

The Children's Museum, Inc.
Consolidated Financial Statements and Supplementary Information
For the Fiscal Years Ended June 30, 2021 and 2020

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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, 2021 and 2020, 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.

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 auditors consider 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.

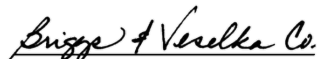
To the Board of Directors of
The Children's Museum, Inc.
Re: Independent Auditors' Report

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, 2021 and 2020, and the changes in their net assets and their 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, 2021 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, 2021

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 6,486,370	\$ 3,923,136
Inventory	258,466	296,685
Accounts receivable	173,712	166,361
Operating pledges receivable, net	443,582	638,046
Pledges receivable for donated use of facilities, net	732,006	845,942
Employee retention credit receivable	741,386	-
Property and equipment, net	14,665,189	15,811,123
Investments	21,369,991	19,921,747
Prepaid expenses and other assets	<u>64,392</u>	<u>40,396</u>
TOTAL ASSETS	<u>\$ 44,935,094</u>	<u>\$ 41,643,436</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 365,071	\$ 275,569
Deferred revenue	488,649	782,819
Refundable advance	<u>-</u>	<u>119,546</u>
Total liabilities	853,720	1,177,934
Net assets		
Without donor restrictions	20,548,086	19,844,136
With donor restrictions	<u>23,533,288</u>	<u>20,621,366</u>
Total net assets	<u>44,081,374</u>	<u>40,465,502</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,935,094</u>	<u>\$ 41,643,436</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue			
Contributions	\$ 1,796,986	\$ 1,571,535	\$ 3,368,521
Membership fees	316,287	-	316,287
Special events	1,211,475	-	1,211,475
Direct donor benefit costs of special events	(109,317)	-	(109,317)
Admissions	383,368	-	383,368
Program fees	602,408	-	602,408
Museum gift shop and café sales	181,185	-	181,185
Cost of goods sold	(97,811)	-	(97,811)
Government grants	2,331,764	-	2,331,764
Parking fees	242,481	-	242,481
Investment return, net	11,729	4,086,703	4,098,432
Other revenue	35,604	-	35,604
Total revenue	6,906,159	5,658,238	12,564,397
Net assets released from restrictions:			
Program and capital campaign expenditures	2,305,816	(2,305,816)	-
Endowment earnings appropriated for operations	440,500	(440,500)	-
Totals	9,652,475	2,911,922	12,564,397
Expenses			
Program services:			
Exhibitions and education	5,918,111	-	5,918,111
Membership and public outreach	581,702	-	581,702
Gift shop and café	262,958	-	262,958
Visitor services	277,858	-	277,858
Total program services	7,040,629	-	7,040,629
Supporting services:			
Management and general	1,006,358	-	1,006,358
Fundraising and membership development	901,538	-	901,538
Total expenses	8,948,525	-	8,948,525
Changes in net assets	703,950	2,911,922	3,615,872
Net assets, beginning of fiscal year	19,844,136	20,621,366	40,465,502
NET ASSETS, END OF FISCAL YEAR	\$ 20,548,086	\$ 23,533,288	\$ 44,081,374

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 fees	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 FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Program Services					Supporting Services		
	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	\$ 2,144,275	\$ 261,980	\$ 112,733	\$ 105,083	\$ 2,624,071	\$ 598,106	\$ 564,177	\$ 3,786,354
Fringe benefits	433,391	65,649	31,706	3,771	534,517	87,924	68,137	690,578
Payroll taxes	183,142	20,052	9,492	2,165	214,851	40,760	43,223	298,834
Advertising	-	-	-	-	-	54,260	-	54,260
Bank and credit card fees	-	7,782	4,138	21,641	33,561	7,942	19,415	60,918
Contract labor	125,503	149,205	5,945	9,795	290,448	52,593	56,422	399,463
Depreciation	1,224,289	20,712	47,744	8,243	1,300,988	36,693	49,235	1,386,916
Dues and subscriptions	9,522	24,580	613	14	34,729	14,805	1,707	51,241
Electricity	138,281	2,651	6,222	1,074	148,228	4,782	3,287	156,297
Equipment rental	19,215	-	-	-	19,215	7,769	-	26,984
Exhibit maintenance	301,574	-	-	-	301,574	-	-	301,574
Insurance	194,899	3,680	8,619	8,208	215,406	6,624	5,046	227,076
Janitorial	128,463	2,284	5,305	916	136,968	4,077	4,356	145,401
Other occupancy	218,274	1,596	2,920	504	223,294	2,244	24,108	249,646
Other utilities	26,606	486	1,133	9,925	38,150	871	808	39,829
Postage and delivery	4,531	244	1,678	-	6,453	-	5,935	12,388
Printing	16,837	4,372	-	-	21,209	2,415	19,575	43,199
Professional fees	678	3,389	-	-	4,067	52,557	4,400	61,024
Rent and storage fees	154,220	-	-	-	154,220	9,995	-	164,215
Repair and maintenance	191,770	3,586	8,389	40,539	244,284	6,448	5,215	255,947
Supplies	366,553	6,244	12,528	65,303	450,628	5,981	20,415	477,024
Telephone	25,740	2,710	3,032	677	32,159	4,264	2,710	39,133
Travel	3,178	-	-	-	3,178	121	494	3,793
Other	7,170	500	761	-	8,431	5,127	2,873	16,431
Totals	<u>\$ 5,918,111</u>	<u>\$ 581,702</u>	<u>\$ 262,958</u>	<u>\$ 277,858</u>	<u>\$ 7,040,629</u>	<u>\$ 1,006,358</u>	<u>\$ 901,538</u>	<u>\$ 8,948,525</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, 2020

	Program Services					Supporting Services		
	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	\$ 4,070,706	\$ 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 STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Changes in net assets	\$ 3,615,872	\$ (1,165,409)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Net realized and unrealized gain on investments	(3,699,768)	(470,351)
Depreciation	1,386,916	1,543,076
Loss on disposal of property and equipment	13,586	10,525
Contributions restricted for endowment	(48,436)	(10,000)
Change in discount on pledges receivable	(66,820)	(80,097)
Donated use of facilities	180,000	180,000
Changes in operating assets and liabilities:		
Inventory	38,219	(75,183)
Accounts receivable	(7,351)	411,153
Operating pledges receivable	185,825	154,355
Employee retention credit receivable	(741,386)	-
Prepaid expenses and other assets	(23,996)	206,288
Accounts payable and accrued expenses	89,502	(273,064)
Deferred revenue	(294,170)	414,883
Deferred compensation	-	(366,913)
Refundable advance	(119,546)	119,546
Net cash from operating activities	<u>508,447</u>	<u>598,809</u>
Cash flows from investing activities		
Purchases of property and equipment	(254,068)	(629,951)
Purchase of investments	(439,186)	(423,033)
Proceeds from sale of investments	482,710	568,787
Redemption of money market mutual funds held as investments	-	366,913
Redemption of certificates of deposit held as investments	2,208,000	-
Net cash from investing activities	<u>1,997,456</u>	<u>(117,284)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for capital expansion	8,895	9,895
Proceeds from contributions restricted for endowment	48,436	10,000
Net cash from financing activities	<u>57,331</u>	<u>19,895</u>
Net change in cash	2,563,234	501,420
Cash, beginning of fiscal year	<u>3,923,136</u>	<u>3,421,716</u>
Cash, end of fiscal year	<u>\$ 6,486,370</u>	<u>\$ 3,923,136</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, the Museum closed both locations to the public at the request of city and county officials in Harris County and Fort Bend County due to COVID-19. Both locations reopened for summer 2020, with new procedures, attendance caps and improvements to ventilation systems made in alignment with Center for Disease Control and Prevention (CDC) recommendations. Attendance during summer 2020 was at 7% of the prior summer's attendance, with surveys indicating that 87% of parents would not return until vaccines had become widely available. Because it was not economically feasible to keep locations staffed, both were closed at the end of summer 2020 and remained so until reopening in June 2021.

Throughout fiscal year 2021, Museum educators continued to create virtual All-Time Access programming, iteratively developing offerings based on user feedback, including data from local school districts about achievement gaps associated with the "lost" school year. Museum educators created and posted new content online daily and distributed corresponding materials, books and activity curricula through food distribution lines and clinics. The 1,800+ videos and live workshops created by Museum educators to serve families during COVID reached 8.4 million viewers, with 35,000 kits of supplies provided for low-income families in conjunction with food distributions and other assistance events. Forbes ranked All-Time Access among the "Top Online Experiences providing a virtual respite from Stay at Home orders in place around the world," noting "the warm personalities of [the Museum's] employees... jump right off the screen and make for engaging and informative experiences."

The closure of the Museum and Discovery Center for nine months of fiscal year 2021 (September 2020 to May 2021) substantially reduced key sources of earned revenue from paid admissions, memberships, rentals, retail sales and parking fees. Previously, 70-75% of the Museum's operating budget (half of which was directed to low-income populations) was provided by earned income. The operating budget was reduced, with \$13.9 million in actual expenses for fiscal year 2020 decreasing to \$6.9 million in expenses for fiscal year 2021. Staffing was reduced from a team of 300 to 51 individuals, with the educators most central to the ongoing creation of educational services in English and Spanish retained. Staffing was increased to 87 members in preparation for the reopening of the Museum and Discovery Center on June 8, 2021, and soon after increased to 103 members following resumption of admissions and other sources of earned income.

In fiscal year 2021, approximately \$3.4 million of the \$12.4 million in actual revenues was contributed income, including \$700,000 in one-time grants for COVID relief, with the remaining \$8.3 million composed of investment gains of approximately \$4.1 million, greatly reduced earned income of \$2.7 million, 2021 Paycheck Protection Program (PPP) Federal Grant of \$1.5 million, and an endowment draw. The Museum and Discovery Center reopened on June 8, 2021 with an outpouring of enthusiasm and encouragement from the public.

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 is 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.

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, 2021 and 2020.

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 three to five years for furniture, fixtures, and equipment.

Impairment Loss of Long-Lived Assets – The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There was no impairment loss recorded during the fiscal years ended June 30, 2021 and 2020.

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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.

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 other occupancy expense in net assets without donor restrictions along with a reclassification of net assets from net assets with donor restrictions (*see Note 3*).

Membership Dues – Membership dues, which are nonrefundable, are comprised of an exchange element based on the value of benefits provided. The Museum generally determines standalone selling prices based on the prices charged to members. The Museum recognizes revenue from membership dues over the membership period, which is generally one year. Dues charged to members are for the general rights of membership which include unlimited access to the museum's exhibits and online interactive activities as well as invitations to members-only parties and events. Membership contracts with customers may include multiple performance obligations.

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

For such arrangements, the Museum allocates revenue to each performance obligation based on its relative standalone selling price. During the 2021 fiscal year, management believes the remaining performance obligations are not material to the financial statements and as such, the amounts are included and recognized as membership dues over the period of the membership. Dues that are related to a subsequent year are deferred and recorded as revenue during the year in which the membership performance obligation is satisfied.

Special Events – The Museum records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

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.

Deferred Revenue – Deferred revenue relates to membership fees and special events where cash has been received, but services have not yet been performed. These revenues are recognized in the period when the services are rendered and performance obligations are met. Deferred revenue was \$488,649 and \$782,819 at June 30, 2021 and 2020, respectively. During fiscal year 2021 and 2020, revenue of \$685,779 and \$287,500, respectively, that was included in deferred revenue at the beginning of the respective fiscal year was recognized.

Advertising Costs – Advertising costs are expensed as incurred. The total advertising costs charged to expense were \$54,260 and \$228,711 for the fiscal years ended June 30, 2021 and 2020, 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 of America, were impacted by the 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.

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The expenses that are allocated include the following:

Expense Type	Allocation Method
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
Depreciation	Square footage
Telephone	Full-time equivalent
Contract labor	Full-time equivalent or time and effort

Recently Adopted 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 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. The guidance was effective for annual reporting periods beginning after December 15, 2019 for nonpublic entities and as such, the Organization adopted the new standard effective June 1, 2020 using the modified retrospective transition method.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognized revenue and, therefore, no changes to the previously issued financial statements were required. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Upcoming Accounting Pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require most leases to be recognized on the consolidated 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. 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 leases rules, private not-for-profit organizations can apply the standard to fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact this standard will have on the financial statements and related disclosures.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the consolidated statements of activities and changes in net assets, apart from contributions of cash or other financial assets.

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It also requires a not-for-profit to disclose contributed nonfinancial assets recognized within the consolidated statements of activities and changes in net assets disaggregated by category that depicts the type of contributed nonfinancial assets and includes additional disclosure requirements for each category of contributed nonfinancial assets recognized.

The ASU is effective for a not-for-profit entity for annual periods beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact these standards will 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>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash	\$ 6,486,370	\$ 3,923,136
Accounts receivable	173,712	166,361
Pledges receivable, net	1,175,588	1,483,988
Investments	<u>21,369,991</u>	<u>19,921,747</u>
Total financial assets	29,205,661	25,495,232
Financial assets not available for general expenditure:		
Less: net assets with donor restrictions	(23,533,288)	(20,621,366)
Less: Board-designations:		
Reserve fund	(1,586,702)	(1,656,168)
Future exhibit programs	(405,793)	(445,793)
Facility replacement	(235,923)	(235,923)
Add: net assets with purpose restrictions to be met in less than one year	2,265,100	3,240,653
Add: endowment appropriation approved for upcoming year	<u>500,000</u>	<u>500,000</u>
Total financial assets available for general expenditure within one year	<u>\$ 6,209,055</u>	<u>\$ 6,276,635</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>2021</u>	<u>2020</u>
Pledges receivable in less than one year	\$ 550,030	\$ 627,750
Pledges receivable in one to five years	795,000	912,500
Pledges receivable in more than five years	<u>-</u>	<u>180,000</u>
Total pledges receivable	1,345,030	1,720,250
Less: allowance for uncollectible pledges	(1,105)	(1,105)
Discount to present value ranging from 0.19% to 8.0%	<u>(168,337)</u>	<u>(235,157)</u>
Total pledges receivable, net	<u>\$ 1,175,588</u>	<u>\$ 1,483,988</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 \$8,895 and \$9,895 is included in net pledges receivable in the consolidated statements of financial position as of June 30, 2021 and 2020, 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 and is included in other occupancy expense.

At June 30, 2021 and 2020, the pledge receivable and net assets with donor restrictions related to the donated use of the facilities was \$732,006 and \$845,942, respectively. Additionally, the unamortized discount at June 30, 2021 and 2020 related to this pledge receivable was \$167,994 and \$234,558, respectively. Management performed a risk-based analysis and determined the appropriate discount rate for this pledge was 8%.

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NOTE 4 – PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land	\$ 2,977,070	\$ 2,977,070
Buildings and improvements	18,646,579	18,570,923
Permanent exhibits	11,741,747	11,665,667
Education annex building	2,850,951	2,850,951
Parking garage	2,105,701	2,099,701
Equipment	512,207	620,274
Furniture and fixtures	241,064	253,013
	<u>39,075,319</u>	<u>39,037,599</u>
Less: accumulated depreciation	<u>(24,410,130)</u>	<u>(23,226,476)</u>
Total property and equipment, net	<u>\$ 14,665,189</u>	<u>\$ 15,811,123</u>

Depreciation expense was \$1,386,916 and \$1,543,076 for the fiscal years ended June 30, 2021 and 2020, 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 (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>2021</u>	<u>2020</u>
Mutual funds	\$ 20,868,188	\$ 17,173,549
Certificates of deposit	<u>501,803</u>	<u>2,748,198</u>
Total investments	<u>\$ 21,369,991</u>	<u>\$ 19,921,747</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 includes earnings on cash and consists of the following for the fiscal years ended June 30:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 440,874	\$ 461,658
Net realized and unrealized gain on investments	3,699,768	470,351
Investment management fees	<u>(42,210)</u>	<u>(37,938)</u>
Investment return, net	<u>\$ 4,098,432</u>	<u>\$ 894,071</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.

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. As of June 30, 2021 and 2020, there are no Level 3 assets or liabilities.

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, 2021				
Investments:				
Mutual funds:				
Investment grade bonds	\$ 8,295,716	\$ -	\$ -	\$ 8,295,716
International equity	6,203,628	-	-	6,203,628
U.S. small-cap equity	6,368,844	-	-	6,368,844
Certificates of deposit	<u>-</u>	<u>501,803</u>	<u>-</u>	<u>501,803</u>
Total assets measured at fair value	<u>\$ 20,868,188</u>	<u>\$ 501,803</u>	<u>\$ -</u>	<u>\$ 21,369,991</u>

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	<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	-	2,748,198	-	2,748,198
Total assets measured at fair value	<u>\$ 17,173,549</u>	<u>\$ 2,748,198</u>	<u>\$ -</u>	<u>\$ 19,921,747</u>

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.
- **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.

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. 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 AND EMPLOYEE RETENTION CREDIT

On March 27, 2020, former President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. One component of the CARES Act was the 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 958)* 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 included 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. As of June 30, 2021, the conditions on which they depend have been met and have been recognized in the accompanying consolidated statements of activities and changes in net assets.

On January 26, 2021, the Organization applied for and was accepted to receive funding for a second PPP loan in the amount of \$1,470,832. The loan is subject to partial or full forgiveness, the terms of which are dictated by the CARES Act. The unforgiven portion of the PPP loan is payable in five years with a maturity date of January 26, 2026. The loan bears an annual interest rate of 1%. In accordance with ASU No. 2018-08, the conditions relating to the second PPP loan are substantially met, and therefore, for fiscal year ended June 30, 2021, \$1,470,832 was included as government grants in the consolidated statements of activities and changes in net assets as an increase in net assets without donor restrictions.

Employee Retention Credit – The CARES Act also provided for an employee retention credit (ERC), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee throughout the year. During the fiscal year ended June 30, 2021, the Organization submitted an application for reimbursement of qualified wages, which had not been reimbursed by the PPP loan, for a total of \$741,386. The Organization has elected to account for the ERC as a conditional grant under Topic 958. Under the guidance, the Organization recognized the credit of \$741,386, which is included as an employee retention credit receivable in the statement of financial position and a corresponding revenue is included within government grants in the statement of activities as of and for the fiscal year ended June 30, 2021.

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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. Agreements having an original term of more than one year expire on various dates through November 2024. The Organization records rent expenses on a straight-line basis over the term of the leases. Rent expense totaled \$121,175 and \$118,973 at June 30, 2021 and 2020, respectively.

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

For the Fiscal Year Ending June 30,	Amount
2022	\$ 123,417
2023	109,325
2024	56,675
2025	<u>1,473</u>
Total	<u>\$ 290,890</u>

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 2,490,218	\$ 413,929
Board-designated:		
Property	13,521,532	14,438,655
Reserve fund	1,586,702	1,656,168
Future exhibit programs	405,793	445,793
Facility replacement	235,923	235,923
Fort Bend Children's Discovery Center – property	1,143,661	1,372,471
Fort Bend Children's Discovery Center	<u>1,164,257</u>	<u>1,281,197</u>
Total net assets without donor restrictions	<u>\$ 20,548,086</u>	<u>\$ 19,844,136</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Accumulated endowment earnings for general operations	\$ 9,424,314	\$ 5,778,111
Fort Bend Children's Discovery Center	10,000	21,500
Fort Bend Children's Discovery Center donated use of facilities	732,006	845,442
Exhibition, curatorial and program support	1,771,094	1,995,199
Future operations	152,000	585,676
To be held in perpetuity	<u>11,443,874</u>	<u>11,395,438</u>
Net assets with donor restrictions	<u>\$ 23,533,288</u>	<u>\$ 20,621,366</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
- 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, 2021 and 2020, 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 CHILDREN'S MUSEUM, INC.
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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:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, June 30, 2019	\$ -	\$ 16,878,053	\$ 16,878,053
Contributions	-	10,000	10,000
Investment return, net	-	803,496	803,496
Appropriations for expenditure	-	(518,000)	(518,000)
Endowment net assets, June 30, 2020	-	17,173,549	17,173,549
Contributions	-	48,436	48,436
Investment return:			
Investment return, net	-	4,086,703	4,086,703
Appropriations for expenditure	-	(440,500)	(440,500)
Endowment net assets, June 30, 2021	<u>\$ -</u>	<u>\$ 20,868,188</u>	<u>\$ 20,868,188</u>

Endowment net assets composition is as follows:

	Without Donor Restriction	With Donor Restriction	Total
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>
Donor-restricted endowment funds:			
General operations fund	\$ -	\$ 19,868,188	\$ 19,868,188
Inclusion of Children with Disabilities and Their Families fund	-	1,000,000	1,000,000
Endowment net assets, June 30, 2021	<u>\$ -</u>	<u>\$ 20,868,188</u>	<u>\$ 20,868,188</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, 2021 and 2020, approximately 36% and 27%, respectively, of the Organization's contribution revenue were from Board members and affiliates. At June 30, 2021 and 2020, the pledges receivable from these Board members and affiliates, approximated 9% and 4%, respectively, of total pledges receivable, net of discount.

NOTE 15 – SUBSEQUENT EVENTS

The Museum was awarded the Shutter Venue Operators Federal Grant of \$2,361,704 in July 2021 and \$1,916,271 in November 2021 and is expected to be expended by January 17, 2023.

Management has evaluated subsequent events through December 6, 2021, 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, 2021

	The Children's Museum, Inc.	Fort Bend Children's Discovery Center	Eliminations	Consolidated Total
ASSETS				
Cash	\$ 5,594,827	\$ 891,543	\$ -	\$ 6,486,370
Inventory	253,513	4,953	-	258,466
Accounts receivable	170,996	2,716	-	173,712
Intercompany receivable	-	46,675	(46,675)	-
Operating pledges receivable, net	434,687	8,895	-	443,582
Pledges receivable for donated use of facilities, net	-	732,006	-	732,006
Employee retention credit receivable	741,386	-	-	741,386
Property and equipment, net	13,521,532	1,143,657	-	14,665,189
Investments	21,118,878	251,113	-	21,369,991
Prepaid expenses and other assets	<u>59,324</u>	<u>5,068</u>	<u>-</u>	<u>64,392</u>
TOTAL ASSETS	<u>\$ 41,895,143</u>	<u>\$ 3,086,626</u>	<u>\$ (46,675)</u>	<u>\$ 44,935,094</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 358,329	\$ 6,742	\$ -	\$ 365,071
Intercompany payable	46,675	-	(46,675)	-
Deferred revenue	<u>458,689</u>	<u>29,960</u>	<u>-</u>	<u>488,649</u>
Total liabilities	863,693	36,702	(46,675)	853,720
Net assets				
Without donor restrictions	18,240,168	2,307,918	-	20,548,086
With donor restrictions	<u>22,791,282</u>	<u>742,006</u>	<u>-</u>	<u>23,533,288</u>
Total net assets	<u>41,031,450</u>	<u>3,049,924</u>	<u>-</u>	<u>44,081,374</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,895,143</u>	<u>\$ 3,086,626</u>	<u>\$ (46,675)</u>	<u>\$ 44,935,094</u>

THE CHILDREN'S MUSEUM, INC.
SCHEDULE II – CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>The Children's Museum, Inc.</u>	<u>Fort Bend Children's Discovery Center</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenue				
Contributions	\$ 3,210,532	\$ 157,989	\$ -	\$ 3,368,521
Membership contributions	270,709	45,578	-	316,287
Special events	1,140,045	71,430	-	1,211,475
Direct donor benefit costs of special events	(103,055)	(6,262)	-	(109,317)
Admissions	349,835	33,533	-	383,368
Program fees	616,692	(14,284)	-	602,408
Museum gift shop and café sales	181,185	-	-	181,185
Cost of goods sold	(97,811)	-	-	(97,811)
Government grants	2,219,026	112,738	-	2,331,764
Parking fees	242,481	-	-	242,481
Investment return, net	4,093,497	4,935	-	4,098,432
Other revenue	35,604	-	-	35,604
Total revenue	<u>12,158,740</u>	<u>405,657</u>	<u>-</u>	<u>12,564,397</u>
Expenses				
Program services:				
Exhibitions and education	5,256,958	661,153	-	5,918,111
Membership and public outreach	531,867	49,835	-	581,702
Gift shop and café	262,958	-	-	262,958
Visitor services	277,288	570	-	277,858
Total program services	<u>6,329,071</u>	<u>711,558</u>	<u>-</u>	<u>7,040,629</u>
Supporting services:				
Management and general	989,619	16,739	-	1,006,358
Fundraising and membership development	753,492	148,046	-	901,538
Total expenses	<u>8,072,182</u>	<u>876,343</u>	<u>-</u>	<u>8,948,525</u>
Changes in net assets	4,086,558	(470,686)	-	3,615,872
Net assets, beginning of fiscal year	<u>36,944,892</u>	<u>3,520,610</u>	<u>-</u>	<u>40,465,502</u>
NET ASSETS, END OF FISCAL YEAR	<u>\$ 41,031,450</u>	<u>\$ 3,049,924</u>	<u>\$ -</u>	<u>\$ 44,081,374</u>