

MINNESOTA CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

**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 financial statements of Minnesota Children's Museum (the Museum), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activity, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Minnesota Children's Museum

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 3, 2014

**MINNESOTA CHILDREN'S MUSEUM
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,104,134	\$ 966,282
Certificates of Deposit	244,415	1,039,766
Accounts Receivable, Net	50,750	116,646
Pledges and Grants Receivable, Net	1,869,971	1,758,269
Prepaid Expenses	179,626	258,738
Total Current Assets	4,448,896	4,139,701
INVESTMENTS	4,646,302	4,552,169
LAND, BUILDING, EXHIBITS, AND EQUIPMENT, NET	7,376,812	7,301,145
PLEDGES AND GRANTS RECEIVABLE, LONG-TERM	1,245,509	83,330
Total Assets	\$ 17,717,519	\$ 16,076,345
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Capital Lease Obligations	\$ -	\$ 9,919
Accounts Payable	175,064	156,525
Accrued Compensation	393,498	334,958
Deferred Rent	28,571	-
Deferred Revenue	1,048,850	843,213
Total Current Liabilities	1,645,983	1,344,615
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT MATURITIES	-	36,222
Total Liabilities	1,645,983	1,380,837
NET ASSETS		
Unrestricted:		
Board Designated - Fixed Asset Replacement	582,500	532,500
Board Designated - Cash Operating Reserve	447,500	297,500
Undesignated	1,266,955	1,247,116
Total Unrestricted Net Assets	2,296,955	2,077,116
Temporarily Restricted:		
Land, Building and Equipment	6,370,869	6,062,923
Endowment	484,549	390,416
Capital Campaign	1,885,106	664,015
Future Programs	872,304	1,339,285
Total Temporarily Restricted Net Assets	9,612,828	8,456,639
Permanently Restricted Net Assets	4,161,753	4,161,753
Total Net Assets	16,071,536	14,695,508
Total Liabilities and Net Assets	\$ 17,717,519	\$ 16,076,345

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENT OF ACTIVITY
YEAR ENDED JUNE 30, 2013**

	<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	\$ 708,129	\$ -	\$ 3,512,217	\$ -	\$ 4,220,346
Governmental Agencies	<u>85,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>135,000</u>
Total Support	793,129	-	3,562,217	-	4,355,346
Revenue:					
Museum Admissions	1,470,404	-	-	-	1,470,404
Memberships	1,154,168	-	-	-	1,154,168
Program Revenue	198,608	-	-	-	198,608
Exhibit Revenue	861,415	-	-	-	861,415
Investment Income	-	-	113,227	-	113,227
Net Unrealized and Realized					
Gain on Investments	1,128	-	198,701	-	199,829
Rental and Parking Revenue	306,770	-	-	-	306,770
Leased Store Income	31,539	-	-	-	31,539
Special Event (Less Direct Benefits of \$196,485 for 2013)	51,424	-	-	-	51,424
Gain on Sale of Equipment and Exhibits	-	-	-	-	-
Other Revenue	10,420	-	-	-	10,420
Total Revenue	<u>4,085,876</u>	<u>-</u>	<u>311,928</u>	<u>-</u>	<u>4,397,804</u>
Net Assets Released from Restrictions	<u>2,717,956</u>	<u>-</u>	<u>(2,717,956)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	7,596,961	-	1,156,189	-	8,753,150
EXPENSES					
Program	4,722,454	-	-	-	4,722,454
Administrative	1,079,688	-	-	-	1,079,688
Fundraising	921,977	-	-	-	921,977
Total Expenses Before Depreciation	<u>6,724,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,724,119</u>
Depreciation	653,003	-	-	-	653,003
Total Expenses	<u>7,377,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,377,122</u>
OPERATING CHANGE IN NET ASSETS	219,839	-	1,156,189	-	1,376,028
NONOPERATING ACTIVITY AND TRANSFERS					
Board Designated Reserves	<u>(200,000)</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	19,839	200,000	1,156,189	-	1,376,028
Net Assets - Beginning 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>
NET ASSETS - END OF YEAR	<u>\$ 1,266,955</u>	<u>\$ 1,030,000</u>	<u>\$ 9,612,828</u>	<u>\$ 4,161,753</u>	<u>\$ 16,071,536</u>

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 Revenue	31,142	-	-	-	31,142
Special Event (Less Direct Benefits of \$31,777 for 2012)	202,659	-	-	-	202,659
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	4,004,961	-	-	-	4,004,961
Administrative	1,342,298	-	-	-	1,342,298
Fundraising	869,729	-	-	-	869,729
Total Expenses Before Depreciation	<u>6,216,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,216,988</u>
Depreciation	567,021	-	-	-	567,021
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 to Reserves	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,376,028	\$ 1,078,821
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	653,003	567,021
Unrealized and Realized (Gain) Loss on Investments	(204,020)	101,952
Changes in Current Assets and Liabilities:		
Accounts Receivable	65,896	105,089
Pledges and Grants Receivable	(1,273,881)	(742,813)
Prepaid Expenses	79,112	(20,315)
Accounts Payable and Accrued Expenses	105,650	(69,262)
Deferred Revenue	159,496	45,313
Net Cash Provided by Operating Activities	961,284	1,065,806
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	5,809,696	217,476
Purchase of Investments	(4,849,692)	(538,284)
Purchase of Property, Equipment and Construction in Progress	(783,436)	(805,452)
Net Cash Provided (Used) by Investing Activities	176,568	(1,126,260)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease	-	(8,126)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,137,852	(68,580)
 Cash and Cash Equivalents - Beginning of Year	966,282	1,034,862
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,104,134	\$ 966,282

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012)**

	Support Services						
	Total Programs	Management and General	Marketing and Promotion	Fundraising	Total Support Services	2013 Total	2012 Total
Salaries	\$ 2,687,148	\$ 390,911	\$ 114,503	\$ 588,328	\$ 1,093,742	\$ 3,780,890	\$ 3,271,853
Payroll Taxes	217,054	30,571	9,171	48,913	88,655	305,709	279,542
Employee Benefits	264,049	37,190	11,157	59,504	107,851	371,900	355,610
Total Personnel Expense	3,168,251	458,672	134,831	696,745	1,290,248	4,458,499	3,907,005
Professional Fees	624,396	50,854	-	16,950	67,804	692,200	239,629
Supplies	273,943	12,082	573	3,230	15,885	289,828	217,161
Telephone	9,998	8,088	198	984	9,270	19,268	16,861
Postage and Shipping	84,762	3,139	789	10,631	14,559	99,321	95,567
Rent	65,693	4,230	-	-	4,230	69,923	70,641
Utilities	185,512	13,963	-	-	13,963	199,475	178,459
Information Technology	81,306	25,905	1,435	21,096	48,436	129,742	110,816
Repairs and Maintenance	194,077	13,405	-	-	13,405	207,482	197,128
Furniture and Equipment	47,384	9,869	132	187	10,188	57,572	73,716
Printing, Photography and Graphics	87,721	611	7,712	28,541	36,864	124,585	145,865
Travel	28,364	3,827	462	3,582	7,871	36,235	32,171
Meetings and Receptions	30,274	9,740	1,174	13,668	24,582	54,856	81,939
Interest Expense	-	702	-	-	702	702	4,891
Contracted Services	106,333	101,340	18,292	13,755	133,387	239,720	125,376
Promotion and Advertising	184,228	578	104,186	2,750	107,514	291,742	292,079
Insurance	2,880	38,182	-	-	38,182	41,062	37,742
Staff Training	23,963	11,149	2,083	14,120	27,352	51,315	57,826
Bank and Merchant Fees	-	59,829	-	152	59,981	59,981	57,119
Permits, Licenses and Fees	94,808	2,332	15	1,536	3,883	98,691	104,801
Exhibit Rental Fees	172,985	-	-	-	-	172,985	212,083
Grants and Scholarships	7,635	-	-	-	-	7,635	31,047
Other Expenses	12	(20,691)	-	94,050	73,359	73,371	14,889
Capitalization of Property and Equipment	(752,071)	-	-	-	-	(752,071)	(87,823)
Total Expense							
Before Depreciation	4,722,454	807,806	271,882	921,977	2,001,665	6,724,119	6,216,988
Depreciation	607,293	45,710	-	-	45,710	653,003	567,021
Total Expense	\$ 5,329,747	\$ 853,516	\$ 271,882	\$ 921,977	\$ 2,047,375	\$ 7,377,122	\$ 6,784,009

See accompanying Notes to Financial Statements.

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

	Support Services					
	Total Programs	Management and General	Marketing and Promotion	Fundraising	Total Support Services	2012 Total
Salaries	\$ 2,048,568	\$ 426,731	\$ 269,427	\$ 527,127	\$ 1,223,285	\$ 3,271,853
Payroll Taxes	175,477	36,191	22,958	44,916	104,065	279,542
Employee Benefits	222,448	46,310	29,377	57,475	133,162	355,610
Total Personnel Expense	<u>2,446,493</u>	<u>509,232</u>	<u>321,762</u>	<u>629,518</u>	<u>1,460,512</u>	<u>3,907,005</u>
Professional Fees	125,574	60,105	684	53,266	114,055	239,629
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	95,567
Rent	67,724	1,920	361	636	2,917	70,641
Utilities	166,735	6,120	1,903	3,701	11,724	178,459
Information Technology	78,443	6,942	5,284	20,147	32,373	110,816
Repairs and Maintenance	186,076	5,641	1,873	3,538	11,052	197,128
Furniture and Equipment	58,549	1,905	1,235	12,027	15,167	73,716
Printing, Photography and Graphics	95,335	1,075	27,814	21,641	50,530	145,865
Travel	22,311	6,326	966	2,568	9,860	32,171
Meetings and Receptions	23,573	13,166	2,628	42,572	58,366	81,939
Interest Expense	4,050	425	190	226	841	4,891
Contracted Services	53,666	2,401	66,794	2,515	71,710	125,376
Promotion and Advertising	20,931	969	246,097	24,082	271,148	292,079
Insurance	23,883	5,096	2,918	5,845	13,859	37,742
Staff Training	33,715	7,384	4,733	11,994	24,111	57,826
Bank and Merchant Fees	55,426	-	-	1,693	1,693	57,119
Permits, Licenses and Fees	86,713	9,311	5,065	3,712	18,088	104,801
Exhibit Rental Fees	212,083	-	-	-	-	212,083
Grants and Scholarships	30,902	-	-	145	145	31,047
Other Expenses	2,651	1,362	-	10,876	12,238	14,889
Capitalization of Property and Equipment	(87,823)	-	-	-	-	(87,823)
Total Expense						
Before Depreciation	4,004,961	647,553	694,745	869,729	2,212,027	6,216,988
Depreciation	529,377	19,743	6,058	11,843	37,644	567,021
Total Expense	<u>\$ 4,534,338</u>	<u>\$ 667,296</u>	<u>\$ 700,803</u>	<u>\$ 881,572</u>	<u>\$ 2,249,671</u>	<u>\$ 6,784,009</u>

See accompanying Notes to Financial Statements.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013 AND 2012**

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, 2013, the Museum had a certificate of deposit with an interest rate of 0.35%.

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, 2013 and 2012, the allowance for doubtful receivables was \$-0- and \$2,939, 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.

An allowance for uncollectible grants and pledges receivable is provided based upon management's judgment, including factors such as prior collection history, type of contribution, and nature of fundraising activity. There was an allowance for uncollectible grants and pledges as of June 30, 2013 and 2012 of \$14,016 and \$-0-, respectively.

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 mutual funds, fixed income, real assets 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, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

In the year ended June 30, 2012, the Museum held investments in a variety of investments through partnership interests in endowment funds managed by the Minneapolis and St. Paul Foundations. These funds were liquidated during the year ended June 30, 2013 and are now invested in an endowment fund at Wells Fargo. 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, 2013 AND 2012**

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. The Museum records restrictions based on donor intent. Capital campaign contributions and pledges are recognized as unrestricted when the purpose restriction has been met, subject to the policy of implying a time restriction on gifts restricted for long-lived 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, 2013 AND 2012**

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 follows 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 application of this standard had no impact on the Museum's financial statements. The Museum's tax returns are open to examinations for the years ended June 30, 2010 through June 30, 2012.

Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through February 3, 2014, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassification had no effect on the change in unrestricted net assets or total net assets as previously reported.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 54% of the pledges and grants receivable balance is comprised of pledges from three foundations/corporate or government sources at June 30, 2013. 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 11% of the support and revenue balance is comprised of a contribution from one foundation for the year ended June 30, 2013. Approximately 19% of the support and revenue balance is comprised of contributions from a government source for the year ended June 30, 2012.

NOTE 3 INVESTMENTS

Investments are stated at market value were held in partnership interests until they were liquidated during the year ended June 30, 2013 and invested into an endowment fund. Investments were held as follows during the years ended June 30:

	<u>2013</u>	<u>2012</u>
Investments Held at:		
The Minneapolis Foundation	\$ -	\$ 1,498,133
The Saint Paul Foundation	-	3,054,036
Wells Fargo	4,646,302	-
Total	<u>\$ 4,646,302</u>	<u>\$ 4,552,169</u>

Investment holdings are comprised on the following at June 30:

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 128,394	\$ -
Fixed Income	1,638,341	-
Equities - Mutual Funds	2,036,479	-
Complementary Strategies	307,075	-
Real Assets	536,013	-
Partnership Investments	-	4,552,169
	<u>\$ 4,646,302</u>	<u>\$ 4,552,169</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 3 INVESTMENTS (CONTINUED)

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

	<u>2013</u>	<u>2012</u>
Interest and Dividends	\$ 150,057	\$ 90,544
Realized Gains	1,178,128	88,124
Unrealized (Losses)	(979,427)	(190,076)
Investment Expenses	<u>(36,830)</u>	<u>(51,408)</u>
Total Investment Income (Loss)	311,928	(62,816)
General Operations Investment Income	1,128	2,887
Endowment Fund Investment Income (Loss)	<u>\$ 313,056</u>	<u>\$ (59,929)</u>
Board Designated Endowment Draw	<u>\$ 217,795</u>	<u>\$ 217,476</u>

NOTE 4 PLEDGES AND GRANTS RECEIVABLE

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

	<u>2013</u>	<u>2012</u>
Programs	\$ 890,945	\$ 786,367
General Operating	111,211	153,675
Capital Campaign	1,888,762	505,180
Other	<u>283,737</u>	<u>396,377</u>
	<u>\$ 3,174,655</u>	<u>\$ 1,841,599</u>
Amount Due In:		
Less Than One Year	\$ 1,869,971	\$ 1,758,269
One to Five Years	1,304,684	83,330
Subtotal	<u>3,174,655</u>	<u>1,841,599</u>
Less: Allowance for Uncollectible Pledges	<u>(14,016)</u>	-
Subtotal	3,160,639	1,841,599
Less: Discount on Long-Term Pledges	<u>(45,159)</u>	-
Total Net of Allowance and Discount	<u>\$ 3,115,480</u>	<u>\$ 1,841,599</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 LAND, BUILDING, EXHIBITS, AND EQUIPMENT

The Museum has the following assets as of June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,600,000	\$ 1,600,000
Building and Improvements	8,904,877	8,975,712
Furniture and Fixtures	1,251,652	1,294,085
Exhibits	7,709,946	7,705,482
Construction in Progress	839,893	-
	<u>20,306,368</u>	<u>19,575,279</u>
Less: Accumulated Depreciation	<u>(12,929,556)</u>	<u>(12,274,134)</u>
Land, Building and Equipment - Net	<u>\$ 7,376,812</u>	<u>\$ 7,301,145</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 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 \$653,003 and \$567,021 for the years ended June 30, 2013 and 2012, 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 0.196% at June 30, 2013. The line of credit was renewed January 1, 2014 and expires April 1, 2015. There were no outstanding borrowings on the line of credit at June 30, 2013 and 2012.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 7 OPERATING LEASES

The Museum leases space in Rochester, Minnesota under an operating lease that extends through March 2015. Rent expense is expensed as incurred. The Museum also leases office equipment under an operating lease. Future lease payments under the operating leases as of June 30, 2013 are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 60,854
2015	47,322
2016	14,226
Total	<u>\$ 122,402</u>

Rent expense was \$59,496 and \$29,728 for the years ended June 30, 2013 and 2012, respectively.

Leasehold Incentives

In 2012, the Museum received \$50,000 from its landlord in Rochester, Minnesota for leasehold improvements. This amount has been deferred and is being amortized over the lease term of 3 years.

NOTE 8 DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Membership Dues	\$ 586,033	\$ 484,079
Deferred Exhibit Income	423,570	328,193
Other Deferred Income	39,247	30,941
Total	<u>\$ 1,048,850</u>	<u>\$ 843,213</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>2013</u>	<u>2012</u>
Fixed Asset Replacement	\$ 582,500	\$ 532,500
Cash Operating Reserve	447,500	297,500
Total	<u>\$ 1,030,000</u>	<u>\$ 830,000</u>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 9 NET ASSETS (CONTINUED)

Temporarily Restricted

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

	<u>2013</u>	<u>2012</u>
Land, Building and Equipment	\$ 6,370,869	\$ 6,062,923
Endowment Investment Earnings	484,549	390,416
Capital Campaign	1,885,106	664,015
Future Programs	872,304	1,339,285
Total	<u>\$ 9,612,828</u>	<u>\$ 8,456,639</u>

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, 2013 and 2012, by incurring expenses satisfying the restricted purposes, as follows:

	<u>2013</u>	<u>2012</u>
Purpose Restrictions:		
Expiration of Long-Lived Asset Gifts	\$ 531,947	\$ 325,203
Program	126,811	700,288
Subtotal Program Restrictions Released	658,758	1,025,491
Endowment Draw	217,795	217,476
Time Restrictions	1,841,403	968,235
Total Restrictions Released	<u>\$ 2,717,956</u>	<u>\$ 2,211,202</u>

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.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 11 ENDOWMENT (CONTINUED)

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.

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

	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	2013 Total
Endowment Net Assets, June 30, 2012	\$ -	\$ 390,416	\$ 4,161,753	\$ 4,552,169
Investment Return:				
Interest and Dividend Income	-	150,057	-	150,057
Realized Gains	-	1,178,128	-	1,178,128
Unrealized Losses	-	(979,427)	-	(979,427)
Investment Expenses	-	(36,830)	-	(36,830)
Total Investment Return	-	311,928	-	311,928
Spending Rate Draw	-	(217,795)	-	(217,795)
Endowment Net Assets, June 30, 2013	<u>\$ -</u>	<u>\$ 484,549</u>	<u>\$ 4,161,753</u>	<u>\$ 4,646,302</u>
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	2012 Total
Endowment Net Assets, June 30, 2011	\$ -	\$ 670,708	\$ 4,161,753	\$ 4,832,461
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>

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 as of June 30:

	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	2013 Total
Donor Restricted Endowment	\$ -	\$ 484,549	\$ 4,161,753	\$ 4,646,302
Unrestricted Endowment	-	-	-	-
Total Endowment Funds	<u>\$ -</u>	<u>\$ 484,549</u>	<u>\$ 4,161,753</u>	<u>\$ 4,646,302</u>
	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>

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. In the year ended June 30, 2012, investments included partnership interests 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. These funds were liquidated in the year ended June 30, 2013 and are now invested in an endowment fund at Wells Fargo and are allocated to five major asset classes including cash and cash equivalents, fixed income securities, mutual funds, complementary strategies and real assets.

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 – Summary of Significant Accounting Policies.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of June 30, 2013 and 2012 are:

	2013			Total
	Level 1	Level 2	Level 3	
Wells Fargo Investments	\$ 4,646,302	\$ -	\$ -	\$ 4,646,302
	2012			
	Level 1	Level 2	Level 3	Total
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

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, 2013 and 2012:

	Level 3
Beginning of Year Balance - June 30, 2012	\$ 4,552,169
Investment Gains	56,399
Sale Proceeds	(4,608,568)
End of Year Balance - June 30, 2013	\$ -
	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

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 \$78,605 and \$349,904 for the years ended June 30, 2013 and 2012, 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 2013 and 2012, \$25,776 and \$26,173, respectively, of these in-kind gifts were used.

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. The remaining balance as of June 30, 2013 is \$250,000.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2012. During 2013, the term of the lease was extended to April 1, 2014. Royalty revenue was \$31,539 and \$31,142 for the years ended June 30, 2013 and 2012, 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 \$66,526 and \$64,876 for the years ended June 30, 2013 and 2012, respectively.

NOTE 16 COMMITMENTS AND CONTINGENCIES

The Museum has entered into various rental agreements for exhibits. As of June 30, 2013, the total commitment under these rental agreements was \$130,000.

Additionally, the Museum has a commitment with a construction contractor and a consulting company for services to be conducted related to the building expansion. The future commitment of these agreements is \$2,117,843.

NOTE 17 RELATED PARTY TRANSACTIONS

Total contributions received from board members in the years ended June 30, 2013 and 2012 was \$237,487 and \$140,573, respectively. Total outstanding receivables from board members included in pledges receivable as of June 30, 2013 and 2012 was \$174,273 and \$251,262, respectively.

NOTE 18 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.

**MINNESOTA CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS
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NOTE 19 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.