

The Children's Museum, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2010 and 2009

Independent Auditors' Report

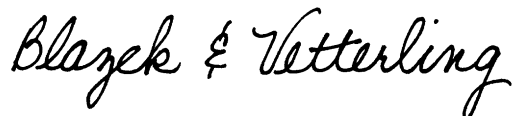
To the Board of Directors of
The Children's Museum, Inc.:

We have audited the accompanying statements of financial position of The Children's Museum, Inc. as of June 30, 2010 and 2009 and the related statements of activities, of cash flows and of functional expenses for the years then ended. These financial statements are the responsibility of the management of The Children's Museum, Inc. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Museum, Inc. as of June 30, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2010, on our consideration of The Children's Museum, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



October 20, 2010

The Children's Museum, Inc.

Statements of Financial Position as of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents (<i>Notes 2 and 6</i>)	\$ 2,560,071	\$ 2,959,114
Government grants and other receivables	456,226	693,312
Prepaid expenses and other assets	150,854	129,794
Pledges receivable, net (<i>Note 3</i>)	3,083,389	4,993,732
Property, net (<i>Note 4</i>)	26,975,958	28,296,211
Investments (<i>Notes 5 and 6</i>)	<u>10,131,450</u>	<u>7,478,654</u>
TOTAL ASSETS	<u>\$43,357,948</u>	<u>\$44,550,817</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 489,056	\$ 302,533
Construction contracts payable		584,387
Refundable advances and deferred revenue	<u>362,495</u>	<u>230,900</u>
Total liabilities	<u>851,551</u>	<u>1,117,820</u>
Net assets:		
Unrestricted	27,916,048	27,052,530
Temporarily restricted (<i>Note 8</i>)	6,214,911	8,005,029
Permanently restricted (<i>Note 9</i>)	<u>8,375,438</u>	<u>8,375,438</u>
Total net assets	<u>42,506,397</u>	<u>43,432,997</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$43,357,948</u>	<u>\$44,550,817</u>

See accompanying notes to financial statements.

The Children's Museum, Inc.

Statement of Activities for the year ended June 30, 2010

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 1,127,431	\$ 606,813		\$ 1,734,244
Membership contributions	812,186			812,186
Special events	858,891			858,891
Donor benefit costs of special events	(193,328)			(193,328)
Admissions and program fees	2,792,787			2,792,787
Museum gift shop and cafe sales	1,483,836			1,483,836
Cost of goods sold	(562,525)			(562,525)
Government grants	704,099			704,099
Parking fees	563,694			563,694
Investment return, net (<i>Note 5</i>)	3,341	846,889		850,230
Other revenue	<u>608,971</u>	<u> </u>		<u>608,971</u>
Total revenue	8,199,383	1,453,702		9,653,085
Net assets released from restrictions:				
Program and capital campaign expenditures	2,843,820	(2,843,820)		
Endowment appropriations for operations	<u>400,000</u>	<u>(400,000)</u>		
Total	<u>11,443,203</u>	<u>(1,790,118)</u>		<u>9,653,085</u>
EXPENSES:				
Program services:				
Exhibitions and education	6,850,774			6,850,774
Membership and public outreach	935,231			935,231
Gift shop and cafe	580,394			580,394
Visitor services	<u>382,784</u>			<u>382,784</u>
Total program services	8,749,183			8,749,183
Management and general	1,066,854			1,066,854
Fundraising and membership development	525,200			525,200
Advertising	<u>238,448</u>			<u>238,448</u>
Total expenses	<u>10,579,685</u>			<u>10,579,685</u>
CHANGES IN NET ASSETS	863,518	(1,790,118)		(926,600)
Net assets, beginning of year	<u>27,052,530</u>	<u>8,005,029</u>	<u>\$ 8,375,438</u>	<u>43,432,997</u>
Net assets, end of year	<u>\$27,916,048</u>	<u>\$ 6,214,911</u>	<u>\$ 8,375,438</u>	<u>\$42,506,397</u>

See accompanying notes to financial statements.

The Children's Museum, Inc.

Statement of Activities for the year ended June 30, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 1,024,731	\$ 2,131,023	\$ 3,000,000	\$ 6,155,754
Membership contributions	630,699			630,699
Special events	986,398			986,398
Donor benefit costs of special events	(219,215)			(219,215)
Admissions and program fees	1,922,718			1,922,718
Museum gift shop and cafe sales	1,133,492			1,133,492
Cost of goods sold	(448,968)			(448,968)
Government grants	1,746,179			1,746,179
Parking fees	462,048			462,048
Investment return, net (<i>Note 5</i>)	43,044	(1,862,438)		(1,819,394)
Other revenue	<u>328,504</u>			<u>328,504</u>
Total revenue	7,609,630	268,585	3,000,000	10,878,215
Net assets released from restrictions:				
Program and capital campaign expenditures	21,520,352	(21,520,352)		
Endowment appropriations for operations	<u>400,000</u>	<u>(400,000)</u>		
Total	<u>29,529,982</u>	<u>(21,651,767)</u>	<u>3,000,000</u>	<u>10,878,215</u>
EXPENSES:				
Program services:				
Exhibitions and education	6,139,614			6,139,614
Membership and public outreach	723,822			723,822
Gift shop and cafe	468,812			468,812
Visitor services	<u>293,823</u>			<u>293,823</u>
Total program services	7,626,071			7,626,071
Management and general	1,002,980			1,002,980
Fundraising and membership development	610,233			610,233
Advertising	<u>211,143</u>			<u>211,143</u>
Total expenses	<u>9,450,427</u>			<u>9,450,427</u>
CHANGES IN NET ASSETS	20,079,555	(21,651,767)	3,000,000	1,427,788
Net assets, beginning of year	<u>6,972,975</u>	<u>29,656,796</u>	<u>5,375,438</u>	<u>42,005,209</u>
Net assets, end of year	<u>\$27,052,530</u>	<u>\$ 8,005,029</u>	<u>\$ 8,375,438</u>	<u>\$43,432,997</u>

See accompanying notes to financial statements.

The Children's Museum, Inc.

Statements of Cash Flows for the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (926,600)	\$ 1,427,788
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for capital expansion and endowment	(108,019)	(4,563,523)
Net realized and unrealized (gain) loss on investments	(699,479)	2,079,842
Loss on disposal of property		75,734
Depreciation	1,686,438	979,984
Changes in operating assets and liabilities:		
Government grants and other receivables	237,086	(226,266)
Prepaid expenses and other assets	(21,060)	32,978
Pledges receivable	(172,902)	
Accounts payable and accrued expenses	186,523	(176,620)
Refundable advances and deferred revenue	<u>131,595</u>	<u>(51,270)</u>
Net cash provided (used) by operating activities	<u>313,582</u>	<u>(421,353)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(10,404,954)	(6,060,261)
Proceeds from sale of investments	8,685,669	5,586,066
Change in money market mutual funds held as investments	(234,032)	124,141
Change in cash and cash equivalents restricted for capital expansion		7,268,220
Purchases of property	<u>(950,572)</u>	<u>(9,720,285)</u>
Net cash used by investing activities	<u>(2,903,889)</u>	<u>(2,802,119)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital expansion and endowment	<u>2,191,264</u>	<u>5,365,867</u>
Net cash provided by financing activities	<u>2,191,264</u>	<u>5,365,867</u>
NET CHANGE IN CASH AND EQUIVALENTS	(399,043)	2,142,395
Cash and cash equivalents, beginning of year	<u>2,959,114</u>	<u>816,719</u>
Cash and cash equivalents, end of year	<u>\$ 2,560,071</u>	<u>\$ 2,959,114</u>

See accompanying notes to financial statements.

The Children's Museum, Inc.

Statement of Functional Expenses for the year ended June 30, 2010

	EXHIBITIONS AND EDUCATION	MEMBERSHIP AND PUBLIC OUTREACH	GIFT SHOP AND CAFE	VISITOR SERVICES	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and wages	\$ 2,442,801	\$ 366,005	\$ 304,132	\$ 163,323	\$ 3,276,261	\$ 621,498	\$ 334,459	\$ 4,232,218
Fringe benefits	244,229	40,512	22,766	13,047	320,554	42,939	29,359	392,852
Payroll taxes	200,796	29,348	26,445	13,925	270,514	39,971	27,201	337,686
Depreciation	1,493,371	29,940	70,707	12,208	1,606,226	54,342	25,870	1,686,438
Contract labor	422,805	91,603	13,383	83,781	611,572	77,059	10,073	698,704
Supplies	327,249	114,022	61,651	15,516	518,438	79,796	17,200	615,434
Janitorial	273,219	5,478	12,936	2,234	293,867	9,942	4,733	308,542
Electricity	243,440	4,881	11,526	10,494	270,341	8,858	4,217	283,416
Printing	105,328	103,771			209,099	7,194	32,377	248,670
Exhibit maintenance	247,208				247,208			247,208
Insurance	168,201	3,372	7,964	1,375	180,912	6,121	2,914	189,947
Repair and maintenance	143,466	2,960	6,814	1,234	154,474	5,374	2,572	162,420
Travel	125,878	1,124	2,207		129,209	3,768	420	133,397
Storage	127,411				127,411	4,773		132,184
Other occupancy	113,793	2,281	5,388	930	122,392	4,141	1,971	128,504
Bank and credit card fees		2,726	24,940	59,524	87,190	15,427	14,074	116,691
Professional fees	8,200	49,516			57,716	38,515	175	96,406
Postage and delivery	4,666	73,208			77,874	4,593	9,373	91,840
Dues and subscriptions	33,822	5,528			39,350	19,977	1,148	60,475
Equipment rental	40,284	1,042	1,791	695	43,812	13,635	1,042	58,489
Telephone	34,389	5,284	2,343	2,343	44,359	6,445	3,515	54,319
Other utilities	34,616	694	1,639	1,288	38,237	1,260	600	40,097
Other	15,602	1,936	3,762	867	22,167	1,226	1,907	25,300
Total	<u>\$ 6,850,774</u>	<u>\$ 935,231</u>	<u>\$ 580,394</u>	<u>\$ 382,784</u>	<u>\$ 8,749,183</u>	<u>\$ 1,066,854</u>	<u>\$ 525,200</u>	10,341,237
Advertising								238,448
Direct donor benefit costs of special events								193,328
Investment management fees								72,540
Total expenses								<u>\$ 10,845,553</u>

See accompanying notes to financial statements.

The Children's Museum, Inc.

Statement of Functional Expenses for the year ended June 30, 2009

	EXHIBITIONS AND EDUCATION	MEMBERSHIP AND PUBLIC OUTREACH	GIFT SHOP AND CAFE	VISITOR SERVICES	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and wages	\$ 2,147,848	\$ 313,956	\$ 251,702	\$ 137,154	\$ 2,850,660	\$ 599,060	\$ 294,706	\$ 3,744,426
Fringe benefits	216,356	23,950	19,700	15,327	275,333	36,118	38,511	349,962
Payroll taxes	157,312	28,715	19,440	8,747	214,214	55,332	19,054	288,600
Depreciation	867,810	17,393	41,089	7,094	933,386	31,570	15,028	979,984
Contract labor	353,475	56,618	13,731	72,443	496,267	67,225	84,731	648,223
Supplies	214,254	67,746	58,414	5,920	346,334	54,930	19,730	420,994
Janitorial	152,892	3,064	7,239	1,250	164,445	5,562	2,648	172,655
Electricity	323,285	6,480	15,307	16,255	361,327	11,761	5,599	378,687
Printing	129,386	87,848			217,234	2,628	43,941	263,803
Exhibit maintenance	821,731	6,980			828,711			828,711
Insurance	170,437	3,416	8,070	1,393	183,316	6,200	2,952	192,468
Repair and maintenance	75,363	1,510	3,568	616	81,057	2,742	1,305	85,104
Travel	117,970	4,424	1,151		123,545	809	3,959	128,313
Storage	73,353	56	133	23	73,565	3,502	49	77,116
Other occupancy	148,158	2,970	7,015	1,211	159,354	5,390	2,566	167,310
Bank and credit card fees		16,625	15,250	22,662	54,537	21,797	7,021	83,355
Professional fees	9,335	10,286			19,621	36,231		55,852
Postage and delivery	13,207	53,939			67,146	3,961	15,268	86,375
Dues and subscriptions	41,087	10,604			51,691	10,892	1,039	63,622
Equipment rental	35,277	784	304	294	36,659	28,101	607	65,367
Telephone	31,608	5,040	1,952	1,886	40,486	7,155	3,902	51,543
Other utilities	27,652	554	1,309	1,260	30,775	1,006	1,126	32,907
Other	11,818	864	3,438	288	16,408	11,008	46,491	73,907
Total	<u>\$ 6,139,614</u>	<u>\$ 723,822</u>	<u>\$ 468,812</u>	<u>\$ 293,823</u>	<u>\$ 7,626,071</u>	<u>\$ 1,002,980</u>	<u>\$ 610,233</u>	9,239,284
Advertising								211,143
Direct donor benefit costs of special events								219,215
Investment management fees								<u>64,252</u>
Total expenses								<u>\$ 9,733,894</u>

See accompanying notes to financial statements.

The Children's Museum, Inc.

Notes to Financial Statements for the years ended June 30, 2010 and 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – 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 Museum encourages hands-on experimentation utilizing all of the senses, including listening, touching, tasting, smelling, and role-playing, as well as looking. 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.

Federal income tax status – The Museum is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi) and §509(a)(1).

Cash equivalents include highly liquid financial instruments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are recorded 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 are 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 the pledges receivable.

Property is recorded at cost if purchased or at fair value at the date of gift if donated. Expenditures under \$1,500 are expensed when incurred. Depreciation is calculated using the straight-line method over estimated useful lives: 10-30 years for parking lot, buildings and improvements, 10 years for permanent exhibits, and 3-5 years for furniture, fixtures and equipment.

Investments are recorded at fair value. 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.

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* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *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* include contributions that donors have restricted in perpetuity. The earnings may be used to support the operations of the Museum.

Contributions are recorded 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 recorded 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 performed 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 generally accepted accounting principles.

Fees for service – Revenue from admissions and program fees, government grants, Museum gift shop and cafe 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 recorded as refundable advances and deferred revenue.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. 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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows:

	<u>2010</u>	<u>2009</u>
Money market mutual funds	\$ 2,319,039	\$ 1,871,962
Bank deposits	<u>241,032</u>	<u>1,087,152</u>
Total	<u>\$ 2,560,071</u>	<u>\$ 2,959,114</u>

At times, bank deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2010</u>	<u>2009</u>
Pledges receivable	\$ 3,206,324	\$ 5,167,186
Allowance for uncollectible pledges	(90,000)	(90,000)
Discount to present value in a range of 3.5% to 5%	<u>(32,935)</u>	<u>(83,454)</u>
Pledges receivable, net	<u>\$ 3,083,389</u>	<u>\$ 4,993,732</u>

Pledges receivable at June 30, 2010 are expected to be collected as follows:

2011	\$ 2,399,757
2012 through 2014	<u>806,567</u>
Total pledges receivable	<u>\$ 3,206,324</u>

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 2,977,070	\$ 2,977,070
Buildings and improvements	17,322,060	17,197,205
Permanent exhibits	7,443,089	7,277,260
Education annex building	2,715,571	2,715,100
Parking lot	1,951,383	1,928,716
Equipment	486,476	594,683
Furniture and fixtures	<u>116,946</u>	<u>234,848</u>
Total property, at cost	33,012,595	32,924,882
Accumulated depreciation	<u>(6,036,637)</u>	<u>(4,628,671)</u>
Property, net	<u>\$ 26,975,958</u>	<u>\$ 28,296,211</u>

In 2009, approximately \$1.2 million of the parking lot costs were paid through federal funding received by the Museum from the Greater Southeast Management District (the District) and passed down from the Federal Transportation Agency (the FTA). Upon completion of the parking lot, the Museum and the District entered into a 26½ year lease beginning December 1, 2007 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% equity interest in the parking lot throughout the term of the lease, at which time all interests transfer to the Museum. The lease may be cancelled by the Museum upon return of a pro-rata share of the federal funding as amortized over the life of the lease.

NOTE 5 – INVESTMENTS

Investments consist of the following:

	<u>2010</u>	<u>2009</u>
Equity securities	\$ 5,437,259	\$ 4,663,397
Corporate bonds	1,125,050	799,252
U. S. Treasury securities	1,107,384	572,046
Money market mutual funds	715,874	481,842
Equity mutual funds	688,108	406,823
Limited partnership funds	448,854	
U.S. government agency securities	429,227	386,775
Mortgage-backed securities	<u>179,694</u>	<u>168,519</u>
Total investments	<u>\$ 10,131,450</u>	<u>\$ 7,478,654</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 such changes could materially affect the amounts reported in the statement of financial position and the statement of activities.

Investment return consists of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 223,291	\$ 324,700
Net realized and unrealized gain (loss) on investments	699,479	(2,079,842)
Investment management fees	<u>(72,540)</u>	<u>(64,252)</u>
Investment return, net	<u>\$ 850,230</u>	<u>\$(1,819,394)</u>

NOTE 6 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require 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, 2010 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities	\$ 5,437,259			\$ 5,437,259
Corporate bonds		\$ 1,125,050		1,125,050
U. S. Treasury securities		1,107,384		1,107,384
Money market mutual funds	715,874			715,874
Equity mutual funds	688,108			688,108
Limited partnership funds (a)			\$ 448,854	448,854
U.S. government agency securities		429,227		429,227
Mortgage-backed securities		<u>179,694</u>		<u>179,694</u>
Total investments	6,841,241	2,841,355	448,854	10,131,450
Cash equivalents:				
Money market mutual funds	<u>2,319,039</u>			<u>2,319,039</u>
Total assets measured at fair value	<u>\$ 9,160,280</u>	<u>\$ 2,841,355</u>	<u>\$ 448,854</u>	<u>\$12,450,489</u>

Assets measured at fair value at June 30, 2009 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities	\$ 4,663,397			\$ 4,663,397
Corporate bonds		\$ 799,252		799,252
U. S. Treasury securities		572,046		572,046
Money market mutual funds	481,842			481,842
Equity mutual funds	406,823			406,823
U.S. government agency securities		386,775		386,775
Mortgage-backed securities	<u> </u>	<u>168,519</u>		<u>168,519</u>
Total investments	5,552,062	1,926,592		7,478,654
Cash equivalents:				
Money market mutual funds	<u>1,871,962</u>	<u> </u>	<u> </u>	<u>1,871,962</u>
Total assets measured at fair value	<u>\$ 7,424,024</u>	<u>\$ 1,926,592</u>	<u>\$ 0</u>	<u>\$ 9,350,616</u>

(a) Redemptions from the Orion Futures Fund LP may be made monthly with a redemption notice of 10 days. Redemptions from the Multi-Adviser Hedge Fund Portfolio LLC are limited to when the fund offers to repurchase shares from the investors, which is generally quarterly, although the fund is not required to do so. Notification of redemption must be provided by the notice date, which is generally the 25th calendar day of the second month prior to the repurchase date.

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

- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Corporate bonds, U. S. Treasury securities, U.S. government agency securities, 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.
- *Mutual funds* are valued at the reported net asset value of shares held.
- *Limited partnership funds* are valued at the net asset value per share as determined by the issuer and the values reported in the audited financial statements as a practical expedient because these investments do not have a readily determinable fair value.

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 Museum 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 year ended June 30, 2010 consist of the following:

Balance at July 1, 2009	\$ 0
Net purchases, issuances and settlements	450,000
Net realized and unrealized loss	<u>(1,146)</u>
Balance at June 30, 2010	<u>\$ 448,854</u>

NOTE 7 – LINE OF CREDIT

The Museum has a \$3,300,000 bank line of credit that expires December 31, 2011. The maximum amount available to borrow declines to \$1,800,000 at July 1, 2010 and \$1,000,000 at July 1, 2011. At June 30, 2010, no amounts are outstanding on this line of credit.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Exhibit maintenance and Institute for Family Learning	\$ 3,454,909	\$ 5,723,560
Accumulated endowment earnings for future operations	2,067,940	1,620,976
Other programs	311,719	110,000
Future operations	207,000	295,000
Exhibitions and curatorial support	<u>173,343</u>	<u>255,493</u>
Total temporarily restricted net assets	<u>\$ 6,214,911</u>	<u>\$ 8,005,029</u>

NOTE 9 – ENDOWMENT

The Museum's endowment consists of a donor-restricted fund established to support general operations. 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 as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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 funds:

- The duration and preservation of the fund
- The purposes of the Museum's 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

Investment Policy

The Museum's investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted endowment funds that the Museum must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the various indexes comparable to the style of investment management of each

individual investment manager while assuming a level of investment risk consistent with the risk associated with a weighted average of 65% of the S&P 500 and 35% of the LB Government/Credit indexes. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 4% annually above the rate of inflation as indicated by the Consumer Price Index. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Museum has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the three prior years through September 30 proceeding the fiscal year in which the distribution is planned, or \$400,000 whichever is greater. In establishing this policy, the Museum considered the long-term expected return on its endowment. This is consistent with the Museum's objective to maintain the purchasing power of the endowment investments held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, July 1, 2008	\$ 0	\$ 3,883,414	\$ 5,375,438	\$ 9,258,852
Investment return:				
Interest and dividends		281,656		281,656
Net realized and unrealized loss		(2,079,842)		(2,079,842)
Investment management fees		<u>(64,252)</u>		<u>(64,252)</u>
Net investment return		<u>(1,862,438)</u>		<u>(1,862,438)</u>
Contributions			3,000,000	3,000,000
Appropriations for expenditure	<u> </u>	<u>(400,000)</u>	<u> </u>	<u>(400,000)</u>
Endowment net assets, June 30, 2009	0	1,620,976	8,375,438	9,996,414
Investment return:				
Interest and dividends		220,025		220,025
Net realized and unrealized gain		699,479		699,479
Investment management fees		<u>(72,540)</u>		<u>(72,540)</u>
Net investment return		<u>846,964</u>		<u>846,964</u>
Contributions				
Appropriations for expenditure	<u> </u>	<u>(400,000)</u>	<u> </u>	<u>(400,000)</u>
Endowment net assets, June 30, 2010	<u>\$ 0</u>	<u>\$ 2,067,940</u>	<u>\$ 8,375,438</u>	<u>\$ 10,443,378</u>

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 20, 2010, 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.
