

MINNESOTA CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

**MINNESOTA CHILDREN'S MUSEUM
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minnesota Children's Museum
St. Paul, Minnesota

We have audited the accompanying statements of financial position of Minnesota Children's Museum (the Museum) as of June 30, 2011 and 2010, and the related statements of activity, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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 Minnesota Children's Museum as of June 30, 2011 and 2010, 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.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
September 13, 2011



**MINNESOTA CHILDREN'S MUSEUM
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,034,862	\$ 1,105,155
Certificates of Deposit	540,618	539,971
Accounts Receivable, Net	221,735	209,295
Pledges and Grants Receivable	1,031,911	1,143,427
Prepaid Expenses	238,423	271,413
Total Current Assets	3,067,549	3,269,261
INVESTMENTS	4,832,461	4,146,547
LAND, BUILDING, EXHIBITS, AND EQUIPMENT, NET	7,062,714	6,869,621
PLEDGES AND GRANTS RECEIVABLE, LONG-TERM	66,875	35,000
Total Assets	\$ 15,029,599	\$ 14,320,429
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Capital Lease Obligations	\$ 8,945	\$ 9,746
Accounts Payable	287,920	171,516
Accrued Compensation	272,825	203,130
Deferred Revenue	797,900	798,577
Total Current Liabilities	1,367,590	1,182,969
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT MATURITIES	45,322	7,339
Total Liabilities	1,412,912	1,190,308
NET ASSETS		
Unrestricted:		
Board Designated - Fixed Asset Replacement	562,500	537,500
Board Designated - Cash Operating Reserve	297,500	297,500
Board Designated - Endowment	-	(15,206)
Undesignated Net Assets	936,400	931,764
Total Unrestricted	1,796,400	1,751,558
Temporarily Restricted:		
Land, Building and Equipment	6,005,960	5,845,145
Endowment	670,708	-
Future Programs	981,866	1,371,665
Total Temporarily Restricted	7,658,534	7,216,810
Permanently Restricted Net Assets	4,161,753	4,161,753
Total Net Assets	13,616,687	13,130,121
Total Liabilities and Net Assets	\$ 15,029,599	\$ 14,320,429

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENT OF ACTIVITY
YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE					
Support:					
Grants and Contributions	\$ 1,036,958	\$ -	\$ 845,400	\$ -	\$ 1,882,358
Governmental Agencies	-	-	32,000	-	32,000
Total Support	<u>1,036,958</u>	<u>-</u>	<u>877,400</u>	<u>-</u>	<u>1,914,358</u>
Revenue:					
Museum Admissions	1,363,033	-	-	-	1,363,033
Memberships	891,587	-	-	-	891,587
Program Income	183,497	-	-	-	183,497
Exhibit Income	626,966	-	-	-	626,966
Investment Income	-	-	42,403	-	42,403
Net Unrealized and Realized					
Gain on Investments	3,382	15,206	863,371	-	881,959
Rental and Parking Income	201,576	-	-	-	201,576
Leased Store Income	26,182	-	-	-	26,182
Special Event (Less Direct Benefits of \$82,771 for 2011)	263,059	-	-	-	263,059
Gain on Sale of Equipment and Exhibits	-	-	-	-	-
Other Income	8,906	-	-	-	8,906
Total Revenue	<u>3,568,188</u>	<u>15,206</u>	<u>905,774</u>	<u>-</u>	<u>4,489,168</u>
Net Assets Released from Restrictions	<u>1,341,450</u>	<u>-</u>	<u>(1,341,450)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	5,946,596	15,206	441,724	-	6,403,526
EXPENSES					
Program	3,931,401	-	-	-	3,931,401
Administrative	1,428,184	-	-	-	1,428,184
Fundraising	557,375	-	-	-	557,375
Total Expenses	<u>5,916,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,916,960</u>
OPERATING CHANGE IN NET ASSETS	29,636	15,206	441,724	-	486,566
NONOPERATING ACTIVITY AND TRANSFERS					
Board Designated Reserves	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	4,636	40,206	441,724	-	486,566
Net Assets - Beginning of Year	<u>931,764</u>	<u>819,794</u>	<u>7,216,810</u>	<u>4,161,753</u>	<u>13,130,121</u>
NET ASSETS - END OF YEAR	<u>\$ 936,400</u>	<u>\$ 860,000</u>	<u>\$ 7,658,534</u>	<u>\$ 4,161,753</u>	<u>\$ 13,616,687</u>

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENT OF ACTIVITY
YEAR ENDED JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE					
Support:					
Grants and Contributions	\$ 1,103,696	\$ -	\$ 624,725	\$ -	\$ 1,728,421
Governmental Agencies	-	-	1,202,581	-	1,202,581
Total Support	<u>1,103,696</u>	<u>-</u>	<u>1,827,306</u>	<u>-</u>	<u>2,931,002</u>
Revenue:					
Museum Admissions	1,286,884	-	-	-	1,286,884
Memberships	786,657	-	-	-	786,657
Program Income	174,968	-	-	-	174,968
Exhibit Income	745,699	-	-	-	745,699
Investment Income	2,348	43,317	-	-	45,665
Net Unrealized and Realized					
Loss on Investments	(689)	354,114	-	-	353,425
Rental and Parking Income	168,344	-	-	-	168,344
Leased Store Income	23,080	-	-	-	23,080
Special Event (Less Direct Benefits of \$35,438 for 2010)	172,794	-	-	-	172,794
Other Income	10,226	-	-	-	10,226
Total Revenue	<u>3,370,311</u>	<u>397,431</u>	<u>-</u>	<u>-</u>	<u>3,767,742</u>
Net Assets Released from Restrictions	<u>1,085,585</u>	<u>-</u>	<u>(1,085,585)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	5,559,592	397,431	741,721	-	6,698,744
EXPENSES					
Program	3,798,396	-	-	-	3,798,396
Administrative	1,276,622	-	-	-	1,276,622
Fundraising	479,589	-	-	-	479,589
Total Expenses	<u>5,554,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,554,607</u>
OPERATING CHANGE IN NET ASSETS	4,985	397,431	741,721	-	1,144,137
NONOPERATING ACTIVITY AND TRANSFERS					
Board Designated to Reserves	(124,000)	124,000	-	-	-
TOTAL CHANGE IN NET ASSETS	(119,015)	521,431	741,721	-	1,144,137
Net Assets - Beginning of Year	<u>1,050,779</u>	<u>298,363</u>	<u>6,475,089</u>	<u>4,161,753</u>	<u>11,985,984</u>
NET ASSETS - END OF YEAR	<u>\$ 931,764</u>	<u>\$ 819,794</u>	<u>\$ 7,216,810</u>	<u>\$ 4,161,753</u>	<u>\$ 13,130,121</u>

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 486,566	\$ 1,144,137
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	583,412	816,691
Unrealized and Realized Gain on Investments	(881,568)	(353,425)
Loss on Sale of Equipment and Exhibits	-	-
In-Kind Contribution of Property and Equipment	-	(27,659)
Changes in Current Assets and Liabilities:		
Accounts Receivable	(12,440)	(115,640)
Pledges and Grants Receivable	79,641	(907,656)
Prepaid Expenses	32,990	53,920
Accounts Payable and Accrued Expenses	186,099	(40,532)
Deferred Revenue	(677)	(68,228)
Net Cash Provided by Operating Activities	474,023	501,608
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	235,066	-
Proceeds from Sale of Equipment and Exhibits	7,353	-
Purchase of Investments	(40,059)	(583,977)
Purchase of Building, Exhibits and Equipment	(736,927)	(263,151)
Net Cash Used by Investing Activities	(534,567)	(847,128)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease	(9,749)	(8,414)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,293)	(353,934)
Cash and Cash Equivalents - Beginning of Year	1,105,155	1,459,089
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,034,862	\$ 1,105,155
NONCASH DISCLOSURE		
Equipment Purchased with Capital Lease	\$ 46,931	\$ -

See accompanying Notes to Financial Statements.

MINNESOTA CHILDREN'S MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

	Support Services				Total Support Services	2011 Total	2010 Total
	Total Programs	Management and General	Marketing and Promotion	Fundraising			
Salaries	\$ 1,775,347	\$ 464,134	\$ 192,379	\$ 324,177	\$ 980,690	\$ 2,756,037	\$ 2,493,274
Payroll Taxes	153,745	45,948	16,656	28,065	90,669	244,414	226,369
Employee Benefits	174,861	52,258	18,944	31,919	103,121	277,982	265,769
Total Personnel Expense	2,103,953	562,340	227,979	384,161	1,174,480	3,278,433	2,985,412
Professional Fees	25,375	70,993	-	18,216	89,209	114,584	146,717
Supplies	232,055	6,763	1,491	1,729	9,983	242,038	167,548
Telephone	8,552	3,068	636	846	4,550	13,102	11,734
Postage and Shipping	58,233	4,011	1,347	10,700	16,058	74,291	74,640
Rent	50,825	2,887	139	208	3,234	54,059	44,991
Utilities	158,981	12,932	1,012	1,513	15,457	174,438	167,063
Information Technology	66,072	13,204	2,090	8,135	23,429	89,501	69,191
Repairs and Maintenance	187,398	13,090	1,054	1,569	15,713	203,111	176,415
Furniture and Equipment	38,208	1,421	564	6,491	8,476	46,684	39,676
Printing, Photography and Graphics	60,696	1,704	27,442	22,363	51,509	112,205	105,211
Travel	24,412	10,530	343	7,650	18,523	42,935	22,763
Meetings and Receptions	17,937	14,059	1,239	29,792	45,090	63,027	91,551
Interest Expense	1,809	293	130	171	594	2,403	3,279
Depreciation	531,716	43,251	3,385	5,060	51,696	583,412	816,691
Contracted Services	57,979	24,334	85,605	3,664	113,603	171,582	99,446
Promotion and Advertising	11,251	1,165	226,941	25,097	253,203	264,454	250,556
Insurance	23,230	6,942	2,517	4,240	13,699	36,929	39,997
Staff Training	16,781	8,276	5,370	4,688	18,334	35,115	23,450
Bank and Merchant Fees	54,287	-	-	-	-	54,287	45,947
Permits, Licenses and Fees	25,291	2,579	62	243	2,884	28,175	29,967
Exhibit Rental Fees	140,866	-	-	-	-	140,866	114,955
Grants and Scholarships	7,617	-	-	-	-	7,617	4,440
Other Expenses	27,877	34,996	-	20,839	55,835	83,712	22,967
Total Expense	\$ 3,931,401	\$ 838,838	\$ 589,346	\$ 557,375	\$ 1,985,559	\$ 5,916,960	\$ 5,554,607

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010**

	Total Programs	Support Services			Total Support Services	2010 Total
		Management and General	Marketing and Promotion	Fundraising		
Salaries	\$ 1,658,892	\$ 428,019	\$ 168,125	\$ 238,238	\$ 834,382	\$ 2,493,274
Payroll Taxes	147,098	43,244	14,906	21,121	79,271	226,369
Employee Benefits	172,701	50,771	17,500	24,797	93,068	265,769
Total Personnel Expense	1,978,691	522,034	200,531	284,156	1,006,721	2,985,412
Professional Fees	29,051	86,840	-	30,826	117,666	146,717
Supplies	161,039	3,092	2,397	1,020	6,509	167,548
Telephone	8,659	1,705	591	779	3,075	11,734
Postage and Shipping	44,112	3,633	2,175	24,720	30,528	74,640
Rent	41,949	2,695	139	208	3,042	44,991
Utilities	152,260	12,385	969	1,449	14,803	167,063
Information Technology	56,048	7,357	1,427	4,359	13,143	69,191
Repairs and Maintenance	161,761	12,199	987	1,468	14,654	176,415
Furniture and Equipment	37,211	1,534	400	531	2,465	39,676
Printing, Photography and Graphics	57,043	3,103	30,101	14,964	48,168	105,211
Travel	17,217	2,301	448	2,797	5,546	22,763
Meetings and Receptions	31,245	11,705	1,088	47,513	60,306	91,551
Interest Expense	2,422	455	173	229	857	3,279
Depreciation	744,326	60,544	4,738	7,083	72,365	816,691
Contracted Services	18,857	12,339	57,476	10,774	80,589	99,446
Promotion and Advertising	8,046	25	205,532	36,953	242,510	250,556
Insurance	25,990	7,641	2,634	3,732	14,007	39,997
Staff Training	15,042	4,080	3,102	1,226	8,408	23,450
Bank and Merchant Fees	45,947	-	-	-	-	45,947
Permits, Licenses and Fees	26,020	3,798	60	89	3,947	29,967
Exhibit Rental Fees	114,955	-	-	-	-	114,955
Grants and Scholarships	4,440	-	-	-	-	4,440
Other Expenses	16,065	2,044	145	4,713	6,902	22,967
Total Expense	\$ 3,798,396	\$ 761,509	\$ 515,113	\$ 479,589	\$ 1,756,211	\$ 5,554,607

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

Minnesota Children's Museum's mission is: "Sparking children's learning through play."

Minnesota Children's Museum is a unique educational and cultural resource that represents the community's interest and investment in our children and their childhoods. Minnesota Children's Museum provides playful learning experiences and environments where children, families and school and community groups discover and explore their world through participatory, interdisciplinary exhibits and programs in the arts, sciences, and humanities. The Museum fosters connections among children and families of all nations and cultures.

The Museum's programs are as follows:

Educational Services – Develops and implements all museum program activity, from performances and holiday events to daily interpretive activity in the museum galleries to activities and programs for school and community groups. Also implements grant-funded projects, often in conjunction with schools and other organizations.

Exhibit Production – Designs, builds and maintains exhibits in museum galleries, incorporating educational content. Also implements grant-funded projects that include traveling exhibits and off-site installations.

Visitor Services and Volunteers – Manages admissions and group reservation functions, monitors safety, operations and overall quality of customer and interpretive services. Screens, trains, supervises and recognizes volunteers and interns in various museum departments.

Member Services – Maintains museum's family membership program, including ongoing member benefits and programs such as special events.

Other Programs – Rentals of museum space by other organizations and individuals, birthday parties for museum members and other children; overnight events for groups of children from the community.

Financial Statement Presentation

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Museum or passage of time.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Permanently Restricted – Those resources subject to donor imposed restriction that they be maintained permanently by the Museum. The donors of these resources permit the Museum to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Non-operating activities include transfers between funds.

Cash and Cash Equivalents

The Museum considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Certificates of Deposit

Certificates of deposit are recorded at cost which approximates fair market value. As of the year ended June 30, 2011, the Museum had certificates of deposit with interest rates ranging from 0.40% to 0.90%.

Receivables

Receivables are stated at net realizable value. Receivables become due upon certain triggering events. The Museum has established an allowance account for accounts receivable when a significant pattern of uncollectibility has occurred. At June 30, 2011 and 2010, the allowance for doubtful receivables was \$15,856 and \$15,875, respectively.

Grants and Pledges Receivable

Grants and pledges that are expected to be collected within one year are recorded at their net realizable value. Grants and pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until such time as the conditions are substantially met.

Investments

The Museum carries its investments at market value and realized and unrealized gains and losses are reflected in the statement of activities. Investments include partnership interests and certificates of deposit. Donated investments are reflected as contributions at their market value at date of receipt. Market values are determined by the fair market value assigned to holdings by investment fund managers.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The Museum holds investments in a variety of investments through partnership interests in endowment funds managed by the Minneapolis and St. Paul Foundations. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Land, Building and Equipment

The Museum capitalizes land, buildings and equipment when the cost per item is in excess of \$1,000. Donated fixed assets are capitalized at their fair market value or appraised value. Costs of current repairs and minor replacements are charged to expense as incurred. The Museum provides for depreciation of building, furniture and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

Land Lease	40 Years
Building	40 Years
Furniture and Equipment	3 - 5 Years
Exhibits	3 - 5 Years

Memberships

Membership dues collected are recognized as revenue ratably over the period to which the dues relate. Dues collected in advance are recorded as deferred memberships until they are earned.

Exhibit Rental Revenue

The Museum rents out exhibits to other institutions. Rental revenue is recognized evenly over the period of the rental agreement. Deferred revenue results from prepayments received for exhibits.

Contributions

Contributions, unconditional promises to give (pledges receivable), and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When these restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

It is the Museum's policy to imply a time restriction on gifts of long-lived assets (or gifts of cash or other assets restricted for acquisition of long-lived assets) such that the gifts are reported as restricted support, with the related restrictions expiring over the useful lives of the donated assets.

Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Functional Allocation of Expenses

The costs of providing various programs and services have been summarized on a functional basis. Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related costs, which are not directly identifiable by program or support service, are allocated using the best estimates of management.

Advertising Costs

Advertising costs are expensed as incurred.

Fair Value Measurements

The Museum measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Museum may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds and real estate.

Tax Exempt Status

The Museum is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute. The Museum has been classified as an organization that is not a private foundation under the Internal Revenue Code. Therefore, contributions to the Museum qualify as a charitable tax deduction by the contributor.

The Museum has adopted the provisions of Accounting for Uncertainty in Income Taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this standard had no impact on the Museum's financial statements. The Museum's tax returns are open to examinations for the years ending June 30, 2009 through June 30, 2011.

Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through September 13, 2011, the date the financial statements were available to be issued.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 CONCENTRATION OF CREDIT RISK

The Museum maintains its cash and cash reserves at several financial institutions. At times, the amounts on deposit may exceed the federally insured limits. The pledges and grants receivable, which are unsecured, are due from local governments, corporations, foundations and individuals located in the Twin Cities metropolitan area.

Approximately 68% of the pledges and grants receivable balance is comprised of pledges from two foundations/corporate or government sources at June 30, 2011. Approximately 65% of the pledges and grants receivable balance is comprised of pledges from four foundations/corporate or government sources at June 30, 2010.

Approximately 12% of the support and revenue balance is comprised of contributions from one source for the year ended June 30, 2011. Approximately 15% of the support and revenue balance is comprised of contributions from a government source for the year ended June 30, 2010.

NOTE 3 INVESTMENTS

Investments are stated at market value and are held in partnership interests as follows at June 30:

	<u>2011</u>	<u>2010</u>
Partnership Interests Managed by:		
The Minneapolis Foundation	\$ 1,537,822	\$ 1,244,367
The Saint Paul Foundation	3,294,639	2,902,180
Total	<u>\$ 4,832,461</u>	<u>\$ 4,146,547</u>

The partnership Investment holdings are comprised of the following at June 30, 2011:

	<u>Minneapolis Foundation</u>	<u>St. Paul Foundation</u>
Equities - Common Stock	50%	51%
Equities - Mutual Funds	15%	0%
Fixed Income	21%	14%
Real Estate	0%	14%
Cash	8%	7%
Alternative Investments and Private Equity	6%	14%

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE3 INVESTMENTS (CONTINUED)

Investment income was as follows for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Interest and Dividends	\$ 89,729	\$ 88,472
Realized Gains	184,273	54,063
Unrealized Gains	697,295	299,362
Investment Expenses	<u>(46,935)</u>	<u>(42,807)</u>
Total Investment Income	924,362	399,090
General Operations Investment Income	<u>(3,382)</u>	<u>(1,659)</u>
Endowment Fund Investment Income	<u>\$ 920,980</u>	<u>\$ 397,431</u>
Board Designated Endowment Draw	<u>\$ 235,066</u>	<u>\$ -</u>

NOTE 4 PLEDGES AND GRANTS RECEIVABLE

The pledges and grants receivable consist of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Programs	\$ 786,367	\$ 700,081
General Operating	153,675	405,335
Other	<u>158,744</u>	<u>73,011</u>
Subtotal	1,098,786	1,178,427
Less: Allowance for Doubtful Accounts	-	-
Present Value Discount	-	-
Pledges Receivable	<u>\$ 1,098,786</u>	<u>\$ 1,178,427</u>
Amount Due In:		
Less Than One Year	\$ 1,031,911	\$ 1,143,427
One to Five Years	<u>66,875</u>	<u>35,000</u>
	<u>\$ 1,098,786</u>	<u>\$ 1,178,427</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 LAND, BUILDING, EXHIBITS, AND EQUIPMENT

The Museum has the following assets as of June 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,600,000	\$ 1,600,000
Building and Improvements	8,808,696	8,751,128
Furniture and Fixtures	603,570	592,301
Equipment	575,121	510,093
Exhibits	7,161,441	6,389,253
Exhibits in Progress	<u>30,533</u>	<u>205,714</u>
	18,779,361	18,048,489
Less: Accumulated Depreciation	<u>(11,716,647)</u>	<u>(11,178,868)</u>
Land, Building and Equipment - Net	<u>\$ 7,062,714</u>	<u>\$ 6,869,621</u>

In September 1995, the Museum opened its facility in downtown St. Paul. A portion of the construction financing was provided through public financing requiring that title to the property transfer to the City of St. Paul. The City of St. Paul and the Museum entered into a long-term lease agreement for the property to operate a children's museum. The lease is for 30 years beginning in December 1994 with the option to renew for five periods of ten years each. Rent is \$100 per year plus minor additional amounts for insurance, assessments and fees. The value assigned to the building was the construction costs of the facility. The portion of the lease attributed to the land had a fair market value of \$1,600,000 and was recorded as a contribution. The use of the land is being amortized over 40 years.

Depreciation expense, which includes the amortization of the land lease, was \$583,413 and \$816,692 for the years ended June 30, 2011 and 2010, respectively.

NOTE 6 LINE OF CREDIT

The Museum has a line of credit agreement with a bank which provides working capital financing up to \$500,000. Borrowings bear interest at 3.0% plus the one-month LIBOR rate, which was 0.186% at June 30, 2011. The line of credit was renewed in 2011 and expires January 1, 2012. There were no outstanding borrowings on the line of credit at June 30, 2011 and 2010.

NOTE 7 CAPITAL LEASE OBLIGATION

The Museum has entered into a capital lease for equipment in 2007. Amortization expense is included in depreciation expense. The total cost of the equipment under the capital lease was \$41,000 at June 30, 2010. Effective June 15, 2011, the Museum terminated the equipment lease and entered into another equipment lease. The total cost of the new equipment under the capital lease was \$54,766. Accumulated depreciation on the old lease was \$35,533 and \$27,333 at June 30, 2011 and 2010, respectively. As of June 30, 2011, accumulated depreciation on the new lease is \$456.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 CAPITAL LEASE OBLIGATION (CONTINUED)

Future lease payments under the capital lease as of June 30, 2011 are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 13,866
2013	13,866
2014	13,866
2015	13,866
2016	13,866
Total	<u>69,330</u>
Less: Amount Representing Interest	(15,063)
Total Capital Lease Obligation	<u><u>\$ 54,267</u></u>

NOTE 8 DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
Membership Dues	\$ 446,197	\$ 382,766
Deferred Exhibit Income	321,364	395,205
Other Deferred Income	30,339	20,606
Total	<u><u>\$ 797,900</u></u>	<u><u>\$ 798,577</u></u>

NOTE 9 NET ASSETS

Unrestricted – Board Designated

The board of directors have designated by board action, the following designations of unrestricted net assets at June 30:

	<u>2011</u>	<u>2010</u>
Fixed Asset Replacement	\$ 562,500	\$ 537,500
Endowment Investment Earnings	-	(15,206)
Cash Operating Reserve	297,500	297,500
Total	<u><u>\$ 860,000</u></u>	<u><u>\$ 819,794</u></u>

Temporarily Restricted

Net assets temporarily restricted consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land, Building and Equipment	\$ 6,005,960	\$ 5,845,145
Endowment Investment Earnings	670,708	-
Future Programs	981,866	1,371,665
Total	<u><u>\$ 7,658,534</u></u>	<u><u>\$ 7,216,810</u></u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 NET ASSETS (CONTINUED)

Permanently Restricted

Permanently restricted net assets consist of donor gifts, the income of which can be used for the Museum's general operating activities.

NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions during the years ended June 30, 2011 and 2010, by incurring expenses satisfying the restricted purposes, as follows:

	2011	2010
Purpose Restrictions:		
Expiration of Long-Lived Asset Gifts	\$ 322,280	\$ 442,563
Program	299,104	339,372
Subtotal Program Restrictions Released	621,384	781,935
Endowment Draw	235,066	-
Time Restrictions	485,000	303,650
Total Restrictions Released	\$ 1,341,450	\$ 1,085,585

NOTE 11 ENDOWMENT

The Museum's endowment consists of funds established for general operating purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Museum has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 11 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Endowment net asset composition by type and changes in endowment net assets for the years ended June 30 is as follows:

	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>
Endowment Net Assets				
June 30, 2010	\$ (15,206)	\$ -	\$ 4,161,753	\$ 4,146,547
Contributions	-	-	-	-
Investment Return:				
Interest and Dividend Income	15,206	71,141	-	86,347
Realized Gains	-	184,273	-	184,273
Unrealized Gains	-	697,295	-	697,295
Investment Expenses	-	(46,935)	-	(46,935)
Total Investment Return	<u>15,206</u>	<u>905,774</u>	<u>-</u>	<u>920,980</u>
Spending Rate Draw	<u>-</u>	<u>(235,066)</u>	<u>-</u>	<u>(235,066)</u>
Endowment Net Assets, June 30, 2011	<u>\$ -</u>	<u>\$ 670,708</u>	<u>\$ 4,161,753</u>	<u>\$ 4,832,461</u>
	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
Endowment Net Assets, June 30, 2009	\$ (412,637)	\$ -	\$ 4,161,753	\$ 3,749,116
Investment Return:				
Interest and Dividend Income	86,124	-	-	86,124
Realized Gains (Losses)	54,752	-	-	54,752
Unrealized Gains (Losses)	299,362	-	-	299,362
Investment Expenses	(42,807)	-	-	(42,807)
Total Investment Return	<u>397,431</u>	<u>-</u>	<u>-</u>	<u>397,431</u>
Endowment Net Assets, June 30, 2010	<u>\$ (15,206)</u>	<u>\$ -</u>	<u>\$ 4,161,753</u>	<u>\$ 4,146,547</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 11 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

The following is a summary of endowment funds subject to Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) for the years ended June 30:

	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	2011 Total
Donor Restricted Endowment	\$ -	\$ 670,708	\$ 4,161,753	\$ 4,832,461
Unrestricted Endowment	-	-	-	-
Total Endowment Funds	<u>\$ -</u>	<u>\$ 670,708</u>	<u>\$ 4,161,753</u>	<u>\$ 4,832,461</u>
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	2010 Total
Donor Restricted Endowment	\$ (15,206)	\$ -	\$ 4,161,753	\$ 4,146,547
Unrestricted Endowment	-	-	-	-
Total Endowment Funds	<u>\$ (15,206)</u>	<u>\$ -</u>	<u>\$ 4,161,753</u>	<u>\$ 4,146,547</u>

The general endowment fund was in a deficit position at June 30, 2010.

Investment Objectives and Strategies

The Museum has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, the primary investment objective is achieving real growth in invested capital consistent with preservation of capital, Maintenance of liquidity, and obtaining the best total return while minimizing market and investment risk. Investments include partnership interested in two investment funds which are allocated to five major asset classes including cash and cash equivalents, fixed income securities, equities, real estate and alternative investments and private equities.

Spending Policy

The Museum has a policy of appropriating for distribution each year approximately 3.0% to 5.0% of its endowment fund's 12 quarter trailing average fair value.

NOTE 12 FAIR VALUE MEASUREMENTS

The Museum uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Museum values all other assets and liabilities refer to Note 1 – Significant Accounting Policies.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of June 30, 2011 and 2010 are:

	2011			Total
	Level 1	Level 2	Level 3	
St. Paul Foundation Investments	\$ -	\$ -	\$ 3,294,639	\$ 3,294,639
Minneapolis Foundation Investments	-	-	1,537,822	1,537,822
Total	\$ -	\$ -	\$ 4,832,461	\$ 4,832,461

	2010			Total
	Level 1	Level 2	Level 3	
St. Paul Foundation Investments	\$ -	\$ -	\$ 2,902,180	\$ 2,902,180
Minneapolis Foundation Investments	-	-	1,244,367	1,244,367
Total	\$ -	\$ -	\$ 4,146,547	\$ 4,146,547

The following table provides a summary of changes in fair value of the Association's Level 3 financial assets for the years ended June 30, 2011 and 2010:

	Level 3
Beginning of Year Balance - June 30, 2010	\$ 4,146,547
Investment Gains	685,914
End of Year Balance - June 30, 2011	\$ 4,832,461

	Level 3
Beginning of Year Balance - June 30, 2009	\$ 3,749,116
Investment Gains	397,431
End of Year Balance - June 30, 2010	\$ 4,146,547

NOTE 13 IN-KIND CONTRIBUTIONS

The Museum records in-kind contributions at fair market value at date of donation. In-kind contributions expended or capitalized during the current year were \$70,364 and \$114,208 for the years ended June 30, 2011 and 2010, respectively.

During 2007, the Museum received one in-kind gift in the amount of \$200,000 of which \$176,752 was expected to be used in future years. During 2008, an additional \$46,788 of in-kinds was received from this same donor. During 2011 and 2010, \$25,972 and \$11,586, respectively, of these in-kind gifts were used. The remaining \$51,939 is expected to be used in future years.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 14 LEASE REVENUE

The Museum leases space to an organization which is paying a royalty based on revenues. The term of the agreement is from March 1, 2006 to April 1, 2011. During 2011, the term of the lease was extended to April 1, 2013. Royalty income was \$26,182 and \$23,080 for the years ended June 30, 2011 and 2010, respectively.

NOTE 15 RETIREMENT PLAN

The Museum established a defined contribution retirement plan effective January 1, 2001 under Section 403(b) of the Internal Revenue Code. The plan covers all employees who meet eligibility requirements and elect to participate in the plan. The Museum will match 100% of the employee's contributions up to a maximum of 3% of the employee's compensation. The retirement plan expense was \$53,658 and \$50,098 for the years ended June 30, 2011 and 2010, respectively.

NOTE 16 COMMITMENTS AND CONTINGENCIES

The Museum has entered into an agreement for construction of exhibits. As of June 30, 2011, the Museum had one contract for \$439,200 that had not been completed. The balance of this contract is \$307,568 at June 30, 2011.