

MINNESOTA CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

**MINNESOTA CHILDREN'S MUSEUM
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITY	3
STATEMENTS OF CASH FLOWS	5
STATEMENTS OF FUNCTIONAL EXPENSES	6
NOTES TO FINANCIAL STATEMENTS	8



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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, 2012 and 2011, 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, 2012 and 2011, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 18, 2012

**MINNESOTA CHILDREN'S MUSEUM
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 966,282	\$ 1,034,862
Certificates of Deposit	1,039,766	540,618
Accounts Receivable, Net	116,646	221,735
Pledges and Grants Receivable	1,758,269	1,031,911
Prepaid Expenses	258,738	238,423
Total Current Assets	4,139,701	3,067,549
INVESTMENTS	4,552,169	4,832,461
LAND, BUILDING, EXHIBITS, AND EQUIPMENT, NET	7,301,145	7,062,714
PLEDGES AND GRANTS RECEIVABLE, LONG-TERM	83,330	66,875
Total Assets	\$ 16,076,345	\$ 15,029,599
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Capital Lease Obligations	\$ 9,919	\$ 8,945
Accounts Payable	156,525	287,920
Accrued Compensation	334,958	272,825
Deferred Revenue	843,213	797,900
Total Current Liabilities	1,344,615	1,367,590
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT MATURITIES	36,222	45,322
Total Liabilities	1,380,837	1,412,912
NET ASSETS		
Unrestricted:		
Board Designated - Fixed Asset Replacement	532,500	562,500
Board Designated - Cash Operating Reserve	297,500	297,500
Undesignated	1,247,116	936,400
Total Unrestricted Net Assets	2,077,116	1,796,400
Temporarily Restricted:		
Land, Building and Equipment	6,062,923	6,005,960
Endowment	390,416	670,708
Future Programs	2,003,300	981,866
Total Temporarily Restricted Net Assets	8,456,639	7,658,534
Permanently Restricted Net Assets	4,161,753	4,161,753
Total Net Assets	14,695,508	13,616,687
Total Liabilities and Net Assets	\$ 16,076,345	\$ 15,029,599

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENT OF ACTIVITY
YEAR ENDED JUNE 30, 2012**

	<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	\$ 998,096	\$ -	\$ 1,562,914	\$ -	\$ 2,561,010
Governmental Agencies	-	-	1,510,000	-	1,510,000
Total Support	<u>998,096</u>	<u>-</u>	<u>3,072,914</u>	<u>-</u>	<u>4,071,010</u>
Revenue:					
Museum Admissions	1,336,199	-	-	-	1,336,199
Memberships	984,871	-	-	-	984,871
Program Revenue	193,492	-	-	-	193,492
Exhibit Revenue	825,757	-	-	-	825,757
Investment Income	-	-	42,598	-	42,598
Net Unrealized and Realized					
Gain (Loss) on Investments	2,887	-	(105,414)	-	(102,527)
Rental and Parking Revenue	268,861	-	-	-	268,861
Leased Store Income	31,142	-	-	-	31,142
Special Event (Less Direct Benefits of \$31,777 for 2012)	202,659	-	-	-	202,659
Gain on Sale of Equipment and Exhibits	-	-	-	-	-
Other Revenue	8,768	-	-	-	8,768
Total Revenue	<u>3,854,636</u>	<u>-</u>	<u>(62,816)</u>	<u>-</u>	<u>3,791,820</u>
Net Assets Released from Restrictions	<u>2,211,202</u>	<u>-</u>	<u>(2,211,202)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	7,063,934	-	798,896	-	7,862,830
EXPENSES					
Program	4,534,338	-	-	-	4,534,338
Administrative	1,368,099	-	-	-	1,368,099
Fundraising	881,572	-	-	-	881,572
Total Expenses	<u>6,784,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,784,009</u>
OPERATING CHANGE IN NET ASSETS	279,925	-	798,896	-	1,078,821
NONOPERATING ACTIVITY AND TRANSFERS					
Board Designated Reserves	30,000	(30,000)	-	-	-
TOTAL CHANGE IN NET ASSETS	309,925	(30,000)	798,896	-	1,078,821
Net Assets - Beginning of Year	<u>937,191</u>	<u>860,000</u>	<u>7,657,743</u>	<u>4,161,753</u>	<u>13,616,687</u>
NET ASSETS - END OF YEAR	<u>\$ 1,247,116</u>	<u>\$ 830,000</u>	<u>\$ 8,456,639</u>	<u>\$ 4,161,753</u>	<u>\$ 14,695,508</u>

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 Revenue	183,497	-	-	-	183,497
Exhibit Revenue	626,966	-	-	-	626,966
Investment Income	-	-	42,403	-	42,403
Net Unrealized and Realized					
Gain on Investments	4,173	15,206	862,580	-	881,959
Rental and Parking Revenue	201,576	-	-	-	201,576
Leased Store Revenue	26,182	-	-	-	26,182
Special Event (Less Direct Benefits of \$82,771 for 2011)	263,059	-	-	-	263,059
Other Revenue	8,906	-	-	-	8,906
Total Revenue	<u>3,568,979</u>	<u>15,206</u>	<u>904,983</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	5,947,387	15,206	440,933	-	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	30,427	15,206	440,933	-	486,566
NONOPERATING ACTIVITY AND TRANSFERS					
Board Designated to Reserves	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	5,427	40,206	440,933	-	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>\$ 937,191</u>	<u>\$ 860,000</u>	<u>\$ 7,657,743</u>	<u>\$ 4,161,753</u>	<u>\$ 13,616,687</u>

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,078,821	\$ 486,566
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	567,021	583,412
Unrealized and Realized (Gain) Loss on Investments	101,952	(881,568)
Changes in Current Assets and Liabilities:		
Accounts Receivable	105,089	(12,440)
Pledges and Grants Receivable	(742,813)	79,641
Prepaid Expenses	(20,315)	32,990
Accounts Payable and Accrued Expenses	(69,262)	186,099
Deferred Revenue	45,313	(677)
Net Cash Provided by Operating Activities	1,065,806	474,023
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	217,476	235,066
Proceeds from Sale of Equipment and Exhibits	-	7,353
Purchase of Investments	(538,284)	(40,059)
Purchase of Building, Exhibits and Equipment	(805,452)	(736,927)
Net Cash Used by Investing Activities	(1,126,260)	(534,567)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease	(8,126)	(9,749)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(68,580)	(70,293)
Cash and Cash Equivalents - Beginning of Year	1,034,862	1,105,155
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 966,282	\$ 1,034,862
 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, 2012
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Support Services					2011 Total
	Total Programs	Management and General	Marketing and Promotion	Fundraising	Total Support Services	
Salaries	\$ 2,048,568	\$ 426,731	\$ 269,427	\$ 527,127	\$ 1,223,285	\$ 2,756,037
Payroll Taxes	175,477	36,191	22,958	44,916	104,065	244,414
Employee Benefits	222,448	46,310	29,377	57,475	133,162	277,982
Total Personnel Expense	2,446,493	509,232	321,762	629,518	1,460,512	3,278,433
Professional Fees	37,751	60,105	684	53,266	114,055	114,584
Supplies	208,542	3,243	1,557	3,819	8,619	217,161
Telephone	12,671	2,684	686	820	4,190	16,861
Postage and Shipping	76,738	2,246	2,195	14,388	18,829	74,291
Rent	67,724	1,920	361	636	2,917	54,059
Utilities	166,735	6,120	1,903	3,701	11,724	174,438
Information Technology	78,443	6,942	5,284	20,147	32,373	89,501
Repairs and Maintenance	186,076	5,641	1,873	3,538	11,052	203,111
Furniture and Equipment	58,549	1,905	1,235	12,027	15,167	46,684
Printing, Photography and Graphics	95,335	1,075	27,814	21,641	50,530	112,205
Travel	22,311	6,326	966	2,568	9,860	42,935
Meetings and Receptions	23,573	13,166	2,628	42,572	58,366	63,027
Interest Expense	4,050	425	190	226	841	2,403
Depreciation	529,377	19,743	6,058	11,843	37,644	583,412
Contracted Services	53,666	2,401	66,794	2,515	71,710	171,582
Promotion and Advertising	20,931	969	246,097	24,082	271,148	264,454
Insurance	23,883	5,096	2,918	5,845	13,859	36,929
Staff Training	33,715	7,384	4,733	11,994	24,111	35,115
Bank and Merchant Fees	55,426	-	-	1,693	1,693	54,287
Permits, Licenses and Fees	86,713	9,311	5,065	3,712	18,088	28,175
Exhibit Rental Fees	212,083	-	-	-	-	140,866
Grants and Scholarships	30,902	-	-	145	145	7,617
Other Expenses	2,651	1,362	-	10,876	12,238	31,047
Total Expense	\$ 4,534,338	\$ 667,296	\$ 700,803	\$ 881,572	\$ 2,249,671	\$ 6,784,009
						\$ 5,916,960

See accompanying Notes to Financial Statements.

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

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

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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, 2012 AND 2011**

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.

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, 2012, the Museum had certificates of deposit with interest rates ranging from 0.30% to 0.65%.

Receivables

Receivables are stated at net realizable value. Receivables become due upon certain triggering events. The Museum has established an allowance for doubtful accounts receivable when a significant pattern of uncollectibility has occurred. At June 30, 2012 and 2011, the allowance for doubtful receivables was \$2,939 and \$15,856, 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 activity. 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, 2012 AND 2011**

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 activity as net assets released from restrictions.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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, 2012 AND 2011**

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, 2012.

Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through September 18, 2012, the date the financial statements were available to be issued.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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 74% of the pledges and grants receivable balance is comprised of pledges from two foundations/corporate or government sources at June 30, 2012. 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 19% of the support and revenue balance is comprised of contributions from a government source for the year ended June 30, 2012. Approximately 12% of the support and revenue balance is comprised of contributions from a government source for the year ended June 30, 2011.

NOTE 3 INVESTMENTS

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

	<u>2012</u>	<u>2011</u>
Partnership Interests Managed by:		
The Minneapolis Foundation	\$ 1,498,133	\$ 1,537,822
The Saint Paul Foundation	3,054,036	3,294,639
Total	<u>\$ 4,552,169</u>	<u>\$ 4,832,461</u>

The partnership investment holdings are comprised of the following at June 30, 2012:

	<u>Minneapolis Foundation</u>	<u>St. Paul Foundation</u>
Equities	62%	48%
Fixed Income	18%	15%
Real Estate	10%	16%
Cash	5%	7%
Alternative Investments and Private Equity	5%	14%

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 INVESTMENTS (CONTINUED)

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

	2012	2011
Interest and Dividends	\$ 90,544	\$ 89,729
Realized Gains	88,124	184,273
Unrealized Gains (Losses)	(190,076)	697,295
Investment Expenses	(51,408)	(46,935)
Total Investment Income (Loss)	<u>(62,816)</u>	<u>924,362</u>
General Operations Investment Income (Loss)	2,887	(3,382)
Endowment Fund Investment Income (Loss)	<u>\$ (59,929)</u>	<u>\$ 920,980</u>
Board Designated Endowment Draw	<u>\$ 217,476</u>	<u>\$ 235,066</u>

NOTE 4 PLEDGES AND GRANTS RECEIVABLE

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

	2012	2011
Programs	\$ 841,030	\$ 786,367
General Operating	379,945	153,675
Other	620,624	158,744
	<u>\$ 1,841,599</u>	<u>\$ 1,098,786</u>
Amount Due In:		
Less Than One Year	\$ 1,758,269	\$ 1,031,911
One to Five Years	83,330	66,875
	<u>\$ 1,841,599</u>	<u>\$ 1,098,786</u>

NOTE 5 LAND, BUILDING, EXHIBITS, AND EQUIPMENT

The Museum has the following assets as of June 30:

	2012	2011
Land	\$ 1,600,000	\$ 1,600,000
Building and Improvements	8,975,712	8,808,696
Furniture and Fixtures	633,877	603,570
Equipment	660,208	575,121
Exhibits	7,705,482	7,161,441
Exhibits in Progress	-	30,533
	<u>19,575,279</u>	<u>18,779,361</u>
Less: Accumulated Depreciation	<u>(12,274,134)</u>	<u>(11,716,647)</u>
Land, Building and Equipment - Net	<u>\$ 7,301,145</u>	<u>\$ 7,062,714</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 5 LAND, BUILDING, EXHIBITS, AND EQUIPMENT (CONTINUED)

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 10 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 \$567,021 and \$583,412 for the years ended June 30, 2012 and 2011, 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 3.1% plus the one-month LIBOR rate, which was 0.239% at June 30, 2012. The line of credit was renewed in 2012 and expires January 1, 2013. There were no outstanding borrowings on the line of credit at June 30, 2012 and 2011.

NOTE 7 CAPITAL LEASE OBLIGATION

The Museum 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 both leases was \$11,409 and \$35,533 at June 30, 2012 and 2011, respectively.

Future lease payments under the capital lease as of June 30, 2012 are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 13,866
2014	13,866
2015	13,866
2016	13,866
Total	<u>55,464</u>
Less: Amount Representing Interest	<u>(9,323)</u>
Total Capital Lease Obligation	<u>\$ 46,141</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	2012	2011
Membership Dues	\$ 484,079	\$ 446,197
Deferred Exhibit Income	328,193	321,364
Other Deferred Income	30,941	30,339
Total	\$ 843,213	\$ 797,900

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:

	2012	2011
Fixed Asset Replacement	\$ 532,500	\$ 562,500
Cash Operating Reserve	297,500	297,500
Total	\$ 830,000	\$ 860,000

Temporarily Restricted

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

	2012	2011
Land, Building and Equipment	\$ 6,062,923	\$ 6,005,960
Endowment Investment Earnings	390,416	670,708
Future Programs	2,003,300	981,866
Total	\$ 8,456,639	\$ 7,658,534

Permanently Restricted

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

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions during the years ended June 30, 2012 and 2011, by incurring expenses satisfying the restricted purposes, as follows:

	2012	2011
Purpose Restrictions:		
Expiration of Long-Lived Asset Gifts	\$ 325,203	\$ 322,280
Program	700,288	299,104
Subtotal Program Restrictions Released	1,025,491	621,384
Endowment Draw	217,476	235,066
Time Restrictions	968,235	485,000
Total Restrictions Released	\$ 2,211,202	\$ 1,341,450

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.

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.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 11 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

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>2012 Total</u>
Endowment Net Assets, June 30, 2011	\$ -	\$ 670,708	\$ 4,161,753	\$ 4,832,461
Contributions	-	-	-	-
Investment Return:				
Interest and Dividend Income	-	90,544	-	90,544
Realized Gains	-	88,124	-	88,124
Unrealized Losses	-	(190,076)	-	(190,076)
Investment Expenses	-	(51,408)	-	(51,408)
Total Investment Return	-	(62,816)	-	(62,816)
Spending Rate Draw	-	(217,476)	-	(217,476)
Endowment Net Assets, June 30, 2012	<u>\$ -</u>	<u>\$ 390,416</u>	<u>\$ 4,161,753</u>	<u>\$ 4,552,169</u>
	<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
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	15,206	905,774	-	920,980
Spending Rate Draw	-	(235,066)	-	(235,066)
Endowment Net Assets, June 30, 2011	<u>\$ -</u>	<u>\$ 670,708</u>	<u>\$ 4,161,753</u>	<u>\$ 4,832,461</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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	2012 Total
Donor Restricted Endowment	\$ -	\$ 390,416	\$ 4,161,753	\$ 4,552,169
Unrestricted Endowment	-	-	-	-
Total Endowment Funds	<u>\$ -</u>	<u>\$ 390,416</u>	<u>\$ 4,161,753</u>	<u>\$ 4,552,169</u>
	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>

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, 2012 AND 2011**

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of June 30, 2012 and 2011 are:

	2012			Total
	Level 1	Level 2	Level 3	
St. Paul Foundation Investments	\$ -	\$ -	\$ 3,054,036	\$ 3,054,036
Minneapolis Foundation Investments	-	-	1,498,133	1,498,133
Total	\$ -	\$ -	\$ 4,552,169	\$ 4,552,169
	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

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, 2012 and 2011:

	Level 3
Beginning of Year Balance - June 30, 2011	\$ 4,832,461
Investment Losses	(62,816)
Distributions	(217,476)
End of Year Balance - June 30, 2012	\$ 4,552,169
	Level 3
Beginning of Year Balance - June 30, 2010	\$ 4,146,547
Investment Gains	920,980
Distributions	(235,066)
End of Year Balance - June 30, 2011	\$ 4,832,461

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 \$349,904 and \$70,364 for the years ended June 30, 2012 and 2011, respectively, and presented as Grants and Contributions on the statement of activity.

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 2012 and 2011, \$26,173 and \$25,972, respectively, of these in-kind gifts were used. The remaining \$25,776 is expected to be used during 2013.

During 2012, the Museum received another one-time in-kind gift of \$250,000 from another donor of which all was to be used in future years.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 14 LEASED STORE 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 revenue was \$31,142 and \$26,182 for the years ended June 30, 2012 and 2011, 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 \$64,876 and \$53,658 for the years ended June 30, 2012 and 2011, respectively.

NOTE 16 COMMITMENTS AND CONTINGENCIES

The Museum has entered into various rental agreements for exhibits. As of June 30, 2012, the total commitment under these rental agreements was \$162,500.

Additionally the Museum has a commitment with a consulting company for services to be conducted related to their building expansion. The future commitment is \$150,000.

NOTE 17 CONDITIONAL CONTRIBUTIONS

The Museum has secured \$400,000 of capital campaign contributions in 2012 that are contingent on the Museum receiving bonding from the State of Minnesota. Due to the conditional nature of these pledges, these contributions have not been reflected in the accompanying financial statements. Once the conditions have been fulfilled, the contributions will be recognized.

NOTE 18 ROCHESTER MINNESOTA LOCATION

On September 15, 2011, the Minnesota Children's Museum Board of Directors approved the Rochester Expansion; subsequently The Children's Museum of Rochester completed a Gift Agreement transferring their assets to the Minnesota Children's Museum and filed an Intent to Dissolve their existing corporation. The Minnesota Children's Museum of Rochester officially opened to the public on April 5, 2012 and welcomed 9,289 visitors during their first three months of operation during FY12.

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