
THE CHILDREN'S MUSEUM

Financial Statements

June 30, 2011 and 2010

THE CHILDREN'S MUSEUM

June 30, 2011 and 2010

Contents

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Independent Auditors' Report

To the Board of Trustees
The Children's Museum
Boston, Massachusetts

We have audited the accompanying statements of financial position of The Children's Museum (a not-for-profit organization) as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows 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 The 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.

Edelstein & Company LLP

Boston, Massachusetts
December 19, 2011

THE CHILDREN'S MUSEUM

Statements of Financial Position June 30,

| | 2011 | 2010 |
|--------------------------------------|-----------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 2,686,675 | \$ 2,913,123 |
| Accounts receivable | 251,447 | 247,342 |
| Pledges receivable | 1,785,011 | 3,368,271 |
| Prepaid expenses | 267,735 | 307,101 |
| Total current assets | <u>4,990,868</u> | <u>6,835,837</u> |
| Pledges receivable | 921,941 | 1,448,557 |
| Marketable securities | 14,698,005 | 12,727,404 |
| Property, plant and equipment | 44,453,020 | 46,499,883 |
| Other assets | <u>651,743</u> | <u>586,573</u> |
| Total assets | <u><u>\$ 65,715,577</u></u> | <u><u>\$ 68,098,254</u></u> |

The accompanying notes are an integral part of these financial statements.

| | 2011 | 2010 |
|---|-----------------------------|-----------------------------|
| Liabilities and net assets | | |
| Current liabilities: | | |
| Bond payable, current portion | \$ 2,440,000 | \$ 2,230,000 |
| Accounts payable | 240,791 | 519,743 |
| Accrued liabilities | 518,852 | 710,553 |
| Total current liabilities | <u>3,199,643</u> | <u>3,460,296</u> |
| Derivative instruments | 700,709 | 840,455 |
| Notes payable | 242,804 | 220,845 |
| Bonds payable | 16,830,000 | 19,270,000 |
| Total long-term liabilities | <u>17,773,513</u> | <u>20,331,300</u> |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated operating | 1,442,006 | 860,910 |
| Quasi-endowment | 994,670 | 743,071 |
| Board designated | 4,071,000 | 3,540,848 |
| Property, plant and equipment | 26,977,111 | 26,478,091 |
| Total unrestricted net assets | <u>33,484,787</u> | <u>31,622,920</u> |
| Temporarily restricted | 7,192,438 | 8,618,542 |
| Permanently restricted | 4,065,196 | 4,065,196 |
| Total net assets | 44,742,421 | 44,306,658 |
| Total liabilities and net assets | <u><u>\$ 65,715,577</u></u> | <u><u>\$ 68,098,254</u></u> |

THE CHILDREN'S MUSEUM

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011**

| | Unrestricted | | | | | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------------|---------------------|---------------------|----------------------------------|----------------------|---------------------------|---------------------------|----------------------|
| | Undesignated Operating | Quasi- Endowment | Board Designated | Property, Plant and Equipment | Total | | | |
| Revenues, gains, and other support: | | | | | | | | |
| Admissions | \$ 2,454,824 | \$ - | \$ - | \$ - | \$ 2,454,824 | \$ - | \$ - | \$ 2,454,824 |
| Gifts, contributions and grants | 1,131,650 | - | - | - | 1,131,650 | 820,770 | - | 1,952,420 |
| Contracts | 73,863 | - | - | - | 73,863 | - | - | 73,863 |
| Membership | 1,144,615 | - | - | - | 1,144,615 | - | - | 1,144,615 |
| Fees | 174,001 | - | - | - | 174,001 | - | - | 174,001 |
| Museum store | 96,851 | - | - | - | 96,851 | - | - | 96,851 |
| Traveling exhibits | 147,925 | - | - | - | 147,925 | - | - | 147,925 |
| Other income | 81,502 | - | - | - | 81,502 | - | - | 81,502 |
| Special events | 224,530 | - | - | - | 224,530 | - | - | 224,530 |
| In-kind contributions | 47,755 | - | - | - | 47,755 | - | - | 47,755 |
| Rental income | 1,975,433 | - | - | - | 1,975,433 | - | - | 1,975,433 |
| Investment income | 13,784 | 326,721 | 682,209 | - | 1,022,714 | 1,417,653 | - | 2,440,367 |
| Unrealized gain on derivative financial instruments | - | - | - | 139,746 | 139,746 | - | - | 139,746 |
| | 7,566,733 | 326,721 | 682,209 | 139,746 | 8,715,409 | 2,238,423 | - | 10,953,832 |
| Net assets released from restrictions | 3,664,527 | - | - | - | 3,664,527 | (3,664,527) | - | - |
| Total revenues, gains and other support | 11,231,260 | 326,721 | 682,209 | 139,746 | 12,379,936 | (1,426,104) | - | 10,953,832 |
| Expenses: | | | | | | | | |
| Program services: | | | | | | | | |
| Museum programs & exhibits | 2,755,603 | - | - | 827,413 | 3,583,016 | - | - | 3,583,016 |
| Teachers center | 451,817 | - | - | - | 451,817 | - | - | 451,817 |
| Early childhood center | 469,310 | - | - | - | 469,310 | - | - | 469,310 |
| Membership services | 221,309 | - | - | - | 221,309 | - | - | 221,309 |
| Special events | 35,983 | - | - | - | 35,983 | - | - | 35,983 |
| Supporting services: | | | | | | | | |
| Administration and general | 840,672 | - | - | - | 840,672 | - | - | 840,672 |
| Facilities costs | 1,159,674 | - | - | - | 1,159,674 | - | - | 1,159,674 |
| Fundraising | 240,805 | - | - | - | 240,805 | - | - | 240,805 |
| Marketing | 518,307 | - | - | - | 518,307 | - | - | 518,307 |
| In-kind services | 47,755 | - | - | - | 47,755 | - | - | 47,755 |
| | 6,741,235 | - | - | 827,413 | 7,568,648 | - | - | 7,568,648 |
| Change in net assets before depreciation and interest | 4,490,025 | 326,721 | 682,209 | (687,667) | 4,811,288 | (1,426,104) | - | 3,385,184 |
| Depreciation and interest | | | | | | | | |
| Property and equipment | - | - | - | 1,620,424 | 1,620,424 | - | - | 1,620,424 |
| Exhibits | - | - | - | 894,098 | 894,098 | - | - | 894,098 |
| Interest | 27,379 | - | - | 407,520 | 434,899 | - | - | 434,899 |
| | 27,379 | - | - | 2,922,042 | 2,949,421 | - | - | 2,949,421 |
| Change in net assets after depreciation and interest | 4,462,646 | 326,721 | 682,209 | (3,609,709) | 1,861,867 | (1,426,104) | - | 435,763 |
| Transfers, net | (3,881,550) | (75,122) | (152,057) | 4,108,729 | - | - | - | - |
| Total change in net assets | 581,096 | 251,599 | 530,152 | 499,020 | 1,861,867 | (1,426,104) | - | 435,763 |
| Net assets, beginning of year | 860,910 | 743,071 | 3,540,848 | 26,478,091 | 31,622,920 | 8,618,542 | 4,065,196 | 44,306,658 |
| Net assets, end of year | \$ 1,442,006 | \$ 994,670 | \$ 4,071,000 | \$ 26,977,111 | \$ 33,484,787 | \$ 7,192,438 | \$ 4,065,196 | \$ 44,742,421 |

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S MUSEUM

Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2010

| | Unrestricted | | | | | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------------|---------------------|---------------------|----------------------------------|----------------------|---------------------------|---------------------------|----------------------|
| | Undesignated Operating | Quasi- Endowment | Board Designated | Property, Plant and Equipment | Total | | | |
| Revenues, gains, and other support: | | | | | | | | |
| Admissions | \$ 2,172,472 | \$ - | \$ - | \$ - | \$ 2,172,472 | \$ - | \$ - | \$ 2,172,472 |
| Gifts, contributions and grants | 1,335,850 | - | - | - | 1,335,850 | 598,215 | 40,959 | 1,975,024 |
| Contracts | 43,157 | - | - | - | 43,157 | - | - | 43,157 |
| Membership | 1,012,339 | - | - | - | 1,012,339 | - | - | 1,012,339 |
| Fees | 225,673 | - | - | - | 225,673 | - | - | 225,673 |
| Museum store | 130,532 | - | - | - | 130,532 | - | - | 130,532 |
| Traveling exhibits | 95,000 | - | - | - | 95,000 | - | - | 95,000 |
| Other income | 33,465 | - | - | - | 33,465 | - | - | 33,465 |
| Special events | 205,476 | - | - | - | 205,476 | - | - | 205,476 |
| In-kind contributions | 20,500 | - | - | - | 20,500 | - | - | 20,500 |
| Rental income | 1,762,384 | - | - | - | 1,762,384 | - | - | 1,762,384 |
| Investment income | 687 | 259,242 | 510,051 | - | 769,980 | 1,116,948 | - | 1,886,928 |
| Unrealized loss on derivative financial instruments | - | - | - | (136,715) | (136,715) | - | - | (136,715) |
| | 7,037,535 | 259,242 | 510,051 | (136,715) | 7,670,113 | 1,715,163 | 40,959 | 9,426,235 |
| Net assets released from restrictions | 4,027,737 | - | - | - | 4,027,737 | (4,027,737) | - | - |
| Total revenues, gains and other support | 11,065,272 | 259,242 | 510,051 | (136,715) | 11,697,850 | (2,312,574) | 40,959 | 9,426,235 |
| Expenses: | | | | | | | | |
| Program services: | | | | | | | | |
| Museum programs & exhibits | 2,104,276 | - | - | 1,269,989 | 3,374,265 | - | - | 3,374,265 |
| Teachers center | 630,567 | - | - | - | 630,567 | - | - | 630,567 |
| Early childhood center | 323,133 | - | - | - | 323,133 | - | - | 323,133 |
| Membership services | 260,504 | - | - | - | 260,504 | - | - | 260,504 |
| Special events | 40,322 | - | - | - | 40,322 | - | - | 40,322 |
| Supporting services: | | | | | | | | |
| Administration and general | 710,913 | - | - | - | 710,913 | - | - | 710,913 |
| Facilities costs | 1,124,861 | - | - | - | 1,124,861 | - | - | 1,124,861 |
| Fundraising | 268,734 | - | - | - | 268,734 | - | - | 268,734 |
| Marketing | 490,635 | - | - | - | 490,635 | - | - | 490,635 |
| In-kind services | 20,500 | - | - | - | 20,500 | - | - | 20,500 |
| | 5,974,445 | - | - | 1,269,989 | 7,244,434 | - | - | 7,244,434 |
| Change in net assets before depreciation and interest | 5,090,827 | 259,242 | 510,051 | (1,406,704) | 4,453,416 | (2,312,574) | 40,959 | 2,181,801 |
| Depreciation and interest: | | | | | | | | |
| Property and equipment | - | - | - | 1,799,596 | 1,799,596 | - | - | 1,799,596 |
| Exhibits | - | - | - | 945,178 | 945,178 | - | - | 945,178 |
| Interest | 20,088 | - | - | 468,755 | 488,843 | - | - | 488,843 |
| | 20,088 | - | - | 3,213,529 | 3,233,617 | - | - | 3,233,617 |
| Change in net assets after depreciation and interest | 5,070,739 | 259,242 | 510,051 | (4,620,233) | 1,219,799 | (2,312,574) | 40,959 | (1,051,816) |
| Transfers, net | (4,856,966) | (74,236) | (146,182) | 5,077,384 | - | - | - | - |
| Total change in net assets | 213,773 | 185,006 | 363,869 | 457,151 | 1,219,799 | (2,312,574) | 40,959 | (1,051,816) |
| Net assets, beginning of year | 647,137 | 558,065 | 3,176,979 | 26,020,940 | 30,403,121 | 10,931,116 | 4,024,237 | 45,358,474 |
| Net assets, end of year | \$ 860,910 | \$ 743,071 | \$ 3,540,848 | \$ 26,478,091 | \$ 31,622,920 | \$ 8,618,542 | \$ 4,065,196 | \$ 44,306,658 |

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S MUSEUM

Statements of Cash Flows

For the Years Ended June 30,

2011

2010

Cash flows from operating activities:

| | | |
|---|----------------|------------------|
| Change in net assets | \$ 435,763 | \$ (1,051,816) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Allowance for uncollectible pledges | 25,619 | 7,796 |
| Depreciation and amortization | 2,526,426 | 2,744,774 |
| Realized investment gains | (347,362) | (91,716) |
| Unrealized investment (gains) losses | (1,705,718) | (1,340,928) |
| Unrealized (gains) losses on derivative instruments | (139,746) | 136,715 |
| Discount for contribution of below market interest debt | 21,959 | 6,638 |
| Contributions restricted for capital campaign | (1,739,260) | (2,537,126) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (4,105) | (80,065) |
| Pledges receivable | 2,084,257 | 3,777,607 |
| Prepaid expenses | 39,366 | (187,446) |
| Accounts payable | (278,952) | (286,961) |
| Accrued liabilities | (191,701) | 96,432 |
| Other assets | (77,075) | (153,260) |
| Net cash provided by operating activities | 649,471 | 1,040,644 |

Cash flows used in investing activities:

| | | |
|---|------------------|--------------------|
| Proceeds from the sale of marketable securities | 550,101 | 538,000 |
| Purchase of marketable securities | (467,621) | (499,339) |
| Purchase of exhibits, property, equipment and construction in-process | (467,659) | (1,127,182) |
| Net cash used in investing activities | (385,179) | (1,088,521) |

Cash flows (used in) provided by financing activities:

| | | |
|--|------------------|----------------|
| Contributions restricted for capital campaign | 1,739,260 | 2,537,126 |
| Repayment of bonds payable | (2,230,000) | (2,065,000) |
| Net cash (used in) provided by financing activities | (490,740) | 472,126 |

(Decrease) increase in cash

(226,448)

424,249

Cash, beginning of year

2,913,123

2,488,874

Cash, end of year

\$ 2,686,675

\$ 2,913,123

Supplemental financial information:

Cash paid during the year for interest

\$ 439,986

\$ 465,278

THE CHILDREN'S MUSEUM

Notes to Financial Statements

1. Organization Purpose

The Children's Museum (the "Museum") is a charitable Massachusetts corporation. Its mission is to "engage children and families in joyful discovery experiences that instill an appreciation of our world, develop foundational skills, and spark a lifelong love of learning". For that purpose, the Museum offers educational exhibits and programs to families, children and other educators in Boston and its vicinity.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Museum, the Museum determines the classification of its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions.

The net assets of the Museum are reported in three categories as follows:

- (1) Unrestricted net assets represent funds whose use is not restricted by donors. Unrestricted net assets are further classified as follows:

Undesignated operating net assets represent resources available for support of the Museum's general operations. *The Quasi-Endowment Fund* represents resources designated by the Board for annual operating support. The funds are distributed according to the Museum's spending policy. *The Board Designated Fund* is composed of resources that have been earmarked for capital and other projects. Disbursement of funds is subject to annual Board approval which is provided as part of the budget approval process.

Transfers to/from undesignated operating represent allocations for property, plant and equipment funding, for payment of bond and other long term principal and for allocations from the board and quasi-endowment funds as provided in the spending policy.

- (2) Temporarily restricted net assets represent resources restricted by donors for a specific period or purpose.
- (3) Permanently restricted net assets represent the principal portion of endowment funds which cannot be expended. Income from endowment funds is utilized in accordance with the donors' stipulations.

Fair Value Measurements

The Museum values its financial assets and liabilities based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 – Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with market data.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 3 – Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Revenues, Gains and Other Support

Contributions and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are classified as temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of the purpose restriction or expiration of the time restriction.

Admission fees represent visitor fees paid for access to the Museum as well as gift passes sold and donation box proceeds received from visitors. Museum store revenue represents sales in the Museum's gift shop.

Membership dues represent fees paid by members in exchange for benefits that include admission to the Museum, invitation to member events and exhibit openings, and discounts to the Museum store and special events.

The Museum receives various types of in-kind support in the form of contributed services and other assets. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, as provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of marketable securities and other tangible assets, such as property, equipment and inventory, are recognized at fair value when received.

Additionally, the Museum receives contributed time by volunteers which does not meet the criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Certain space within the Museum is leased primarily to nonprofit and commercial tenants under operating leases. Rental revenue is recorded as income on a straight-line basis over the lease term.

The Museum records interest and dividends on its marketable securities when earned. Gains or losses are recorded when realized. Unrealized gains or losses are recorded based upon changes in the fair value of securities held.

Cash

Cash consists of checking and savings accounts at banks.

The Museum occasionally maintains deposits in excess of federally insured limits. The risk is managed by the banks' participation in the FDIC's Transaction Account Guarantee Program, which provides full deposit insurance coverage for noninterest-bearing accounts which has been extended through December 31, 2012.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Property, Exhibits and Equipment

Expenditures for property and equipment are stated at cost. The Museum capitalizes the costs of constructing exhibits. Depreciation is recorded to allocate the cost of these assets over their estimated useful lives using the straight-line method. Estimated useful lives are as follows:

| | |
|--|------------------------|
| Equipment | Five to ten years |
| Exhibits | Three to ten years |
| Capital improvements and major renovations | Twenty to thirty years |
| Building | Thirty years |

Construction in-process is comprised of expenditures that are anticipated to have significant future benefit and are stated at cost. Cost includes contracting and construction, water rights, and architectural design services. Exhibits in-process include expenditures for staff directly involved with exhibit development, consultants, and design services. Upon completion of construction, the project cost is reclassified to a property and equipment account and depreciated.

Management periodically evaluates its property and equipment assets for indications that the value has been impaired. Based on this assessment, management believes that impairment in value has not occurred.

Museum Collection

In conformity with the practice followed by many museums, the value of property donated for the Museum collection is not reflected on the statement of financial position. The collection is deemed inexhaustible. The collection is maintained for education and research and furtherance of the Museum's goals rather than financial gain. The collection is protected, kept unencumbered and is subject to an organizational policy that encourages permanent possession.

Bond Issuance Costs

Costs incurred in connection with tax-exempt bond financing have been deferred (reported as a component of other assets) and are being amortized over the term of the obligation on a straight line basis.

Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in these financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates and Subsequent Events

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Use of Estimates and Subsequent Events (continued)

The Museum's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on December 19, 2011, the date these financial statements became available to be issued. No events have occurred subsequent to the balance sheet date and through the date of evaluation that meet the criteria required for disclosure or accrual.

Income Taxes

The Museum operates as a publicly supported tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Museum has evaluated the tax positions taken on returns for open years and those expected to be taken on returns for June 30, 2011. It is management's belief that such tax positions are more likely than not to be sustained upon examination by tax authorities. Accordingly, no liability for uncertain tax positions has been reflected in these financial statements. Returns for tax years beginning with those filed for June 30, 2008 are open to examination.

3. Pledges Receivable

Pledges as of June 30, 2011 and 2010 are expected to be collected as follows:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|---------------------|
| Receivable in less than one year: | | |
| Corporations | \$ 992,004 | \$ 1,085,254 |
| Foundations | 502,000 | 1,619,817 |
| Government | 184,735 | 496,287 |
| Individuals | <u>138,100</u> | <u>220,284</u> |
| | 1,816,839 | 3,421,642 |
| Less - allowance for uncollectible pledges | <u>(31,828)</u> | <u>(53,371)</u> |
| Net pledges receivable in less than one year | <u>1,785,011</u> | <u>3,368,271</u> |
| Receivables in one to five years: | | |
| Corporations | 160,000 | 340,000 |
| Foundations | 570,000 | 860,000 |
| Individuals | <u>227,900</u> | <u>322,100</u> |
| | 957,900 | 1,522,100 |
| Less - discount to net present value | (27,149) | (60,657) |
| Less - allowance for uncollectible pledges | <u>(8,810)</u> | <u>(12,886)</u> |
| Net pledges receivable in one to five years | <u>\$ 921,941</u> | <u>\$ 1,448,557</u> |

THE CHILDREN'S MUSEUM

Notes to Financial Statements

3. Pledges Receivable (continued)

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of estimated future cash flows.

The present value of estimated future cash flows has been measured utilizing a discount rate of 2.54% for the years ended June 30, 2011 and 2010.

At June 30, 2011 and 2010, the Museum has conditional pledges totaling \$1,737,416 and \$1,902,500 which will not be recognized as assets in the statements of financial position until such time as the Museum meets the conditions of the promises.

4. Endowment and Marketable Securities

Activity in the Museum's endowment funds for the years ended June 30, 2011 and 2010 was:

| | <u>2011</u> | | | |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Balance at beginning of year | \$ 5,183,916 | \$ 3,478,292 | \$ 4,065,196 | \$ 12,727,404 |
| Investment return | | | | |
| Interest and dividends | 161,657 | 208,147 | - | 369,804 |
| Realized gains | 143,348 | 204,014 | - | 347,362 |
| Unrealized gains | <u>703,927</u> | <u>1,001,791</u> | <u>-</u> | <u>1,705,718</u> |
| Total investment return | <u>1,008,932</u> | <u>1,413,952</u> | <u>-</u> | <u>2,422,884</u> |
| Repayment of loan from Board Designated Fund | 100,000 | - | - | 100,000 |
| Entry and exit fees | (900) | (1,282) | - | (2,182) |
| Amounts appropriated for current operations per spending policy | <u>(226,279)</u> | <u>(323,822)</u> | <u>-</u> | <u>(550,101)</u> |
| Balance at end of year | <u>\$ 6,065,669</u> | <u>\$ 4,567,140</u> | <u>\$ 4,065,196</u> | <u>\$ 14,698,005</u> |

THE CHILDREN'S MUSEUM

Notes to Financial Statements

4. Endowment and Marketable Securities (continued)

| | <u>2010</u> | | | |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Balance at beginning of year | \$ 4,626,136 | \$ 2,683,048 | \$ 4,024,237 | \$ 11,333,421 |
| Investment return | | | | |
| Interest and dividends | 184,574 | 267,854 | - | 452,428 |
| Realized gains | 37,433 | 54,283 | - | 91,716 |
| Unrealized gains | <u>547,286</u> | <u>793,642</u> | <u>-</u> | <u>1,340,928</u> |
| Total investment return | <u>769,293</u> | <u>1,115,779</u> | <u>-</u> | <u>1,885,072</u> |
| Contributions | | | 40,959 | 40,959 |
| Repayment of loan from Board Designated Fund | 8,906 | - | - | 8,906 |
| Entry and exit fees | (1,132) | (1,822) | - | (2,954) |
| Amounts appropriated for current operations per spending policy | <u>(219,287)</u> | <u>(318,713)</u> | <u>-</u> | <u>(538,000)</u> |
| Balance at end of year | <u>\$ 5,183,916</u> | <u>\$ 3,478,292</u> | <u>\$ 4,065,196</u> | <u>\$ 12,727,404</u> |

The Museum's endowment consists of donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

4. Endowment and Marketable Securities (continued)

Endowment net asset composition by type of fund at June 30, 2011 and 2010, respectively, was:

| | <u>2011</u> | | | |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor Restricted Endowment Funds | \$ - | \$ 4,567,140 | \$ 4,065,196 | \$ 8,632,336 |
| Quasi-Endowment Fund | 1,994,670 | - | - | 1,994,670 |
| Board Designated Fund | <u>4,070,999</u> | <u>-</u> | <u>-</u> | <u>4,070,999</u> |
| Total | <u>\$ 6,065,669</u> | <u>\$ 4,567,140</u> | <u>\$ 4,065,196</u> | <u>\$ 14,698,005</u> |

| | <u>2010</u> | | | |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor Restricted Endowment Funds | \$ - | \$ 3,478,292 | \$ 4,065,196 | \$ 7,543,488 |
| Quasi-Endowment Fund | 1,743,070 | - | - | 1,743,070 |
| Board Designated Fund | <u>3,440,846</u> | <u>-</u> | <u>-</u> | <u>3,440,846</u> |
| Total | <u>\$ 5,183,916</u> | <u>\$ 3,478,292</u> | <u>\$ 4,065,196</u> | <u>\$ 12,727,404</u> |

The Museum has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2006* (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets, is classified as temporarily restricted net assets until appropriated and expended. Accordingly, the income and appreciation earned in the permanently restricted endowment has been classified as temporarily restricted net assets.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

4. Endowment and Marketable Securities (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.

Accordingly, under the Museum's endowment spending policy, four-and-a-half percent of the average of the fair value of each of the previous twelve quarters is appropriated to support the current operations. For the years ended June 30, 2011 and 2010, the amounts available per the Museum's spending policy were \$550,101 and \$538,000, respectively. Amounts appropriated for current operations include the spending policy net of investment management and custody fees.

Marketable securities at June 30, 2011 and 2010 consisted of the following:

| | <u>2011</u> | | <u>2010</u> | |
|-----------------------|----------------------|---------------------------|----------------------|---------------------------|
| | <u>Fair Value</u> | <u>Cost (Average)</u> | <u>Fair Value</u> | <u>Cost (Average)</u> |
| TIFF Multi-Asset Fund | <u>\$ 14,698,005</u> | <u>\$ 13,750,069</u> | <u>\$ 12,727,404</u> | <u>\$ 13,485,186</u> |

TIFF charges annual management and custody fees of .69% on the net asset values of the TIFF Multi-Asset Fund and entry fees on purchases and exit fees on redemptions in the amount of .50%.

5. Derivative Instruments

The Museum entered into interest rate swap agreements on \$10 million of the bonds payable. The swap agreements were designated as fair value hedges of the floating-rate debt. Under these interest rate swap contracts, the Museum makes the variable interest payments required under the bond indenture and either receives or pays additional interest based on the Security Industry Financial Markets Associates (SIFMA) municipal swap index. The effect of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. The fair value of the liabilities was \$700,709 and \$840,455 at June 30, 2011 and 2010. The unrealized gains and losses on the interest rate swaps are reflected in the statement of activities and changes in net assets.

The estimated fair value of the interest rate swap agreements was computed by using the net present value of fixed and floating future cash flows estimated through the use of various forward interest rate yield curves.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

6. Fair Value Disclosures

The valuation of the Museum's assets and liabilities within the fair value hierarchy, as described in Note 2, consisted of the following at June 30, 2011 and 2010, respectively:

| | <u>2011</u> | | | <u>2010</u> | | |
|-----------------------|----------------------|-------------------|----------------|----------------------|-------------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Assets: | | | | | | |
| TIFF Multi-Asset Fund | <u>\$ 14,698,005</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,727,404</u> | <u>\$ -</u> | <u>\$ -</u> |
| Liabilities: | | | | | | |
| Interest rate swap | <u>\$ -</u> | <u>\$ 700,709</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 840,455</u> | <u>\$ -</u> |

7. Property and Equipment

Property and equipment consisted of the following at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|------------------------------------|----------------------|----------------------|
| Property and land | \$ 48,131,114 | \$ 48,093,814 |
| Equipment and furniture | 2,514,617 | 2,468,876 |
| Exhibits | 10,342,158 | 9,392,160 |
| Construction in process: | | |
| Building additions and renovations | 206,034 | 206,034 |
| Exhibits | <u>271,215</u> | <u>836,595</u> |
| | 61,465,138 | 60,997,479 |
| Less – accumulated depreciation | <u>17,012,118</u> | <u>14,497,596</u> |
| Property and equipment | <u>\$ 44,453,020</u> | <u>\$ 46,499,883</u> |

THE CHILDREN'S MUSEUM

Notes to Financial Statements

8. Other Assets

Other assets consisted of the following at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Bond issuance costs, net of accumulated amortization | \$ 297,604 | \$ 309,508 |
| Rent receivable | <u>354,139</u> | <u>277,065</u> |
| | <u>\$ 651,743</u> | <u>\$ 586,573</u> |

9. Bonds Payable

On September 26, 2006, the Museum issued \$30 million in Variable Rate Demand Revenue Bonds (the "Bonds") through the Massachusetts Development Finance Agency. Bond proceeds were used, in part, to refinance The Children's Museum Issue Series 2001 bond issuance which had an outstanding balance of \$6,905,000 at the time of the refinancing. Bond proceeds also provided the financing associated with a renovation and construction project which was completed in 2007.

The letter of credit was renewed in October 2011 to an expiration date of April 3, 2012. The Bond's creditworthiness is enhanced by a bank's issuance of a letter of credit. The Bond agreement contains provisions for periodic adjustment of interest rates and interest payment dates. The Bonds mature on April 1, 2036. Interest on the Bonds is payable monthly and the principal is payable each April 1. During the years ended June 30, 2011 and 2010, interest on the Bonds was \$407,520 and \$468,755, respectively.

Under the terms of the Agreement, the Museum is subject to certain restrictive covenants involving attaining certain liquidity ratios, additional indebtedness, and the use of assets financed by the Bonds. The Museum was in compliance with all debt covenant requirements at June 30, 2011.

Future principal payments are due April 1 of each year as follows:

| Years ending June 30, | |
|-----------------------|--------------|
| 2012 | \$ 2,440,000 |
| 2013 | 2,650,000 |
| 2014 | 2,755,000 |
| 2015 | 2,875,000 |
| 2016 | 2,990,000 |
| Thereafter | \$ 5,560,000 |

10. Line-of-Credit

The Museum has a line-of-credit with its bank permitting advances up to \$1,000,000. Advances bear interest at the bank's base rate and are due on demand. The line-of-credit agreement was extended and scheduled to renew on January 31, 2012. There were no outstanding balances on the line-of-credit at June 30, 2011 and 2010.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

11. Note Payable

In May 2007 the Museum borrowed \$900,000 from the City of Boston, the proceeds of which were used to finance the building renovations and support its general operations. The loan bears interest at 1% and has a term of fifty years, at which time the outstanding balance and accrued interest will be due and payable. Interest has been imputed at the risk-free rate of 3.8% at the time the loan was made and was recorded as a contribution during year end June 30, 2007. The associated interest expense is recorded over the life of the loan, and was \$21,959 and \$6,638 during the years ended June 30, 2011 and 2010, respectively. Amounts shown as notes payable on the statement of financial position were \$242,804 and \$220,845 on June 30, 2011 and 2010, respectively.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30,

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Capital campaign | \$ 1,469,725 | \$ 3,851,087 |
| Exhibits | 319,935 | 583,823 |
| Other programs | 835,638 | 705,341 |
| Appropriation of endowment - spending policy and fees | <u>4,567,140</u> | <u>3,478,291</u> |
| | <u>\$ 7,192,438</u> | <u>\$ 8,618,542</u> |

Net assets released from restrictions for the years ending June 30, 2011 and 2010 were as follows:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Capital campaign | \$ 2,418,079 | \$ 1,734,628 |
| Exhibits | 383,888 | 1,259,387 |
| Other programs | 537,456 | 713,187 |
| Appropriation of endowment - spending policy and fees | <u>325,104</u> | <u>320,535</u> |
| | <u>\$ 3,664,527</u> | <u>\$ 4,027,737</u> |

THE CHILDREN'S MUSEUM

Notes to Financial Statements

13. Permanently Restricted Net Assets

Permanently restricted net assets consisted of investments in the following named funds at June 30, 2011 and 2010:

| | |
|-------------------------------|---------------------|
| Sadanbu Oda Fund | \$ 682,715 |
| John and Dorothy Wilson Fund | 180,000 |
| J. H. and E. V. Wade Fund I | 109,374 |
| J. H. and E. V. Wade Fund II | 1,000,000 |
| O'Connor Early Childhood Fund | 550,000 |
| Growdon Science Program Fund | 500,000 |
| de Gunzburg Fund | 920,349 |
| Other endowment funds | <u>122,758</u> |
| | <u>\$ 4,065,196</u> |

14. Retirement Plan

The Museum participates in a contributory retirement plan sponsored by the Teachers Insurance and Annuity Association and Fidelity Investments, and makes contributions to the plan for the benefit of all eligible employees. The Museum's contributions were \$49,795 and \$53,058 for the years ended June 30, 2011 and 2010, respectively.

15. Advertising Costs

The Museum expenses the costs of advertising the first time the advertisement takes place. Advertising expenses for the years ended June 30, 2011 and 2010 were \$44,964 and \$51,288, respectively.

16. Rental Income

The Museum leases a portion of its space to outside tenants. In addition to the base rental amounts, certain tenants are obligated for additional rents based on a percentage of operating cost increases. Minimum future base rentals to be received on these leases as of June 30, 2011 are:

| <u>Years ending June 30,</u> | <u>Amount</u> |
|------------------------------|---------------|
| 2012 | \$ 1,668,761 |
| 2013 | 1,720,344 |
| 2014 | 1,751,404 |
| 2015 | 1,779,948 |
| 2016 | 1,070,767 |
| Thereafter | \$ 1,127,738 |

THE CHILDREN'S MUSEUM

Notes to Financial Statements

17. Leases

In March 2000, the Museum entered into a twenty-year non-cancellable lease for exhibit production and storage space. The lease requires the Museum to pay base rental payments, real estate taxes and utilities. Rent expense was \$98,944 for each of the years ended June 30, 2011 and 2010.

Future minimum lease payments are as follows:

| <u>Years ending June 30,</u> | <u>Amount</u> |
|------------------------------|---------------|
| 2012 | \$ 98,944 |
| 2013 | 98,944 |
| 2014 | 98,944 |
| 2015 | 98,944 |
| 2016 | 98,944 |
| Thereafter | \$ 296,832 |