

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Madison Children's Museum, Inc.
Madison, Wisconsin

We have audited the accompanying consolidated statements of financial position of Madison Children's Museum, Inc. and subsidiary as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Madison Children's Museum, Inc.'s management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Madison Children's Museum, Inc. and subsidiary as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wegner LLP

Wegner LLP
Madison, Wisconsin
October 28, 2011



MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 56,795	\$ 70,163
Investments	2,264	2,695
Pledges receivable	782,494	1,222,888
Accounts receivable	5,816	432
Inventory	843,000	639,000
Prepaid expenses	66,194	59,005
Total current assets	1,756,563	1,994,183
Property and equipment - net	15,530,193	15,098,780
OTHER ASSETS		
Cash designated for new building	2,022,512	2,211,429
Pledges receivable - net	677,553	996,832
Cash and investments restricted for endowment purposes	5,995	5,995
Total other assets	2,706,060	3,214,256
Total assets	\$ 19,992,816	\$ 20,307,219
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 50,892	\$ 155,892
Due to American Girl Fund For Children	421,500	319,500
Accrued expenses	142,493	99,956
Other liabilities	1,800	3,300
Deferred revenue	26,015	37,973
Current portion of notes payable	-	156,246
Total current liabilities	642,700	772,867
Notes payable less current portion	5,838,827	6,851,311
Total liabilities	6,481,527	7,624,178
NET ASSETS		
Unrestricted	11,976,109	10,439,276
Temporarily restricted	1,529,185	2,237,770
Permanently restricted	5,995	5,995
Total net assets	13,511,289	12,683,041
Total liabilities and net assets	\$ 19,992,816	\$ 20,307,219

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2011

UNRESTRICTED NET ASSETS	Capital		
SUPPORT AND REVENUE	Campaign	Operations	Total
Donated inventory, materials, and rent	\$ -	\$ 729,263	\$ 729,263
Annual benefit sale	-	494,299	494,299
Contributions and grants	-	322,561	322,561
Visitor services	-	852,118	852,118
Other income	-	45,229	45,229
Endowment distributions	-	152,623	152,623
Membership dues	-	495,177	495,177
Other events	-	234,454	234,454
Investment return	-	31,244	31,244
Total unrestricted support and revenue	-	3,356,968	3,356,968
EXPENSES			
Program services			
Exhibits	-	1,204,228	1,204,228
Education and visitor services	-	955,717	955,717
Marketing and communications	-	148,879	148,879
Total program services	-	2,308,824	2,308,824
Supporting activities			
Administration	-	687,901	687,901
Fundraising	-	396,219	396,219
Capital campaign	-	226,529	226,529
Annual benefit sale	-	732,104	732,104
Total supporting activities	-	2,042,753	2,042,753
Total expenses	-	4,351,577	4,351,577
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of time and purpose restrictions	-	2,531,442	2,531,442
Change in unrestricted net assets	-	1,536,833	1,536,833
TEMPORARILY RESTRICTED NET ASSETS			
Contributions	1,530,598	292,259	1,822,857
Net assets released from restrictions			
Satisfaction of time and purpose restrictions	(2,480,115)	(51,327)	(2,531,442)
Change in temporarily restricted net assets	(949,517)	240,932	(708,585)
Change in net assets	(949,517)	1,777,765	828,248
Net assets - beginning of year	2,095,858	10,587,183	12,683,041
Net assets - end of year	\$ 1,146,341	\$ 12,364,948	\$ 13,511,289

See accompanying notes.

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2010

UNRESTRICTED NET ASSETS	Capital		
SUPPORT AND REVENUE	Campaign	Operations	Total
Donated inventory, materials, and rent	\$ -	\$ 364,818	\$ 364,818
Annual benefit sale	-	421,607	421,607
Contributions and grants	-	297,364	297,364
Visitor services	-	85,557	85,557
Other income	-	46,680	46,680
Endowment distributions	-	155,161	155,161
Membership dues	-	128,993	128,993
Other events	-	88,754	88,754
Investment return	-	11,209	11,209
Total unrestricted support and revenue	-	1,600,143	1,600,143
EXPENSES			
Program services			
Exhibits	-	383,832	383,832
Education and visitor services	-	405,356	405,356
Marketing and communications	-	57,988	57,988
Total program services	-	847,176	847,176
Supporting activities			
Administration	-	444,012	444,012
Fundraising	-	396,758	396,758
Capital campaign	-	235,270	235,270
Annual benefit sale	-	650,542	650,542
Total supporting activities	-	1,726,582	1,726,582
Total expenses	-	2,573,758	2,573,758
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of time and purpose restrictions	-	3,358,472	3,358,472
Change in unrestricted net assets	-	2,384,857	2,384,857
TEMPORARILY RESTRICTED NET ASSETS			
Contributions	1,891,978	31,442	1,923,420
Net assets released from restrictions			
Satisfaction of time and purpose restrictions	(3,248,056)	(110,416)	(3,358,472)
Change in temporarily restricted net assets	(1,356,078)	(78,974)	(1,435,052)
Change in net assets	(1,356,078)	2,305,883	949,805
Net assets - beginning of year	3,451,936	8,281,300	11,733,236
Net assets - end of year	\$ 2,095,858	\$ 10,587,183	\$ 12,683,041

See accompanying notes.

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2011

	Exhibit Programs	Education and Visitor Services	Marketing and Communications	Administration
Personnel	\$ 324,186	\$ 674,485	\$ 44,494	\$ 218,421
Cost of sales	-	41,243	-	-
Occupancy	69,769	4,969	-	37,765
Professional services	48,251	81,215	5,731	67,496
Publicity	-	-	82,215	-
Printing, postage, and copying	2,188	5,512	11,605	4,645
Maintenance and repairs	116,308	2,029	-	8,617
Events, meetings and receptions	-	-	-	206
Insurance	-	-	-	29,063
Interest and bank charges	253,260	52,213	-	128,633
Depreciation	303,934	21,710	-	151,967
Office supplies	12,479	5,707	1,573	15,241
Technology	150	9,174	3,110	15,999
Program supplies	67,583	51,874	-	-
Volunteer appreciation	784	-	-	197
Training	3,248	4,082	-	2,902
Travel	2,063	1,159	151	743
Dues and subscriptions	25	345	-	6,006
Total expenses	\$ 1,204,228	\$ 955,717	\$ 148,879	\$ 687,901

<u>Fundraising</u>	<u>Capital Campaign</u>	<u>Annual Benefit Sale</u>	<u>Total</u>
\$ 242,702	\$ -	\$ 26,846	\$ 1,531,134
-	-	436,000	477,243
60	25,889	232,804	371,256
7,609	100,259	6,460	317,021
9,048	5,684	3,675	100,622
49,242	1,918	4,555	79,665
-	-	1,171	128,125
67,455	88,522	-	156,183
-	-	-	29,063
940	-	12,577	447,623
-	-	-	477,611
4,060	2,253	6,838	48,151
11,548	-	-	39,981
-	404	-	119,861
52	-	803	1,836
1,534	-	-	11,766
359	-	375	4,850
1,610	1,600	-	9,586
<u>\$ 396,219</u>	<u>\$ 226,529</u>	<u>\$ 732,104</u>	<u>\$ 4,351,577</u>

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2010

	Exhibit Programs	Education and Visitor Services	Marketing and Communications	Administration
Personnel	\$ 247,352	\$ 332,042	\$ 199	\$ 179,249
Cost of sales	-	4,821	-	51,000
Occupancy	106,860	-	-	25,348
Professional services	4,041	18,583	10,187	69,592
Publicity	-	-	38,157	-
Printing, postage, and copying	747	719	5,963	8,546
Maintenance and repairs	2,820	14,549	-	1,265
Events, meetings and receptions	-	-	-	-
Insurance	-	-	-	22,695
Interest and bank charges	78	8,005	-	3,510
Depreciation	-	770	-	16,778
Office supplies	1,045	6,253	422	8,894
Technology	805	5,675	3,060	11,192
Telephone	2,444	3,004	-	8,763
Program supplies	16,192	3,347	-	-
Volunteer appreciation	8	774	-	232
Training	273	4,277	-	2,759
Travel	1,008	1,632	-	1,816
Dues and subscriptions	159	905	-	3,830
Bad debt	-	-	-	28,477
Miscellaneous	-	-	-	66
Total expenses	\$ 383,832	\$ 405,356	\$ 57,988	\$ 444,012

See accompanying notes.

<u>Fundraising</u>	<u>Capital Campaign</u>	<u>Annual Benefit Sale</u>	<u>Total</u>
\$ 284,562	\$ -	\$ -	\$ 1,043,404
-	-	386,241	442,062
-	139,535	213,004	484,747
5,907	46,931	4,452	159,693
444	8,001	25,380	71,982
29,857	16,221	2,766	64,819
-	225	2,004	20,863
52,742	17,504	-	70,246
-	2,876	-	25,571
615	170	11,894	24,272
-	1,000	-	18,548
5,901	2,415	1,349	26,279
10,251	-	120	31,103
3,134	-	2,558	19,903
-	-	-	19,539
-	-	602	1,616
1,519	298	-	9,126
1,121	94	172	5,843
654	-	-	5,548
-	-	-	28,477
51	-	-	117
<u>\$ 396,758</u>	<u>\$ 235,270</u>	<u>\$ 650,542</u>	<u>\$ 2,573,758</u>

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 828,248	\$ 949,805
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	477,610	18,548
Provision for uncollectible pledges receivable	(6,000)	25,000
Realized and unrealized (gains) losses on investments	110	(216)
Change in contributed inventory	(204,000)	261,000
Contributions restricted for museum relocation	(1,530,598)	(1,891,978)
(Increase) decrease in assets		
Pledges receivable	(183,844)	83,796
Accounts receivable	(5,384)	30,809
Prepaid expenses	(7,189)	17,476
Increase (decrease) in liabilities		
Accounts payable	(105,000)	(1,055,567)
Due to American Girl Fund For Children	102,000	(130,500)
Accrued expenses	42,537	21,241
Other liabilities	(1,500)	300
Deferred revenue	(11,958)	17,818
Net cash used in operating activities	<u>(604,968)</u>	<u>(1,652,468)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized construction in progress	(798,789)	(6,903,446)
Purchases of property and equipment	(110,234)	(590)
Proceeds from investment sales	321	329
Net change in cash designated for museum relocation	188,917	(1,646,098)
Net cash used in investing activities	<u>(719,785)</u>	<u>(8,549,805)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	608,542	7,007,557
Payments on note payable	(1,777,272)	-
Proceeds from contributions restricted for museum relocation	2,480,115	3,233,056
Net cash provided by financing activities	<u>1,311,385</u>	<u>10,240,613</u>
Net change in cash	<u>(13,368)</u>	<u>38,340</u>
Cash - beginning of year	70,163	31,823
Cash - end of year	<u>\$ 56,795</u>	<u>\$ 70,163</u>
SUPPLEMENTARY INFORMATION		
Cash paid for interest net of amounts capitalized	\$ 398,015	\$ 1,960

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

The Madison Children's Museum, Inc. (Museum), located in Madison, Wisconsin is a non-profit organization dedicated to discovery learning for children and families. Hands-on exhibits and special events allow children to explore culture, science, technology, and art. The Museum stimulates creativity and curiosity through its exhibits and programs, encourages the potential found within all children, and enhances family activities and classroom study.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Madison Children's Museum, Inc. and Madison Children's Museum Foundation, Inc. (Foundation). The two organizations are organized as separate and distinct entities. The Foundation was organized in 2002 for the benefit of the Museum. The Foundation receives, manages, and disburses endowment funds intended to benefit the Museum in accordance with the terms of the agreement between the two organizations. The Foundation is consolidated because the Museum has both an economic interest in the Foundation and control through its ability to appoint the Foundation's board of directors. All material inter-organization transactions have been eliminated.

Basis of Presentation

The Museum and the Foundation are required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments. The board has designated \$2,022,512 and \$2,211,429 of net assets for the new building as of June 30, 2011 and 2010.

Temporarily Restricted Net Assets – Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently Restricted Net Assets – Net assets that have been restricted by donors to be maintained by the Foundation in perpetuity. Unless restricted by the donor, income earned on these funds is considered unrestricted and may be used at the Foundation's discretion.

Investments

Investments are presented in the consolidated financial statements at fair value. The fair value of investments is based on quoted market prices. The original value of investments is determined by purchase price or, if donated, by the average value at the date of the contribution.

Accounts Receivable

The Museum considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible they will be charged to operations when that determination is made.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable

Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Uncollectible promises are written off after management has used reasonable collection efforts and determines the promises will not be collected. Management has estimated that \$19,000 and \$25,000 of pledges are considered uncollectible as of June 30, 2011 and 2010.

Inventory

The benefit sale inventory is stated at the estimated fair value of the merchandise donated. The estimate is based on items that require only minimal repairs or are in a salable condition when received in addition to the value of donated services required to bring the items up to a salable condition.

Property and Equipment

Property and equipment items in excess of \$2,500 are recorded at cost or, if donated, as support at their estimated fair value. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets.

Due to American Girl Fund for Children

Due to American Girl Fund for Children is recorded at 50% of the ending benefit sale inventory amount due to the fact that the Museum is obligated to pay 50% of sales from the Annual Benefit Sale to the American Girl Fund for Children.

Membership Dues

Membership dues are recognized as revenue when received by the Museum.

Contributions

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services, Inventory, and Materials

Donations of services, inventory, materials, facilities, and other nonmonetary items are recorded at fair value when received, provided the Museum has a clearly measurable and objective basis for determining the value. If values are not reasonably determinable, the donations are not recorded. The Museum received \$627,263 and \$495,318 in donations of services, inventory, materials, facilities, and other nonmonetary items during the years ended June 30, 2011 and 2010. During the year ended June 30, 2011, this includes \$4,755 of exhibit expenses, \$27,539 of marketing and communications expenses, \$2,368 of education and visitor services expenses, \$14,985 of fundraising expenses, \$141,616 of capital campaign expenses, and \$436,000 of donated annual benefit sale services. During the year ended June 30, 2010, this includes \$60,318 of capital campaign expenses and \$435,000 of donated annual benefit sale services. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum.

Presentation of Sales Tax

The State of Wisconsin and Dane County impose a combined sales tax of 5.5% on the Museum's sales for the Annual Benefit Sale event. The Museum collects that sales tax from customers and remits the entire amount to the State. The Museum's accounting policy is to exclude the tax collected and remitted to the State in revenue and cost of sales.

Date of Management's Review

Subsequent events have been evaluated through October 28, 2011, which is the date the consolidated financial statements were available to be issued.

Income Tax Status

The Museum and the Foundation are nonprofit public charities organized under Internal Revenue Code Section 501(c)(3) and are therefore not subject to federal and state income taxes. The Organizations' federal exempt organization returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed. With few exceptions, the Organizations are no longer subject to such examinations for tax years before 2008.

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Exhibit Programs

Exhibit programs are a primary means by which the Museum accomplishes its tax-exempt mission. Exhibit programs comprise research development of interactive exhibits and the physical design, construction, installation, maintenance, and evaluation of exhibits. The Museum actively solicits community input to ensure that information and issues presented are current, factual, and developmentally appropriate. Exhibit programs are integrated with education initiatives and are based on accepted learning theories, employing a broad range of educational methodologies to stimulate curiosity and motivate learning. The Museum collaborates with its community to ensure that education initiatives and exhibits meet community needs and provide quality educational resources and experiences for children, their families, teachers, and care givers. Exhibit programs are developed in conjunction with Education and Visitor Services.

Education and Visitor Services

Education and Visitor Services programs comprise the Museum's education programming and visitor/participant experience. Education and Visitor Services programs are designed and implemented to advance the Museum's tax-exempt purpose, mission, and values. Education and Visitor Services work closely with the Exhibit and Development and Marketing programs to assure integrated, educationally rich, visitor-focused environments and experiences. Education and Visitor Services help the Museum reach its institutional goals by facilitating visitor learning and enjoyment within the Museum and in community outreach activities.

Marketing and Communications

The marketing and communications program provides the Museum's constituencies with convenient ways to access a broad range of Museum educational exhibits, programs, and services. The program comprises areas of public relations, media relations, advertising, promotion, outreach, and publications. The program is designed and implemented to make the Museum accessible and attractive to the broadest possible audience. The Museum expenses advertising costs as they are incurred.

Advertising expense was \$100,622 and \$71,982 for the years ended June 30, 2011 and 2010.

Capital Campaign

The capital campaign program was undertaken to raise monies in order to renovate a new location and provide bridge operating costs during the first years of renovation. Activity consists primarily of contracted services and allocation of personnel and other appropriated administrative expenses.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable at June 30 consisted of the following:

	2011	2010
Pledges - operating	\$ 148,175	\$ 46,535
Pledges - restricted	165,531	77,327
Pledges - capital campaign	1,216,974	2,182,999
Pledges receivable	\$ 1,530,680	\$ 2,306,861
Receivable in less than one year	\$ 801,494	\$ 1,247,888
Receivable in one to five years	688,686	1,026,973
Receivable in more than five years	40,500	32,000
Subtotal	1,530,680	2,306,861
Discount to net present value	51,633	62,141
Provision for uncollectible pledges receivable	19,000	25,000
Pledges receivable - net	\$ 1,460,047	\$ 2,219,720

Pledges receivable in more than one year are discounted at 2.5%.

NOTE 3 – INVESTMENTS

Investments at June 30 consisted of the following:

	2011	2010
GNMA mortgage note, 7.5% due June 15, 2022	\$ 591	\$ 738
GNMA mortgage note, 7.5% due August 15, 2022	-	44
GNMA mortgage note, 7% due September 15, 2025	1,673	1,913
	\$ 2,264	\$ 2,695

Investment return has been recorded as unrestricted revenue in the consolidated statement of activities. Investment income from cash and investment accounts consisted of the following for the years ended June 30:

	2011	2010
Dividends and interest	\$ 31,354	\$ 10,993
Net realized and unrealized gains (losses)	(110)	216
Investment return	\$ 31,244	\$ 11,209

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2011	2010
Building	\$ 15,568,850	\$ -
Construction in progress	-	15,066,412
Leasehold improvements	236,288	236,288
Equipment	657,311	250,726
Property and equipment	16,462,449	15,553,426
Accumulated depreciation	(932,256)	(454,646)
Property and equipment - net	\$ 15,530,193	\$ 15,098,780

NOTE 5 – NOTES PAYABLE

As of June 30, 2011 and 2010, the Museum had borrowings of \$5,800,000 and \$7,007,557. Interest capitalized during the years ended June 30, 2011 and 2010 was \$38,528 and \$234,126. Interest expense during the years ended June 30, 2011 and 2010 was \$398,015 and \$0.

Throughout 2011 and 2010, the loan has been modified such that interest only payments were required through June 30, 2011, with the last modification indicating interest only be paid through October 1, 2011. In October 2011, the Museum refinanced its Park Bank mortgage using loans provided through the New Markets Tax Credits program.

The New Markets Tax Credit financing includes two interest only notes payable totaling \$6 million (an A loan of \$4,873,869 plus a B loan of \$1,126,131) payable to JCDC II with interest at 6.05662% and a balloon payment due October 2018. The notes are collateralized by the Museum building.

The debt agreement requires the Museum to make loans totaling \$2,725,000 to MCM Investment Fund LLC during the loan term and receive interest income at 6.05662%. These required loans are \$1,950,000 before July 1, 2012, \$600,000 before July 1, 2013, \$100,000 before July 1, 2014, and \$75,000 before July 1, 2015. The Museum may make additional loans to the MCM Investment Fund LLC prior to October 2018.

In October 2018, loans receivable outstanding will be applied to the A loan and the balance will be refinanced. It is anticipated that the Museum will purchase the B loan for a nominal amount in October 2018.

In addition, the Museum entered an agreement with the City of Madison to borrow \$38,827, which financed energy improvements in the building. The interest rate on this note is 0%, with annual principal payments of \$7,765 commencing on July 1, 2013 through July 1, 2017.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 6 – LINE OF CREDIT

A line of credit of \$400,000 is available at the current prime rate (3.25% at June 30, 2011). The line of credit is due on demand with no specified maturity date and is secured by all business assets of the Museum. At June 30, 2011 and 2010, there was no outstanding balance.

NOTE 7 – NET ASSETS

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2011	2010
Purpose restricted		
Heideman Fellowship - grants	\$ 11,500	\$ 12,000
Wisconsin Tourism	-	22,300
Museum planters	18,638	6,138
Capital campaign	1,146,341	2,095,858
Annual benefit sale reimbursement	-	28,527
Cultural coat closet	15,000	-
Kresge Foundation repair fund	156,000	-
Alzheimer's research	22,000	-
Other	2,000	-
Time restricted		
Pledges receivable due in subsequent years	157,706	72,947
Temporarily restricted net assets	\$ 1,529,185	\$ 2,237,770
Permanently restricted		
Madison Children's Museum Foundation, Inc. Endowment	\$ 5,995	\$ 5,995

NOTE 8 – OPERATING LEASES

The Museum leases warehouse space for their annual benefit sale. This lease expires in September 2012. Total lease expense including common area maintenance for the year ended June 30, 2011 and 2010 was \$226,702 and \$213,004. Future minimum payments on the base rent and common area maintenance are \$96,459 and \$10,400 for the years ending June 30, 2012 and 2013.

MADISON CHILDREN'S MUSEUM, INC.
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NOTE 9 – CONTRIBUTIONS AND GRANTS

Contributions and grants during the years ended June 30 consisted of the following:

	2011	2010
Individual	\$ 56,162	\$ 79,295
Foundations	112,460	119,009
Corporations	108,007	52,204
Government	45,932	46,856
Contributions and grants	\$ 322,561	\$ 297,364

NOTE 10 – ENDOWMENT FUNDS – MADISON COMMUNITY FOUNDATION

The Museum has established an Endowment Fund (Fund) that is operated as a component part of the Madison Community Foundation. The amount available for annual distribution represents 4.75% of a rolling twelve-quarter average. All other interest and appreciation is reinvested into the Fund. The Museum received distributions of \$75,596 and \$77,581 in the years ended June 30, 2011 and 2010. Principal may not be drawn from the fund except with approval of the Madison Community Foundation's Board of Governors. Donations also grant the Foundation variance power that allows the Foundation to modify the donors' stipulations under certain circumstances. Due to these restrictions, the Fund has not been recorded in the Museum's consolidated financial statements. The fair value of the Fund as of June 30, 2011 and 2010 was \$1,701,537 and \$1,505,606.

The Pleasant Rowland Great Performance Fund (GP Fund) has established an endowment challenge grant fund at Madison Community Foundation on behalf of the Museum. Managed and held by Madison Community Foundation, the GP Fund will match contributions up to \$2,000,000 donated to the endowment fund dollar for dollar on a quarterly basis on dollars raised from November 1, 2001 through December 31, 2006.

The amount available for annual distribution represents up to 4.75% of the value of the Museum's fund at year-end. Due to these restrictions, the endowment fund has not been recorded in the Museum's consolidated financial statements. The fair value of the GP Fund as of June 30, 2011 and 2010 was \$1,801,190 and \$1,574,855. The Museum received distributions of \$77,027 and \$77,580 in the years ended June 30, 2011 and 2010.

NOTE 11 – ANNUAL BENEFIT SALE AND OTHER BENEFIT EVENTS

The Museum entered into a new agreement that replaced the existing one on December 1, 2010 with American Girl, LLC for the Annual Benefit Sale. Under this agreement, American Girl, LLC will donate damaged, excess, and returned merchandise to the Museum for repair and sale. The Museum will organize a group of volunteers who will repair and organize the merchandise and implement a large-scale benefit sale. Revenue from the sale, less applicable sales taxes and bank charges, will be divided equally between the American Girl Fund for Children Foundation and the Museum. The Museum treats this as an agency transaction. In the event net revenue from the Annual Benefit Sale exceeds \$1.5 million or if the Museum's portion of net revenue comprises over 35% of their annual support and revenue, American Girl, LLC shall have the

MADISON CHILDREN'S MUSEUM, INC.
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NOTE 11 – ANNUAL BENEFIT SALE AND OTHER BENEFIT EVENTS (continued)

option to reinstate the matching principles for future benefit sales as they had been applied during past sales. Either party can terminate the agreement with written notice. However, upon termination of this agreement, American Girl, LLC shall continue adhering to these terms with the Museum for an additional three years. Annual benefit sale revenue also includes income from ticket sales and sales of merchandise donated by other corporations directly to the Museum.

The Museum has a cost sharing agreement for storage and sales space with the American Girl Fund for Children Foundation. The agreement authorizes the Madison Community Foundation to pay the Museum a monthly rent reimbursement. The Museum received \$28,748 and \$68,070 in the years ended June 30, 2011 and 2010.

The following summarizes the Annual Benefit Sale revenue amount included in the consolidated statements of activities:

	2011	2010
Gross receipts	\$ 925,835	\$ 799,712
Less: Sales tax and bank charges	63,502	55,740
	862,333	743,972
American Girl Fund for Children Current year event distribution	(424,484)	(371,986)
Museum's portion of sales revenue	437,849	371,986
Ticket sales for benefit sale	33,570	18,100
Auction revenue	5,924	2,572
Other benefit revenue	16,956	28,949
Annual Benefit Sale revenue	\$ 494,299	\$ 421,607

An amount payable to American Girl Fund for Children Foundation is reported as Due to American Girl Fund for Children in the consolidated statements of financial position. The payable of \$421,500 and \$319,500 at June 30, 2011 and 2010 is an estimated amount that will be payable for the next benefit sale based on the estimated fair value of the donated merchandise.

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NOTE 12 – COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

The Museum's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and certificates of deposit. The Museum places its cash and temporary cash investments with high credit quality institutions in Madison, Wisconsin. As of June 30, 2011, \$1,772,512 exceeded FDIC insurance coverage.

The Museum routinely assesses the financial strength of its contributors and patrons and, as a consequence, believes the majority of its receivables to be fully collectible. An allowance for doubtful accounts has been estimated to be \$19,000 as of June 30, 2011.

Economic Dependency

The Museum receives approximately 20% of its operating support and revenue (excluding inventory contributions and contributions made directly to the Madison Community Foundation – Note 10) from the Annual Benefit Sale related to the sales of American Girl items and other benefit sale activities. A significant reduction in the level of this support could have an adverse effect on the Museum's programs and activities.