

The Children's Museum, Inc.
Consolidated Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

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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 statement of financial position as of June 30, 2015 and the related consolidated statements of activities, cash flows, and functional expenses for the fiscal year 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 audit 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, 2015, and the changes in their net assets and their cash flows for the fiscal year then ended in accordance with U.S. GAAP.

Prior Period Financial Statements

The consolidated financial statements of The Children's Museum, Inc. as of June 30, 2014, were audited by other auditors whose report dated November 19, 2014 expressed an unmodified opinion on those statements.

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, 2015 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position of the individual entities. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Briggs & Veselka Co.
Houston, Texas

October 21, 2015

THE CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 3,106,413	\$ 3,885,769
Accounts receivable	232,209	384,498
Prepaid expenses and other assets	239,190	290,940
Operating pledges receivable, net	773,968	966,599
Cash restricted for capital expansion	1,344,242	1,978,950
Pledges receivable restricted for capital expansion, net	857,855	1,248,390
Property and equipment, net	21,158,130	21,576,125
Investments	<u>18,255,908</u>	<u>15,895,105</u>
 TOTAL ASSETS	 <u>\$ 45,967,915</u>	 <u>\$ 46,226,376</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 561,817	\$ 510,791
Deferred revenue	458,918	175,278
Deferred compensation	<u>202,349</u>	<u>200,411</u>
Total liabilities	1,223,084	886,480
Net assets		
Unrestricted	24,652,481	24,574,335
Temporarily restricted	9,216,912	10,640,123
Permanently restricted	<u>10,875,438</u>	<u>10,125,438</u>
Total net assets	<u>44,744,831</u>	<u>45,339,896</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 45,967,915</u>	 <u>\$ 46,226,376</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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue				
Contributions	\$ 1,888,206	\$ 2,188,545	\$ 750,000	\$ 4,826,751
Membership contributions	1,128,631	-	-	1,128,631
Special events	1,115,591	-	-	1,115,591
Direct donor benefit costs of special events	(232,602)	-	-	(232,602)
Admissions	2,979,269	-	-	2,979,269
Program fees	657,461	-	-	657,461
Museum gift shop and café sales	1,774,252	-	-	1,774,252
Cost of goods sold	(694,205)	-	-	(694,205)
Government grants	161,309	-	-	161,309
Parking fees	724,013	-	-	724,013
Investment return, net	36,610	(305,835)	-	(269,225)
Other revenue	412,447	-	-	412,447
Total revenue	9,950,982	1,882,710	750,000	12,583,692
Net assets released from restrictions				
Program and capital campaign expenditures	2,790,921	(2,790,921)	-	-
Endowment appropriations for operations	515,000	(515,000)	-	-
Totals	13,256,903	(1,423,211)	750,000	12,583,692
Expenses				
Program services:				
Exhibitions and education	8,758,452	-	-	8,758,452
Membership and public outreach	1,035,883	-	-	1,035,883
Gift shop and café	681,143	-	-	681,143
Visitor services	445,836	-	-	445,836
Total program services	10,921,314	-	-	10,921,314
Advertising	300,840	-	-	300,840
Management and general	1,221,715	-	-	1,221,715
Fundraising and membership development	734,888	-	-	734,888
Total expenses	13,178,757	-	-	13,178,757
Changes in net assets	78,146	(1,423,211)	750,000	(595,065)
Net assets, beginning of year	24,574,335	10,640,123	10,125,438	45,339,896
NET ASSETS, END OF YEAR	<u>\$24,652,481</u>	<u>\$ 9,216,912</u>	<u>\$10,875,438</u>	<u>\$44,744,831</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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue				
Contributions	\$ 991,671	\$ 4,217,937	\$ 750,000	\$ 5,959,608
Membership contributions	1,006,418	-	-	1,006,418
Special events	1,144,510	-	-	1,144,510
Direct donor benefit costs of special events	(213,797)	-	-	(213,797)
Admissions	2,715,538	-	-	2,715,538
Program fees	634,975	-	-	634,975
Museum gift shop and café sales	1,665,295	-	-	1,665,295
Cost of goods sold	(632,142)	-	-	(632,142)
Government grants	206,940	-	-	206,940
Parking fees	698,651	-	-	698,651
Investment return, net	7,179	1,500,503	-	1,507,682
Other revenue	388,136	-	-	388,136
Total revenue	8,613,374	5,718,440	750,000	15,081,814
Net assets released from restrictions				
Program and capital campaign expenditures	2,608,125	(2,608,125)	-	-
Endowment appropriations for operations	450,000	(450,000)	-	-
Totals	11,671,499	2,660,315	750,000	15,081,814
Expenses				
Program services:				
Exhibitions and education	8,531,032	-	-	8,531,032
Membership and public outreach	956,997	-	-	956,997
Gift shop and café	642,204	-	-	642,204
Visitor services	400,755	-	-	400,755
Total program services	10,530,988	-	-	10,530,988
Advertising	310,201	-	-	310,201
Management and general	1,137,816	-	-	1,137,816
Fundraising and membership development	795,305	-	-	795,305
Total expenses	12,774,310	-	-	12,774,310
Changes in net assets	(1,102,811)	2,660,315	750,000	2,307,504
Net assets, beginning of year	25,677,146	7,979,808	9,375,438	43,032,392
NET ASSETS, END OF YEAR	<u>\$24,574,335</u>	<u>\$10,640,123</u>	<u>\$10,125,438</u>	<u>\$45,339,896</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Changes in net assets	\$ (595,065)	\$ 2,307,504
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized gain on investments	456,193	(1,199,183)
Depreciation	1,565,503	1,596,537
Loss on disposal of property and equipment	10,581	-
Contributions restricted for Fort Bend Children's Discovery Center	(112,504)	(1,883,521)
Contributions restricted for endowment	(750,000)	(750,000)
Changes in operating assets and liabilities:		
Accounts receivable	152,289	(32,265)
Prepaid expenses and other assets	51,750	(71,562)
Operating pledges receivable, net	192,631	69,839
Accounts payable and accrued expenses	51,026	(48,739)
Deferred revenue	283,640	18,986
Deferred compensation	1,938	52,936
Net cash from operating activities	<u>1,307,982</u>	<u>60,532</u>
Cash flows from investing activities		
Purchase of investments	(2,755,434)	(22,936,683)
Proceeds from sale of investments	1,421,667	23,557,467
Money market mutual funds held as investments	1,016,771	(1,204,482)
Cash held for capital expansion	634,708	(1,422,509)
Certificates of deposit held as investments	(2,500,000)	1,748,633
Purchases of property and equipment	(1,158,089)	(207,797)
Net cash from investing activities	<u>(3,340,377)</u>	<u>(465,371)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for capital expansion	503,039	960,228
Proceeds from contributions restricted for endowment	750,000	750,000
Net cash from financing activities	<u>1,253,039</u>	<u>1,710,228</u>
Net change in cash and cash equivalents	(779,356)	1,305,389
Cash and cash equivalents, beginning of year	<u>3,885,769</u>	<u>2,580,380</u>
Cash and cash equivalents, end of year	<u>\$ 3,106,413</u>	<u>\$ 3,885,769</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, 2015

	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	\$ 3,249,075	\$ 469,684	\$ 371,509	\$ 172,317	\$ 4,262,585	\$ 744,811	\$ 476,185	\$ 5,483,581
Fringe benefits	410,390	58,266	18,412	17,765	504,833	104,187	39,928	648,948
Payroll taxes	263,624	36,524	33,164	15,181	348,493	49,621	35,181	433,295
Depreciation	1,386,282	27,793	65,637	11,333	1,491,045	50,445	24,013	1,565,503
Contract labor	920,387	133,990	15,400	120,169	1,189,946	72,579	36,979	1,299,504
Supplies	535,589	91,412	83,265	26,722	736,988	49,306	28,621	814,915
Exhibit maintenance	385,684	-	-	-	385,684	-	-	385,684
Janitorial	304,188	5,893	13,918	2,403	326,402	10,696	5,092	342,190
Electricity	200,664	4,023	9,501	1,640	215,828	7,302	3,476	226,606
Printing	106,022	75,232	1,328	289	182,871	2,401	42,201	227,473
Insurance	225,535	4,522	10,679	1,844	242,580	8,207	3,907	254,694
Repair and maintenance	179,172	3,592	8,483	1,465	192,712	6,520	3,104	202,336
Travel	146,381	1,996	1,183	-	149,560	1,145	2,391	153,096
Other occupancy	175,111	5,012	8,291	1,431	189,845	6,372	3,033	199,250
Bank and credit card fees	283	43,599	31,155	70,610	145,647	32,673	12,496	190,816
Dues and subscriptions	11,689	18,835	-	-	30,524	6,908	2,140	39,572
Rent and storage fees	101,467	-	-	-	101,467	6,348	-	107,815
Other	25,449	169	2,955	252	28,825	3,540	674	33,039
Professional fees	11,622	3,500	-	-	15,122	38,839	1,515	55,476
Postage and delivery	4,986	43,115	-	402	48,503	3,779	9,105	61,387
Other utilities	38,765	777	1,835	317	41,694	1,411	672	43,777
Equipment rental	13,998	-	-	-	13,998	6,610	-	20,608
Telephone	62,089	7,949	4,428	1,696	76,162	8,015	4,175	88,352
Totals	<u>\$ 8,758,452</u>	<u>\$ 1,035,883</u>	<u>\$ 681,143</u>	<u>\$ 445,836</u>	<u>\$10,921,314</u>	<u>\$ 1,221,715</u>	<u>\$ 734,888</u>	12,877,917
Advertising								300,840
Cost of goods sold								694,205
Direct donor benefit costs of special events								232,602
Investment management fees								<u>95,178</u>
Total expenses								<u>\$14,200,742</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, 2014

	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	\$ 3,139,670	\$ 440,377	\$ 346,263	\$ 140,442	\$ 4,066,752	\$ 676,543	\$ 507,831	\$ 5,251,126
Fringe benefits	330,845	51,387	15,140	12,773	410,145	89,325	33,613	533,083
Payroll taxes	267,037	33,871	31,374	13,853	346,135	45,490	37,720	429,345
Depreciation	1,413,762	28,344	66,938	11,557	1,520,601	51,445	24,491	1,596,537
Contract labor	537,749	139,597	15,340	111,772	804,458	76,729	37,840	919,027
Supplies	377,805	91,896	77,345	25,631	572,677	42,214	30,319	645,210
Exhibit maintenance	954,815	-	-	-	954,815	-	-	954,815
Janitorial	271,082	5,435	12,835	2,216	291,568	9,864	4,696	306,128
Electricity	220,501	4,421	10,440	9,086	244,448	8,024	3,820	256,292
Printing	113,679	68,523	2,670	-	184,872	4,533	40,491	229,896
Insurance	217,993	4,370	10,321	1,782	234,466	7,932	3,776	246,174
Repair and maintenance	165,388	3,414	7,945	1,453	178,200	6,073	2,930	187,203
Travel	141,397	2,432	843	-	144,672	4,661	4,672	154,005
Other occupancy	167,908	3,366	7,950	1,373	180,597	6,110	2,909	189,616
Bank and credit card fees	-	14,103	28,175	63,992	106,270	37,516	14,634	158,420
Dues and subscriptions	12,822	6,163	636	47	19,668	9,896	1,486	31,050
Rent and storage fees	95,831	-	-	-	95,831	6,052	-	101,883
Other	6,069	84	2,624	-	8,777	3,508	10,360	22,645
Professional fees	15,063	11,340	-	-	26,403	37,932	23,309	87,644
Postage and delivery	2,186	45,473	-	286	47,945	3,693	8,691	60,329
Other utilities	36,115	724	1,710	3,392	41,941	1,314	626	43,881
Equipment rental	11,413	-	-	-	11,413	6,394	-	17,807
Telephone	31,902	1,677	3,655	1,100	38,334	2,568	1,091	41,993
Totals	<u>\$ 8,531,032</u>	<u>\$ 956,997</u>	<u>\$ 642,204</u>	<u>\$ 400,755</u>	<u>\$10,530,988</u>	<u>\$ 1,137,816</u>	<u>\$ 795,305</u>	12,464,109
Advertising								310,201
Cost of goods sold								632,142
Direct donor benefit costs of special events								213,797
Investment management fees								<u>73,612</u>
Total expenses								<u>\$13,693,861</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 future Fort Bend Children's Discovery Center. The Museum is the sole member of the LLC.

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.

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

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.

Investments – Investments are reported at fair value. The Organization's management determines the Organization's valuation policies utilizing information provided by investment advisors and custodians. Investment return is reported in the statement 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.

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 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.

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

Advertising Costs – Advertising costs are expensed as incurred. The total advertising costs charged to expense were \$300,840 and \$310,201 for the fiscal years ended June 30, 2015 and 2014, 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.

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

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows as of June 30:

	<u>2015</u>	<u>2014</u>
Pledge receivables in less than one year	\$ 1,218,887	\$ 1,193,679
Pledge receivables in one to five years	<u>449,750</u>	<u>1,075,333</u>
Total pledges receivables	1,668,637	2,269,012
Allowance for uncollectible pledges	(29,879)	(30,475)
Discount to present value ranging from 0.5% to 5%	<u>(6,935)</u>	<u>(23,548)</u>
 Total contributions, pledges and other receivables, net of discount	 <u>\$ 1,631,823</u>	 <u>\$ 2,214,989</u>

NOTE 3 – PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Land	\$ 2,977,070	\$ 2,977,070
Buildings and improvements	17,677,760	17,691,205
Permanent exhibits	7,806,330	7,806,330
Education annex building	2,714,143	2,726,446
Parking garage	2,076,183	2,076,183
Equipment	322,608	349,969
Furniture and fixtures	116,092	119,494
Construction in progress	<u>1,095,934</u>	<u>-</u>
	34,786,120	33,746,697
Less: accumulated depreciation	<u>(13,627,990)</u>	<u>(12,170,572)</u>
 Total property and equipment, net	 <u>\$ 21,158,130</u>	 <u>\$ 21,576,125</u>

Depreciation expense was \$1,565,503 and \$1,596,537 for the fiscal year ended June 30, 2015 and 2014, respectively.

Approximately \$1.2 million of the total cost of the parking garage was paid through a federal grant passed through to the Museum 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 Museum 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 Museum. The lease may be cancelled by the Museum upon return of a pro-rata share of the federal funding amortized over the life of the lease.

THE CHILDREN'S MUSEUM, INC.
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The Organization is in the process of constructing the S.E.C.R.E.T. exhibit, with a planned launch date of November 5, 2015. The total cost of the exhibit is expected to be approximately \$1.5 million. The Organization solicited contributions to fund a significant portion of the cost of construction of the exhibit. As of June 30, 2015, the total amount raised for the exhibit was \$777,000, of which \$125,000 is recorded in net pledges receivable on the consolidated statements of financial position. As of June 30, 2015, \$1,040,934 is included in construction in progress in property and equipment. Depreciation will commence upon completion of the exhibit.

On January 19, 2015, the Organization entered into a Master Service Agreement (Agreement) with a company to perform and provide services in developing the S.E.C.R.E.T. exhibit. The Organization will submit payment as the company provides the services. In the event that the Organization terminates the agreement, it will be subject to an early termination fee as described in the Agreement.

The Fort Bend Children's Discovery Center is a very special project of The Children's Museum of Houston. The Museum anticipates opening the year-round facility on May 30, 2016. The Discovery Center will occupy a 12,000 square-foot restored building and will house six exhibits. It will also give the Museum 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. As of June 30, 2015, the Organization raised approximately \$4 million, of which \$857,855 is included in net pledges receivable in the consolidated statements of financial position. The Organization continues to fundraise to provide general operations support. As of June 30, 2015, \$55,000 is included in construction in progress in property and equipment.

NOTE 4 – INVESTMENTS

Investments are comprised of the following at June 30:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 13,149,066	\$ 14,371,724
Limited partnerships	303,666	830,626
Certificates of deposit	3,000,314	497,817
Private equity	1,600,513	-
Equity securities	<u>202,349</u>	<u>194,938</u>
Total investments	<u>\$ 18,255,908</u>	<u>\$ 15,895,105</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 statements of financial position and statements of activities.

THE CHILDREN'S MUSEUM, INC.
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Investment return includes earnings on cash and consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 282,146	\$ 382,111
Net realized and unrealized gain (loss) on investments	(456,193)	1,199,183
Investment management fees	<u>(95,178)</u>	<u>(73,612)</u>
Investment return, net	<u>\$ (269,225)</u>	<u>\$ 1,507,682</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, 2015 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	\$ 3,299,947	\$ -	\$ -	\$ 3,299,947
Money market	650,782	-	-	650,782
U.S. taxable fixed income	2,242,120	-	-	2,242,120
Commodities	1,042,948	-	-	1,042,948
International fixed income	5,473,841	-	-	5,473,841
U.S. small-cap equity	213,051	-	-	213,051
Real estate	226,377	-	-	226,377
Limited partnerships:				
Ironwood Institutional Multi-Strategy Fund, LLC (a)	-	-	23,666	23,666
Black Stone Minerals Company, LC (b)	-	-	280,000	280,000
Certificates of deposit	-	3,000,314	-	3,000,314
Private Equity	-	-	1,600,513	1,600,513
Equity securities – large-cap	<u>202,349</u>	<u>-</u>	<u>-</u>	<u>202,349</u>
Total assets measured at fair value	<u>\$ 13,351,415</u>	<u>\$ 3,000,314</u>	<u>\$ 1,904,179</u>	<u>\$ 18,255,908</u>

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Assets measured at fair value at June 30, 2014 are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
International equity	\$ 5,440,644	\$ -	\$ -	\$ 5,440,644
U.S. large-cap equity	3,528,582	-	-	3,528,582
Money market	1,708,507	-	-	1,708,507
U.S. taxable fixed income	1,814,324	-	-	1,814,324
Commodities	854,662	-	-	854,662
International fixed income	561,201	-	-	561,201
U.S. small-cap equity	253,111	-	-	253,111
Real estate	210,693	-	-	210,693
Limited partnerships:				
Ironwood Institutional Multi-Strategy Fund, LLC (a)	-	-	473,297	473,297
Black Stone Minerals Company, LC (b)	-	-	357,329	357,329
Certificates of deposit	-	497,817	-	497,817
Equity securities – large-cap	194,938	-	-	194,938
Total assets measured at fair value	<u>\$ 14,566,662</u>	<u>\$ 497,817</u>	<u>\$ 830,626</u>	<u>\$ 15,895,105</u>

- (a) Ironwood Institutional Multi-Strategy Fund, LLC (Ironwood) is a limited liability company, registered under the Investment Company Act of 1940, as a closed-end, non-diversified, management investment company. Ironwood's investment objective is to achieve capital appreciation with limited variability of returns. The fund attempts to achieve this objective by allocating capital among a number of pooled entities that are organized in non U. S. jurisdictions and classified as corporation for U. S. federal income tax purposes. Each fund is managed by an independent investment adviser pursuant to relative value investment strategies or other techniques, and is subject to various risks. Units are not redeemable. Ironwood expects that it will recommend to the Board that Ironwood make an offer to repurchase units from members as of June 30 and December 31 of each year.
- (b) Black Stone Minerals Company, LC (BSM) is a publically traded Delaware limited partnership. On May 6, 2015, BSM completed its initial public offering 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. (BSMC), a limited partnership, and its subsidiaries own oil and natural gas mineral interests in the United States. In connection with the initial public offering (IPO), BSMC was merged into a wholly-owned subsidiary of BSM, with BSMC as the surviving entity (collectively, the "Company"). In addition to mineral interests, the Company's assets include nonparticipating and overriding royalty interests. The Company also owns non-operated working interests in certain oil and natural gas properties. The Company's principal business is actively managing their existing portfolio of mineral and royalty assets to maximize their value and expanding their asset base through acquisitions of additional mineral and royalty interests. The Company maximizes 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. The Company's 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, 2015 and 2014 for these investments.

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 Company is valued by the general partner based on the Organization's percentage 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 Company'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.
- **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 year ended June 30, consists of the following:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 830,626	\$ 2,105,855
Purchases	1,576,336	60,183
Redemptions	(481,610)	(1,354,811)
Net realized gain	8,313	31,666
Net unrealized loss	<u>(29,486)</u>	<u>(12,267)</u>
Ending balance	<u>\$ 1,904,179</u>	<u>\$ 830,626</u>

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 CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 7 – LEASES

The Museum leases certain storage space and office equipment under noncancelable operating leases. The terms of the off-site storage facility lease includes monthly base rent of approximately \$4,600 to \$5,100 through January 31, 2019.

The Museum also leases certain copier and postage equipment under four noncancelable operating leases with total approximate rent of \$2,000 per month, with lease expirations beginning May 31, 2016 through November 27, 2018.

The Organization records rent expenses on a straight-line basis over the term of the leases. Rent expense totaled \$77,445 and \$73,139 at June 30, 2015 and 2014, respectively.

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

For the Fiscal Year Ending June 30,	Amount
2016	\$ 81,731
2017	80,450
2018	67,071
2019	<u>35,583</u>
Total	<u>\$ 264,835</u>

NOTE 8 – CONDITIONAL CONTRIBUTION

In March 2011, the Museum 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 requires, among other things, that the Museum make a monthly deposit of \$4,467 into a building reserve account controlled by the grantor. The grantor deposits a matching amount into the account monthly and authorizes disbursement from the account for scheduled building replacement costs. Cash held in the reserve account at June 30, 2015 and 2014, was \$288,246 and \$169,851, respectively, which is included in cash in the consolidated statements of financial position.

NOTE 9 – UNRESTRICTED NET ASSETS

Unrestricted net assets consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Property	\$ 21,158,130	\$ 21,576,125
Undesignated	1,634,100	925,611
Board-designated reserve fund	977,380	1,302,748
Board-designated for future exhibit programs	726,850	600,000
Facility replacement	149,623	169,851
Fort Bend Children's Discovery Center	<u>6,398</u>	<u>-</u>
Total unrestricted net assets	<u>\$ 24,652,481</u>	<u>\$ 24,574,335</u>

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Accumulated endowment earnings for general operations	\$ 4,165,577	\$ 4,986,412
Fort Bend Children's Discovery Center	3,737,784	3,693,782
Exhibition, curatorial and program support	1,034,929	1,665,004
Future operations	140,000	210,000
Facilities maintenance	<u>138,622</u>	<u>84,925</u>
Total temporarily restricted net assets	<u>\$ 9,216,912</u>	<u>\$ 10,640,123</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.

In accordance with TUPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate 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, 2015 and 2014, there were no deficiencies of this nature that required to be reported as unrestricted net assets.

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2013	\$ -	\$ 3,935,909	\$ 9,375,438	\$ 13,311,347
Contributions	-	-	750,000	750,000
Investment return:				
Interest and dividends	-	376,439	-	376,439
Net realized and unrealized gain	-	1,197,676	-	1,197,676
Investment management fees	-	(73,612)	-	(73,612)
Net investment return	-	1,500,503	-	1,500,503
Appropriations for expenditure	-	(450,000)	-	(450,000)
Endowment net assets, June 30, 2014	-	4,986,412	10,125,438	15,111,850

THE CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	-	-	750,000	750,000
Investment return:				
Interest and dividends	-	280,090	-	280,090
Net realized and unrealized loss	-	(490,747)	-	(490,747)
Investment management fees	-	(95,178)	-	(95,178)
Net investment return	-	(305,835)	-	(305,835)
Appropriations for expenditure	-	(515,000)	-	(515,000)
Endowment net assets, June 30, 2015	<u>\$ -</u>	<u>\$ 4,165,577</u>	<u>\$ 10,875,438</u>	<u>\$ 15,041,015</u>

Endowment net assets composition as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
General operations fund	\$ -	\$ 4,165,577	\$ 10,375,438	\$ 14,541,015
Inclusion of Children with Disabilites and Their Families fund	-	-	500,000	500,000
Endowment net assets	<u>\$ -</u>	<u>\$ 4,165,577</u>	<u>\$ 10,875,438</u>	<u>\$ 15,041,015</u>

Endowment net assets composition as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
General operations fund	\$ -	\$ 4,986,412	\$ 9,875,438	\$ 14,861,850
Inclusion of Children with Disabilites and Their Families fund	-	-	250,000	250,000
Endowment net assets	<u>\$ -</u>	<u>\$ 4,986,412</u>	<u>\$ 10,125,438</u>	<u>\$ 15,111,850</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, 2015 and 2014, approximately 46% and 49%, respectively, of the Organization's contribution revenue were from Board members and affiliates. At June 30, 2015 and 2014, the pledges receivable from these Board members and affiliates, approximated 9% and 14%, respectively, of total pledges receivable, net of discount.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent to June 30, 2015, there has been significant fluctuations in stock market values that has continued through the date of this report. The Organization believes any decline is temporary and reflective of general market conditions. While it also believes there is not any continuing effect that would permanently impair operations, the full impact of the continued economic uncertainty on future activities cannot be estimated as of the date of this report.

Management has evaluated subsequent events through October 21, 2015, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

THE CHILDREN'S MUSEUM, INC.**SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

JUNE 30, 2015

	The Children's Museum, Inc.	Fort Bend Children's Discovery Center	Eliminations	Consolidated Total
ASSETS				
Cash	\$ 3,106,413	\$ -	\$ -	\$ 3,106,413
Accounts receivable	232,209	-	-	232,209
Prepaid expenses and other assets	239,190	-	-	239,190
Intercompany receivable	12,764	-	(12,764)	-
Operating pledges receivable, net	773,968	-	-	773,968
Cash restricted for capital expansion	-	1,344,242	-	1,344,242
Pledges receivable restricted for capital expansion, net	-	857,855	-	857,855
Property and equipment, net	21,103,130	55,000	-	21,158,130
Investments	<u>16,755,908</u>	<u>1,500,000</u>	<u>-</u>	<u>18,255,908</u>
TOTAL ASSETS	<u>\$ 42,223,582</u>	<u>\$ 3,757,097</u>	<u>\$ (12,764)</u>	<u>\$ 45,967,915</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 561,666	\$ 151	\$ -	\$ 561,817
Intercompany payable	-	12,764	(12,764)	-
Deferred revenue	458,918	-	-	458,918
Deferred compensation	<u>202,349</u>	<u>-</u>	<u>-</u>	<u>202,349</u>
Total liabilities	1,222,933	12,915	(12,764)	1,223,084
Net assets:				
Unrestricted	24,646,083	6,398	-	24,652,481
Temporarily restricted	5,479,128	3,737,784	-	9,216,912
Permanently restricted	<u>10,875,438</u>	<u>-</u>	<u>-</u>	<u>10,875,438</u>
Total net assets	<u>41,000,649</u>	<u>3,744,182</u>	<u>-</u>	<u>44,744,831</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,223,582</u>	<u>\$ 3,757,097</u>	<u>\$ (12,764)</u>	<u>\$ 45,967,915</u>

See accompanying notes to consolidated financial statements.

THE CHILDREN'S MUSEUM, INC.
SCHEDULE II - CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	The Children's Museum, Inc.	Fort Bend Children's Discovery Center	Eliminations	Consolidated Total
Revenue				
Contributions	\$ 4,714,247	\$ 112,504	\$ -	\$ 4,826,751
Membership contributions	1,128,631	-	-	1,128,631
Special events	1,115,591	-	-	1,115,591
Direct donor benefit costs of special events	(232,602)	-	-	(232,602)
Admissions	2,979,269	-	-	2,979,269
Program fees	657,461	-	-	657,461
Museum gift shop and café sales	1,774,252	-	-	1,774,252
Cost of goods sold	(694,205)	-	-	(694,205)
Government grants	161,309	-	-	161,309
Parking fees	724,013	-	-	724,013
Investment return, net	(273,342)	4,117	-	(269,225)
Other revenue	<u>412,447</u>	<u>-</u>	<u>-</u>	<u>412,447</u>
Total revenue	12,467,071	116,621	-	12,583,692
Expenses				
Program services:				
Exhibitions and education	8,758,452	-	-	8,758,452
Membership and public outreach	1,035,883	-	-	1,035,883
Gift shop and café	681,143	-	-	681,143
Visitor services	<u>445,836</u>	<u>-</u>	<u>-</u>	<u>445,836</u>
Total program services	10,921,314	-	-	10,921,314
Advertising	300,840	-	-	300,840
Management and general	1,218,441	3,274	-	1,221,715
Fundraising and membership development	<u>669,660</u>	<u>65,228</u>	<u>-</u>	<u>734,888</u>
Total expenses	<u>13,110,255</u>	<u>68,502</u>	<u>-</u>	<u>13,178,757</u>
Changes in net assets	(643,184)	48,119	-	(595,065)
Net assets, beginning of year	<u>41,643,833</u>	<u>3,696,063</u>	<u>-</u>	<u>45,339,896</u>
NET ASSETS, END OF YEAR	<u>\$ 41,000,649</u>	<u>\$ 3,744,182</u>	<u>\$ -</u>	<u>\$ 44,744,831</u>

See accompanying notes to consolidated financial statements.