

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

CONTENTS

Independent Auditor's Report.....	1
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities.....	3
Consolidated Statements of Functional Expenses.....	5
Consolidated Statements of Cash Flows.....	9
Notes to Consolidated Financial Statements.....	10



Wegner CPAs

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Madison Children's Museum, Inc., which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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. as of June 30, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the 2013 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
September 26, 2014

Janesville Office:
101 E. Milwaukee Street
Suite 425
Janesville, WI 53545
P: (608) 756-4020

Baraboo Office:
123 Second Street
P.O. Box 150
Baraboo, WI 53913
P: (608) 356-3966
E: (608) 356-2966

Pewaukee Office:
W239 N3490 Pewaukee Road
Suite 200
Pewaukee, WI 53072
P: (262) 522-7555
E: (262) 522-7550

Madison Office:
2110 Luann Lane
Madison, WI 53713
P: (608) 274-4020
F: (608) 274-0775

www.wegnercpas.com
info@wegnercpas.com
(888) 204-7665

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	\$ 338,439	\$ 89,715
Investments	1,755	1,937
Pledges receivable	610,698	425,892
Accounts receivable	22,191	10,161
Inventory	1,077,777	955,444
Prepaid expenses	33,680	39,479
Total current assets	2,084,540	1,522,628
Property and equipment - net	14,338,472	14,734,860
OTHER ASSETS		
Note receivable	2,650,000	2,550,000
Pledges receivable - net	433,081	243,129
Capitalized closing costs - net	157,883	194,318
Cash designated and restricted for Kresge Foundation repair fund	165,098	111,382
Cash and investments restricted for endowment purposes	5,995	5,995
Total other assets	3,412,057	3,104,824
Total assets	\$ 19,835,069	\$ 19,362,312
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 38,598	\$ 119,052
Due to American Girl Fund For Children	538,888	477,722
Accrued expenses and other liabilities	103,117	74,489
Current portion of notes payable	9,211	9,211
Line of credit	42,000	-
Deferred revenue	98,180	92,098
Total current liabilities	829,994	772,572
Notes payable	6,040,639	6,049,849
Total liabilities	6,870,633	6,822,421
NET ASSETS		
Unrestricted	11,449,457	11,708,366
Temporarily restricted	1,508,984	825,530
Permanently restricted	5,995	5,995
Total net assets	12,964,436	12,539,891
Total liabilities and net assets	\$ 19,835,069	\$ 19,362,312

See accompanying notes.

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	Capital Campaign	Operations	Total
UNRESTRICTED NET ASSETS			
SUPPORT AND REVENUE			
Donated inventory, materials, and rent	\$ -	\$ 515,284	\$ 515,284
Annual benefit sale	-	504,419	504,419
Contributions and grants	-	451,816	451,816
Visitor services	-	811,916	811,916
Other income	-	112,321	112,321
Endowment distributions	-	190,548	190,548
Membership dues	-	383,749	383,749
Other events	-	237,219	237,219
Investment return	-	182,797	182,797
Total unrestricted support and revenue	-	3,390,069	3,390,069
EXPENSES			
Program services			
Exhibit programs	-	1,265,077	1,265,077
Education	-	509,742	509,742
Marketing and visitor services	-	542,179	542,179
Total program services	-	2,316,998	2,316,998
Supporting activities			
Administration	-	739,253	739,253
Fundraising	-	471,131	471,131
Annual benefit sale	-	563,142	563,142
Total supporting activities	-	1,773,526	1,773,526
Total expenses	-	4,090,524	4,090,524
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of time and purpose restrictions	-	441,546	441,546
Change in unrestricted net assets	-	(258,909)	(258,909)
TEMPORARILY RESTRICTED NET ASSETS			
Contributions	-	1,125,000	1,125,000
Net assets released from restrictions			
Satisfaction of time and purpose restrictions	(128,409)	(313,137)	(441,546)
Change in temporarily restricted net assets	(128,409)	811,863	683,454
Change in net assets	(128,409)	552,954	424,545
Net assets - beginning of year	256,293	12,283,598	12,539,891
Net assets - end of year	\$ 127,884	\$ 12,836,552	\$ 12,964,436

See accompanying notes.

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Capital Campaign	Operations	Total
UNRESTRICTED NET ASSETS			
SUPPORT AND REVENUE			
Donated inventory, materials, and rent	\$ -	\$ 445,132	\$ 445,132
Annual benefit sale	-	423,711	423,711
Contributions and grants	-	329,544	329,544
Visitor services	-	766,575	766,575
Other income	-	127,078	127,078
Endowment distributions	-	174,261	174,261
Membership dues	-	403,490	403,490
Other events	-	239,684	239,684
Investment return	-	138,377	138,377
	-	3,047,852	3,047,852
Total unrestricted support and revenue	-	3,047,852	3,047,852
EXPENSES			
Program services	-	1,125,715	1,125,715
Exhibit programs	-	472,540	472,540
Education	-	455,885	455,885
Marketing and visitor services	-	-	-
	-	2,054,140	2,054,140
Total program services	-	2,054,140	2,054,140
Supporting activities	-	722,662	722,662
Administration	-	445,612	445,612
Fundraising	-	508,443	508,443
Annual benefit sale	-	-	-
	-	1,676,717	1,676,717
Total supporting activities	-	1,676,717	1,676,717
Total expenses	-	3,730,857	3,730,857
NET ASSETS RELEASED FROM RESTRICTIONS	-	599,559	599,559
Satisfaction of time and purpose restrictions	-	599,559	599,559
Change in unrestricted net assets	-	(83,446)	(83,446)
TEMPORARILY RESTRICTED NET ASSETS			
Contributions	-	368,418	368,418
Net assets released from restrictions	-	-	-
Satisfaction of time and purpose restrictions	(335,816)	(263,743)	(599,559)
Change in temporarily restricted net assets	(335,816)	104,675	(231,141)
Change in net assets	(335,816)	21,229	(314,587)
Net assets - beginning of year as restated	592,109	12,262,369	12,854,478
Net assets - end of year	\$ 256,293	\$ 12,283,598	\$ 12,539,891

See accompanying notes.

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2014

	Exhibit Programs	Education	Marketing and Visitor Services	Administration
Personnel	\$ 370,319	\$ 403,743	\$ 382,258	\$ 229,247
Cost of sales	-	-	45,281	-
Occupancy	63,508	2,265	2,265	31,754
Professional services	69,999	31,212	21,192	90,952
Publicity	390	-	12,210	550
Printing, postage, and copying	20	1,342	9,660	10,000
Maintenance and repairs	32,796	502	502	7,527
Events, meetings, and receptions	-	-	-	392
Insurance	-	-	-	24,374
Interest and bank charges	237,959	8,535	30,637	120,270
Bad debt	-	-	-	-
Depreciation and amortization	297,363	10,709	10,709	180,718
Office supplies	7,590	2,470	2,237	22,406
Technology	2,766	64	9,902	5,448
Program supplies	174,305	36,392	13,039	6,790
Volunteer appreciation	-	-	308	-
Training	883	1,340	1,126	4,732
Travel	7,094	11,143	51	1,393
Dues and subscriptions	85	25	802	2,700
Total expenses	\$ 1,265,077	\$ 509,742	\$ 542,179	\$ 739,253

See accompanying notes.

<u>Fundraising</u>	<u>Annual Benefit Sale</u>	<u>Total</u>
\$ 276,500	\$ 26,504	\$ 1,688,571
-	426,828	472,109
-	81,136	180,928
-	4,357	217,712
-	-	13,150
37,703	3,340	62,065
-	197	41,524
122,814	-	123,206
-	-	24,374
4,317	15,351	417,069
406	-	406
-	-	499,499
514	3,999	39,216
13,824	-	32,004
12,931	500	243,957
-	862	1,170
132	-	8,213
-	68	19,749
1,990	-	5,602
<u>\$ 471,131</u>	<u>\$ 563,142</u>	<u>\$ 4,090,524</u>

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2013

	Exhibit Programs	Education	Marketing and Visitor Services	Administration
Personnel	\$ 289,942	\$ 327,419	\$ 348,067	\$ 183,304
Cost of sales	-	-	27,273	-
Occupancy	59,189	2,114	2,114	29,594
Professional services	88,151	51,501	6,631	99,132
Publicity	-	-	8,067	-
Printing, postage, and copying	168	2,039	1,924	4,118
Maintenance and repairs	15,516	420	455	5,868
Events, meetings, and receptions	25	-	-	-
Insurance	-	-	-	29,587
Interest and bank charges	237,366	8,477	32,440	119,515
Bad debt	-	-	-	34,115
Depreciation and amortization	317,930	11,355	11,355	158,966
Office supplies	2,301	568	539	32,410
Technology	1,024	-	8,894	11,879
Program supplies	109,651	60,468	7,733	-
Volunteer appreciation	-	-	-	-
Training	1,469	6,311	387	5,995
Travel	2,958	1,868	6	3,988
Dues and subscriptions	25	-	-	4,191
Total expenses	\$ 1,125,715	\$ 472,540	\$ 455,885	\$ 722,662

See accompanying notes.

<u>Fundraising</u>	<u>Annual Benefit Sale</u>	<u>Total</u>
\$ 255,381	\$ 26,990	\$ 1,431,103
-	370,463	397,736
-	81,247	174,258
2,032	10,650	258,097
22,169	-	30,236
42,687	1,279	52,215
-	1,677	23,936
104,146	-	104,171
-	-	29,587
2,980	12,349	413,127
-	-	34,115
-	-	499,606
1,070	2,470	39,358
12,953	532	35,282
-	-	177,852
-	664	664
641	-	14,803
63	122	9,005
1,490	-	5,706
<u>\$ 445,612</u>	<u>\$ 508,443</u>	<u>\$ 3,730,857</u>

MADISON CHILDREN'S MUSEUM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 424,545	\$ (314,587)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	499,499	499,606
Net realized and unrealized gains on investments	(207)	(423)
Change in contributed inventory	(122,333)	(11,444)
Donated investments	(160,258)	(105,530)
(Increase) decrease in assets		
Pledges receivable	(503,167)	(45,391)
Accounts receivable	(12,030)	911
Prepaid expenses	5,799	7,545
Increase (decrease) in liabilities		
Accounts payable	(80,454)	68,069
Due to American Girl Fund For Children	61,166	5,722
Accrued expenses and other liabilities	28,628	(980)
Deferred revenue	6,082	30,121
Net cash flows from operating activities	147,270	133,619
CASH FLOWS FROM INVESTING ACTIVITIES		
Note receivable made	(100,000)	(600,000)
Purchases of property and equipment	(66,676)	(40,375)
Proceeds from sale of investments	160,647	106,137
Net change in cash restricted for building maintenance	(53,716)	(55,765)
Net cash flows from investing activities	(59,745)	(590,003)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	308,000	-
Payments on line of credit	(266,000)	-
Payments on note payable	(9,210)	(1,446)
Proceeds from contributions restricted for museum relocation	128,409	318,691
Net cash flows from financing activities	161,199	317,245
Net change in cash	248,724	(139,139)
Cash - beginning of year	89,715	228,854
Cash - end of year	\$ 338,439	\$ 89,715

See accompanying notes.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

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. The Madison Children's Museum Foundation, Inc. (Foundation) was organized in 2002 for the benefit of the Museum. The Foundation receives, manages, and disburses funds intended to benefit the Museum in accordance with the terms of the agreement between the two organizations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Museum and Foundation. The Foundation is consolidated since the Museum has both an economic interest in the Foundation and control of the Foundation through a majority voting interest in its governing body. All material intra-entity transactions have been eliminated.

Basis of Presentation

The Museum and the Foundation report information regarding their 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 net assets of \$82,669 and \$55,706 for the Kresge Foundation repair fund as of June 30, 2014 and 2013.

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 of position 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 has been developed. 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, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable

Unconditional pledges 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 pledges are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional.

Inventory

The benefit sale inventory is stated at the estimated realizable 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.

Capitalized Closing Costs

In October 2011, the Museum refinanced its Park Bank mortgage using loans provided through the New Markets Tax Credits program. The costs of the transaction were \$255,042, which were capitalized and will be amortized over 84 months. As of June 30, 2014 and 2013, the unamortized costs totaled \$157,883 and \$194,318. Amortization expense was approximately \$36,400 for the years ended June 30, 2014 and 2013.

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, 2014 and 2013

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 \$581,464 and \$445,132 in donations of services, inventory, materials, facilities, and other nonmonetary items during the years ended June 30, 2014 and 2013. During the year ended June 30, 2014, this includes \$15,250 of exhibit expenses, \$54 of education expenses, \$12,592 of fundraising expenses and \$553,568 of donated annual benefit sale services. During the year ended June 30, 2013, this includes \$31,775 of exhibit expenses, \$10,010 of education expenses, \$22,169 of fundraising expenses, \$5,956 of administration expenses and \$375,222 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 September 26, 2014, which is the date the consolidated financial statements were available to be issued.

Income Tax Status

The Museum and the Foundation are exempt from Federal income tax under Internal Revenue Code Section 501(c)(3), with the Foundation qualifying as a supporting organization of the Museum. The Organizations' federal exempt organization returns are subject to examination by the Internal Revenue Service (IRS), generally for three years after they are filed. With few exceptions, the Organizations are no longer subject to such examinations for tax years before 2010.

Estimates

The preparation of financial statements 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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

Marketing and Visitor Services

The marketing and Visitor Services 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. Rental of the facility for private gatherings helps to extend the reach of the mission to a wide age range, supporting lifelong learning and strengthening social bonds. Programs are 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 \$13,150 and \$30,236 for the years ended June 30, 2014 and 2013.

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. The capital campaign was completed during the year ended June 30, 2011.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – INVESTMENTS

Investments at June 30 consisted of the following:

	<u>2014</u>	<u>2013</u>
GNMA mortgage note, 7.5% due June 15, 2022	\$ 311	\$ 412
GNMA mortgage note, 7% due September 15, 2025	<u>1,444</u>	<u>1,525</u>
Investments	<u>\$ 1,755</u>	<u>\$ 1,937</u>

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:

	<u>2014</u>	<u>2013</u>
Note receivable interest	\$ 182,379	\$ 137,638
Interest	211	316
Net realized and unrealized gains	<u>207</u>	<u>423</u>
Investment return	<u>\$ 182,797</u>	<u>\$ 138,377</u>

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable at June 30 consisted of the following:

	<u>2014</u>	<u>2013</u>
Pledges - operating	\$ 71,100	\$ 169,300
Pledges - restricted	844,795	243,428
Pledges - capital campaign	<u>159,051</u>	<u>292,293</u>
Pledges receivable	<u>\$ 1,074,946</u>	<u>\$ 705,021</u>
Receivable in less than one year	\$ 641,865	\$ 444,892
Receivable in one to five years	<u>433,081</u>	<u>260,129</u>
Pledges receivable	1,074,946	705,021
Discount to net present value	17,000	17,000
Provision for uncollectible pledges receivable	<u>14,167</u>	<u>19,000</u>
Pledges receivable - net	<u>\$ 1,043,779</u>	<u>\$ 669,021</u>

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

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2014	2013
Building and improvements	\$ 15,657,204	\$ 15,590,528
Leasehold improvements	253,676	253,676
Equipment	680,299	680,299
Property and equipment	16,591,179	16,524,503
Accumulated depreciation	(2,252,707)	(1,789,643)
Property and equipment - net	\$ 14,338,472	\$ 14,734,860

Depreciation expense was \$463,064 and \$463,172 for the years ended June 30, 2014 and 2013.

NOTE 5 – NOTE RECEIVABLE

The New Market Tax Credit financing requires the Museum to make a note receivable totaling \$2,725,000 to MCM Investment Fund LLC during the notes payable term. The Museum will receive interest income at 7% of the outstanding balance over this period. The balance at June 30, 2014 and 2013 was \$2,650,000 and \$2,550,000. The financing requires installment notes to be made over the period and the remaining installment is \$75,000 before July 1, 2015. The Museum may make additional notes to the MCM Investment Fund LLC prior to October 2018 and matures in December 2018.

NOTE 6 – NOTES PAYABLE

As of June 30, 2011, the Museum had borrowings of \$5,800,000 from Park Bank. In October 2011, the Museum refinanced its Park Bank mortgage using loans provided through New Markets Tax Credits program. The New Markets Tax Credit financing includes two interest only notes payable totaling \$6,000,000 (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. In October 2018, the note receivable outstanding will be applied to the A loan and the balance will be refinanced. It is anticipated the Museum will purchase the B loan for a nominal amount in October 2018.

In November 2010, 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. Balance as of June 30, 2014 and 2013 was \$31,062 and \$38,827.

In August 2013, the City of Madison assessed the Museum for property improvements. The assessment was for \$21,679 payable with interest at 2.5% in annual installments of \$1,445 through 2027. Balance as of June 30, 2014 and 2013 was \$18,788 and \$20,233.

Interest expense during the years ended June 30, 2014 and 2013 was \$370,172 and \$368,548. Future minimum principal payments are \$9,211 for the years ending June 30, 2015, 2016, 2017, 2018; \$4,887,199 for the year ending June 30, 2019; and \$1,125,807 thereafter.

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 – LINE OF CREDIT

A line of credit of \$400,000 is available and carries interest at prime plus 0.75 percentage points, but never less than 4.75%. The line of credit matures May 2015 and is secured by all business assets of the Museum.

NOTE 8 – NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Purpose restricted		
Heideman Fellowship - grants	\$ -	\$ 15,000
IMLS	-	46,165
Urb Garden	-	149,843
Capital campaign	127,884	256,293
Cultural coat closet	-	15,000
Kresge Foundation repair fund	156,000	156,000
Staff benefits	-	30,000
Rotary plaza sculpture	-	15,000
Keystone debt prefunding	1,125,000	-
Play and a Play	23,500	-
Other	5,500	7,500
Time restricted		
Pledges receivable due in subsequent years	<u>71,100</u>	<u>134,729</u>
Temporarily restricted net assets	<u>\$ 1,508,984</u>	<u>\$ 825,530</u>

Permanently restricted net assets at June 30 consisted of the following:

	<u>2014</u>	<u>2013</u>
Madison Children's Museum Foundation, Inc. Endowment	<u>\$ 5,995</u>	<u>\$ 5,995</u>

NOTE 9 – CONTRIBUTIONS AND GRANTS

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

	<u>2014</u>	<u>2013</u>
Individual	\$ 1,229,974	\$ 181,130
Foundations	130,710	229,696
Corporations	115,337	144,608
Government	<u>100,795</u>	<u>142,528</u>
Contributions and grants	<u>\$ 1,576,816</u>	<u>\$ 697,962</u>

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 10 – OPERATING LEASES

The Museum leases warehouse space for their annual benefit sale. Per an amendment signed during October 2012, the lease term is five years and automatically renews up to two times through September 2027 provided the Museum has not given prior notice of vacating or is in default of the lease agreement. Total lease expense including common area maintenance for the years ended June 30, 2014 and 2013 was \$76,785 and \$71,779. Future minimum payments on the base rent is \$76,777, \$76,777, \$76,777, and \$19,194 for the years ending June 30, 2015, 2016, 2017 and 2018.

NOTE 11 – ENDOWMENT FUNDS – MADISON COMMUNITY FOUNDATION

The Museum has four Endowment Funds (Funds) that are operated as a component part of Madison Community Foundation, numbered 1030590, 1030591, 1030592, and 1030772. Annual distributions of up to 4.75% of a rolling twelve-quarter average are available for operations. All other interest and appreciation is reinvested into the Funds. Principal may not be drawn from the Funds except with approval from 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 Funds have not been recorded in the Museum's consolidated financial statements.

Fund 1030590, the Fund for the Future, holds gifts to endowment that are matched dollar for dollar by a Museum board member, up to \$500,000. The full match of \$500,000 was received during the year ended June 30, 2013. The fair value of the Fund for the Future as of June 30, 2014 and 2013 was \$1,148,454 and \$907,860. The Museum received distributions of \$29,320 and \$16,283 in the years ended June 30, 2014 and 2013.

Fund 1030772, the Pleasant Rowland Great Performance Fund, is a challenge grant fund that will match up to \$2,000,000 dollar for dollar on a quarterly basis on dollars raised from November 1, 2001 through December 31, 2006. The fair value of the Great Performance Fund as of June 30, 2014 and 2013 was \$1,974,806 and \$1,743,847. The Museum received distributions of \$83,100 and \$81,157 in the years ended June 30, 2014 and 2013.

Fund 1030591 holds the original donations toward the Great Performance Fund which are matched quarterly as described above. The fair value of Fund 1030591 as of June 30, 2014 and 2013 was \$1,792,293 and \$1,589,847. The Museum received distributions of \$75,537 and \$74,135 in the years ended June 30, 2014 and 2013.

Fund 1030592 holds all gifts to endowment outside of the three funds mentioned above. The fair value of Fund 1030592 as of June 30, 2014 and 2013 was \$52,837 and \$48,327. The Museum received distributions of \$2,591 and \$2,686 in the years ended June 30, 2014 and 2013.

NOTE 12 – ANNUAL BENEFIT SALE

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

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 12 – ANNUAL BENEFIT SALE (continued)

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

	2014	2013
Gross receipts	\$ 939,735	\$ 791,932
Less: Sales tax and bank charges	66,124	59,271
	873,611	732,661
American Girl Fund for Children Current year event distribution	(428,344)	(357,980)
Museum's portion of sales revenue	445,267	374,681
Ticket sales for benefit sale	32,979	26,910
Auction revenue	9,735	9,166
Other benefit revenue	16,438	12,954
Annual Benefit Sale revenue	\$ 504,419	\$ 423,711

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 \$538,888 and \$477,722 at June 30, 2014 and 2013 is an estimated amount that will be payable for the next benefit sale based on the estimated fair value of the donated merchandise.

NOTE 13 – SUPPLEMENTAL CASH FLOW DISCLOSURES

	2014	2013
Cash paid for interest	\$ 400,455	\$ 338,265
Noncash investing and financing transactions		
Donated investments	160,258	105,530
Acquisition of building improvements		
Cost of building improvements	-	21,678
Building improvements loan	-	(21,678)

MADISON CHILDREN'S MUSEUM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 14 – CONCENTRATIONS OF CREDIT RISK

The Museum maintains its cash balances in two financial institutions located in Madison, Wisconsin. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014, the Museum's uninsured cash balances total approximately \$39,000.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

During the current year, an error was discovered that resulted in an overstatement of depreciation expense and accumulated depreciation and an understatement of unrestricted net assets. Accordingly, depreciation expense, accumulated depreciation and unrestricted net assets have been adjusted from what was previously reported for the year ended June 30, 2013:

	<u>Previously Reported</u>	<u>Change</u>	<u>Restated Totals</u>
Accumulated depreciation	\$ 2,005,989	\$ (216,346)	\$ 1,789,644
Unrestricted net assets	11,492,020	216,346	11,708,366
Depreciation expense	537,348	(74,176)	463,172