments ranging from \$730 to \$5,100. The agreements having an original term of more than one year expire on various dates through March 2022.

The Organization records rent expenses on a straight-line basis over the term of the leases. Rent expense totaled \$83,544 and \$84,869 at June 30, 2017 and 2016, respectively.

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

For the Fiscal Year Ending June 30,	Amount
2018	\$ 82,152
2019	18,741
2020	10,250
2021	7,136
2022	<u>5,946</u>
Total	<u>\$ 124,225</u>

**NOTE 8 – CONDITIONAL CONTRIBUTION**

In March 2011, the Organization received a \$321,600 conditional gift to implement long-ranged facility plans and build cash reserves for building system replacement. Under the terms of the grant, the Museum is eligible to receive a \$53,600 matching grant each year for six years. The grant required, among other things, that the Museum make a monthly deposit of \$4,467 into a building reserve account controlled by the grantor. The grantor deposited a matching amount into the account monthly and authorized disbursements from the account for scheduled building replacement costs. On March 17, 2017, the Organization successfully completed its term as a participant in the grant and the grantor released the funds and a total of \$476,000, including the Organization's match, was transferred into the Organization's bank account and a board designated fund. Cash held in the building reserve accounts required by the grantor at June 30, 2016 was \$395,514.

**THE CHILDREN'S MUSEUM, INC.**  
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**NOTE 9 – UNRESTRICTED NET ASSETS**

Unrestricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 906,018	\$ 1,284,125
Board-designated:		
Property	18,435,773	19,918,776
Reserve fund	1,369,647	1,236,436
Future exhibit programs	600,000	600,000
Facility replacement	476,000	203,257
Fort Bend Children's Discovery Center – Property	2,069,826	2,304,690
Fort Bend Children's Discovery Center	<u>1,217,116</u>	<u>288,310</u>
Total unrestricted net assets	<u>\$ 25,074,380</u>	<u>\$ 25,835,594</u>

**NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Accumulated endowment earnings for general operations	\$ 4,325,140	\$ 3,016,506
Fort Bend Children's Discovery Center	322,379	1,269,684
Fort Bend Children's Discovery Center donated use of facilities	1,137,762	-
Exhibition, curatorial and program support	1,532,305	803,127
Future operations	195,417	235,000
Facilities maintenance	<u>-</u>	<u>192,257</u>
Total temporarily restricted net assets	<u>\$ 7,513,003</u>	<u>\$ 5,516,574</u>

**NOTE 11 – ENDOWMENT**

The Museum's endowment consists of two donor-restricted funds. One was established to support general operations and one was established to support the Museum's Inclusion of Children with Disabilities and Their Families Program. The Board of Directors of the Museum 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 Museum classifies the original value of gifts donated to the permanent endowment fund that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by TUPMIFA.

**THE CHILDREN'S MUSEUM, INC.**  
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In accordance with TUPMIFA, the Museum 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 Museum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

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, 2017 and 2016, there were no deficiencies of this nature that required to be reported as unrestricted net assets.

**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 Museum'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 three-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.

**THE CHILDREN'S MUSEUM, INC.**  
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Changes in net assets of the donor-restricted endowment fund are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ -	\$ 4,165,577	\$ 10,875,438	\$ 15,041,015
Contributions	-	-	250,000	250,000
Investment return (loss):				
Interest and dividends	-	289,939	-	289,939
Net realized and unrealized gain	-	(786,427)	-	(786,427)
Investment management fees	-	(92,583)	-	(92,583)
Net investment loss	-	(589,071)	-	(589,071)
Appropriations for expenditure	-	(560,000)	-	(560,000)
Endowment net assets, June 30, 2016	-	3,016,506	11,125,438	14,141,944
Contributions	-	43	250,000	250,043
Investment return:				
Interest and dividends	-	336,021	-	336,021
Net realized and unrealized gain	-	1,616,311	-	1,616,311
Investment management fees	-	(93,741)	-	(93,741)
Net investment return	-	1,858,591	-	1,858,591
Appropriations for expenditure	-	(550,000)	-	(550,000)
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 4,325,140</u>	<u>\$ 11,375,438</u>	<u>\$ 15,700,578</u>

Endowment net assets composition as of June 30, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
General operations fund	\$ -	\$ 3,016,506	\$ 10,375,438	\$ 13,391,944
Inclusion of Children with Disabilites and Their Families fund	-	-	750,000	750,000
Endowment net assets, June 30, 2016	-	3,016,506	11,125,438	14,141,944
Donor-restricted endowment funds:				
General operations fund	-	4,325,140	10,375,438	14,700,578
Inclusion of Children with Disabilites and Their Families fund	-	-	1,000,000	1,000,000
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 4,325,140</u>	<u>\$ 11,375,438</u>	<u>\$ 15,700,578</u>

**NOTE 12 – 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 13 – RELATED PARTY TRANSACTIONS**

During the fiscal years ended June 30, 2017 and 2016, approximately 22% and 29%, respectively, of the Organization's contribution revenue were from Board members and affiliates. At June 30, 2017 and 2016, the pledges receivable from these Board members and affiliates, approximated 10% and 11%, respectively, of total pledges receivable, net of discount.

**NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 6, 2017, the date which the financial statements were available for issuance. No subsequent events occurred which require adjustment of disclosure to the financial statements at June 30, 2017.

**THE CHILDREN'S MUSEUM, INC.**  
**SCHEDULE I – CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2017**

	The Children's Museum, Inc.	Fort Bend Children's Discovery Center	Eliminations	Consolidated Total
<b>ASSETS</b>				
Cash	\$ 1,773,806	\$ 985,782	\$ -	\$ 2,759,588
Inventory	222,611	2,284	-	224,895
Accounts receivable	552,324	5,750	-	558,074
Prepaid expenses and other assets	129,732	-	-	129,732
Intercompany receivable	-	13,234	(13,234)	-
Operating pledges receivable, net	1,030,433	-	-	1,030,433
Pledges receivable for Fort Bend Children's Discovery Center donated use of facilities, net	-	1,137,762	-	1,137,762
Pledges receivable restricted for Fort Bend Children's Discovery Center, net	-	293,868	-	293,868
Cash restricted for Fort Bend Children's Discovery Center	-	280,676	-	280,676
Property and equipment, net	18,435,774	2,069,826	-	20,505,600
Investments	<u>18,172,356</u>	<u>-</u>	<u>-</u>	<u>18,172,356</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 40,317,036</b></u>	<u><b>\$ 4,789,182</b></u>	<u><b>\$ (13,234)</b></u>	<u><b>\$ 45,092,984</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 499,478	\$ 39,659	\$ -	\$ 539,137
Intercompany payable	13,234	-	(13,234)	-
Deferred revenue	334,448	2,440	-	336,888
Deferred compensation	<u>254,138</u>	<u>-</u>	<u>-</u>	<u>254,138</u>
<b>Total liabilities</b>	<b>1,101,298</b>	<b>42,099</b>	<b>(13,234)</b>	<b>1,130,163</b>
<b>Net assets</b>				
Unrestricted	21,787,438	3,286,942	-	25,074,380
Temporarily restricted	6,052,862	1,460,141	-	7,513,003
Permanently restricted	<u>11,375,438</u>	<u>-</u>	<u>-</u>	<u>11,375,438</u>
<b>Total net assets</b>	<u><b>39,215,738</b></u>	<u><b>4,747,083</b></u>	<u><b>-</b></u>	<u><b>43,962,821</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 40,317,036</b></u>	<u><b>\$ 4,789,182</b></u>	<u><b>\$ (13,234)</b></u>	<u><b>\$ 45,092,984</b></u>

*See independent auditors' report.*



**THE CHILDREN'S MUSEUM, INC.**  
**SCHEDULE II – CONSOLIDATING STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	The Children's Museum, Inc.	Fort Bend Children's Discovery Center	Eliminations	Consolidated Total
<b>Revenue</b>				
Contributions	\$ 3,615,519	\$ 136,326	\$ -	\$ 3,751,845
Membership contributions	1,199,673	263,509	-	1,463,182
Special events	1,250,846	46,866	-	1,297,712
Direct donor benefit costs of special events	(232,431)	(3,250)	-	(235,681)
Admissions	3,304,724	304,049	-	3,608,773
Program fees	1,319,194	38,369	-	1,357,563
Museum gift shop and café sales	1,541,630	-	-	1,541,630
Cost of goods sold	(676,265)	(4,115)	-	(680,380)
Government grants	139,297	-	-	139,297
Parking fees	751,950	-	-	751,950
Donated use of facilities	-	1,317,762	-	1,317,762
In-kind support	20,455	-	-	20,455
Investment return, net	1,864,595	-	-	1,864,595
Other revenue	<u>318,937</u>	<u>-</u>	<u>-</u>	<u>318,937</u>
Total revenue	14,418,124	2,099,516	-	16,517,640
<b>Expenses</b>				
Program services:				
Exhibitions and education	9,295,399	989,936	-	10,285,335
Membership and public outreach	967,019	74,609	-	1,041,628
Gift shop and café	785,682	-	-	785,682
Visitor services	<u>484,580</u>	<u>59,706</u>	<u>-</u>	<u>544,286</u>
Total program services	11,532,680	1,124,251	-	12,656,931
Management and general	1,689,195	42,849	-	1,732,044
Fundraising and membership development	<u>612,454</u>	<u>30,996</u>	<u>-</u>	<u>643,450</u>
Total expenses	<u>13,834,329</u>	<u>1,198,096</u>	<u>-</u>	<u>15,032,425</u>
Changes in net assets	583,795	901,420	-	1,485,215
Net assets, beginning of year	<u>38,631,943</u>	<u>3,845,663</u>	<u>-</u>	<u>42,477,606</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 39,215,738</u></u>	<u><u>\$ 4,747,083</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 43,962,821</u></u>

*See independent auditors' report.*