

The Children's Museum of Denver, Inc.

Financial Statements

June 30, 2008 and 2007

(With Independent Auditor's Report Thereon)

Independent Auditor's Report

Board of Directors The Children's Museum of Denver, Inc.:

We have audited the accompanying statements of financial position of The Children's Museum of Denver, Inc. (the Museum) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 of Denver, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Kundinger, Cordes & Engle, P.C.

September 3, 2008

The Children's Museum of Denver, Inc.
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets:		
Cash and cash equivalents	\$ 486,003	676,607
Accounts receivable	1,895	8,305
Contributions receivable (note 2)	23,095	25,275
Prepaid expenses and deposits	24,406	35,809
Merchandise held for resale	12,169	7,236
Investments (note 3)	1,192,105	814,000
Property and equipment, net (note 4)	2,673,154	2,827,551
Total assets	\$ 4,412,827	4,394,783
Liabilities and Net Assets:		
Accounts payable and accrued expenses	\$ 70,390	88,162
Accrued compensation	166,500	153,537
Deferred revenue	189,949	176,365
Total liabilities	426,839	418,064
Net assets (note 6):		
Unrestricted:		
Board designated	216,004	216,004
Investment in property and equipment	2,673,154	2,827,551
Undesignated	899,594	708,587
Total unrestricted net assets	3,788,752	3,752,142
Temporarily restricted	197,236	224,577
Total net assets	3,985,988	3,976,719
Commitments (notes 5, 8 and 9)		
Total liabilities and net assets	\$ 4,412,827	4,394,783

See accompanying notes to financial statements.

The Children's Museum of Denver, Inc.
Statement of Activities
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Museum admission fees	\$ 819,241	-	819,241
Educational program fees	140,460	-	140,460
Memberships	358,743	-	358,743
Gift shop and concession operations:			
Gross sales	148,268	-	148,268
Less cost of sales	(66,600)	-	(66,600)
Gifts and grants:			
Corporate	29,691	94,650	124,341
Individuals	50,180	-	50,180
Foundations	132,699	309,216	441,915
Scientific and Cultural Facilities District support (note 7)	556,594	-	556,594
In-kind contributions	110,820	-	110,820
Special event income	306,000	19,900	325,900
Less direct expenses	(79,193)	-	(79,193)
Interest income	56,161	-	56,161
Miscellaneous	20,448	-	20,448
Net assets released from restrictions	451,107	(451,107)	-
Total support and revenues	<u>3,034,619</u>	<u>(27,341)</u>	<u>3,007,278</u>
Expenditures			
Program activities:			
Guest experience	1,177,890	-	1,177,890
Exhibits	359,932	-	359,932
Museum facilities	553,425	-	553,425
Total program activities	<u>2,091,247</u>	<u>-</u>	<u>2,091,247</u>
Supporting activities:			
General and administrative	405,832	-	405,832
Marketing	108,485	-	108,485
Fundraising and development	392,445	-	392,445
Total supporting activities	<u>906,762</u>	<u>-</u>	<u>906,762</u>
Total expenditures	<u>2,998,009</u>	<u>-</u>	<u>2,998,009</u>
Change in net assets	36,610	(27,341)	9,269
Net assets at beginning of year	<u>3,752,142</u>	<u>224,577</u>	<u>3,976,719</u>
Net assets at end of year	<u><u>\$ 3,788,752</u></u>	<u><u>197,236</u></u>	<u><u>3,985,988</u></u>

See accompanying notes to financial statements.

The Children's Museum of Denver, Inc.
Statement of Activities
Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Museum admission fees	\$ 755,447	-	755,447
Educational program fees	114,045	-	114,045
Memberships	325,365	-	325,365
Gift shop and concession operations:			
Gross sales	109,746	-	109,746
Less cost of sales	(37,137)	-	(37,137)
Gifts and grants:			
Corporate	26,260	159,000	185,260
Individuals	41,809	5,337	47,146
Foundations	163,861	223,500	387,361
Government	6,677	-	6,677
Scientific and Cultural Facilities District support (note 7)	560,420	-	560,420
In-kind contributions	103,002	-	103,002
Special event income	273,815	41,260	315,075
Less direct expenses	(79,922)	-	(79,922)
Interest income	44,110	-	44,110
Miscellaneous	28,028	-	28,028
Net assets released from restrictions	399,962	(399,962)	-
Total support and revenues	<u>2,835,488</u>	<u>29,135</u>	<u>2,864,623</u>
Expenditures			
Program activities:			
Guest experience	1,031,575	-	1,031,575
Exhibits	355,265	-	355,265
Museum facilities	577,094	-	577,094
Total program activities	<u>1,963,934</u>	<u>-</u>	<u>1,963,934</u>
Supporting activities:			
General and administrative	318,985	-	318,985
Marketing	180,315	-	180,315
Fundraising and development	326,814	-	326,814
Total supporting activities	<u>826,114</u>	<u>-</u>	<u>826,114</u>
Total expenditures	<u>2,790,048</u>	<u>-</u>	<u>2,790,048</u>
Change in net assets	45,440	29,135	74,575
Net assets at beginning of year	<u>3,706,702</u>	<u>195,442</u>	<u>3,902,144</u>
Net assets at end of year	<u>\$ 3,752,142</u>	<u>224,577</u>	<u>3,976,719</u>

See accompanying notes to financial statements.

The Children's Museum of Denver
Statement of Functional Expenses
Year Ended June 30, 2008

	Guest Experience	Exhibits	Museum Facilities	Total Program Activities	General and Administrative	Marketing	Fundraising and Development	Total Supporting Activities	Total
Salaries and related benefits	\$ 840,821	252,071	65,599	1,158,491	265,157	16,534	225,542	507,233	1,665,724
Outside services	58,461	6,389	17,041	81,891	72,665	10,049	37,882	120,596	202,487
Building occupancy	19,572	3,469	215,883	238,924	8,502	989	1,157	10,648	249,572
Advertising	-	-	-	-	-	36,411	-	36,411	36,411
Program and exhibit costs	63,315	82,872	6,205	152,392	-	-	-	-	152,392
Printing, postage, and copying	64,603	95	-	64,698	1,220	2,404	29,795	33,419	98,117
Office and other expenses	74,082	7,892	6,094	88,068	44,465	5,580	49,628	99,673	187,741
Cost of gift shop sales	56,055	-	-	56,055	-	-	-	-	56,055
In-kind expenses	44,860	4,424	2,578	51,862	1,850	36,518	48,441	86,809	138,671
Special event costs	-	-	-	-	-	-	79,193	79,193	79,193
Expenses before depreciation	1,221,769	357,212	313,400	1,892,381	393,859	108,485	471,638	973,982	2,866,363
Depreciation	12,176	2,720	240,025	254,921	11,973	-	-	11,973	266,894
Expenses after depreciation	1,233,945	359,932	553,425	2,147,302	405,832	108,485	471,638	985,955	3,133,257
Less expenses included with revenues on the statement of activities	(56,055)	-	-	(56,055)	-	-	(79,193)	(79,193)	(135,248)
Total expenses on the statement of activities	\$ 1,177,890	359,932	553,425	2,091,247	405,832	108,485	392,445	906,762	2,998,009

See accompanying notes to financial statements.

The Children's Museum of Denver
Statement of Functional Expenses
Year Ended June 30, 2007

	Guest Experience	Exhibits	Museum Facilities	Total Program Activities	General and Administrative	Marketing	Fundraising and Development	Total Supporting Activities	Total
Salaries and related benefits	\$ 700,453	213,959	93,602	1,008,014	225,294	73,622	184,504	483,420	1,491,434
Outside services	61,132	9,067	6,759	76,958	31,844	17,832	54,969	104,645	181,603
Building occupancy	19,413	-	212,643	232,056	7,334	1,159	4,197	12,690	244,746
Advertising	-	-	-	-	-	65,710	-	65,710	65,710
Program and exhibit costs	68,630	117,522	3,200	189,352	-	-	-	-	189,352
Printing, postage, and copying	82,312	301	12	82,625	5,710	5,746	21,011	32,467	115,092
Office and other expenses	69,346	4,416	6,383	80,145	35,158	14,763	28,471	78,392	158,537
Cost of gift shop sales	37,137	-	-	37,137	-	-	-	-	37,137
In-kind expenses	26,298	7,870	30,383	64,551	5,821	1,483	33,662	40,966	105,517
Special event costs	-	-	-	-	-	-	79,922	79,922	79,922
Expenses before depreciation	1,064,721	353,135	352,982	1,770,838	311,161	180,315	406,736	898,212	2,669,050
Depreciation	3,991	2,130	224,112	230,233	7,824	-	-	7,824	238,057
Expenses after depreciation	1,068,712	355,265	577,094	2,001,071	318,985	180,315	406,736	906,036	2,907,107
Less expenses included with revenues on the statement of activities	(37,137)	-	-	(37,137)	-	-	(79,922)	(79,922)	(117,059)
Total expenses on the statement of activities	\$ 1,031,575	355,265	577,094	1,963,934	318,985	180,315	326,814	826,114	2,790,048

See accompanying notes to financial statements.

The Children's Museum of Denver, Inc.
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 9,269	74,575
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	266,892	238,057
Donation of fixed assets	-	(5,966)
Loss on disposal of fixed assets	362	-
(Increase) decrease in operating assets:		
Accounts receivable	6,410	(4,759)
Contributions receivable	2,180	(1,525)
Prepaid expenses and deposits	11,403	(85)
Merchandise held for resale	(4,933)	8,324
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(17,772)	(23,263)
Accrued compensation	12,963	40,982
Deferred revenue	13,584	34,045
Net cash provided by operating activities	300,358	360,385
Cash flows from investing activities:		
Purchases of investments	(378,105)	(14,000)
Purchases of property and equipment	(112,857)	(257,695)
Net cash used in investing activities	(490,962)	(271,695)
Net change in cash and cash equivalents	(190,604)	88,690
Cash and cash equivalents, beginning of year	676,607	587,917
Cash and cash equivalents, end of year	\$ 486,003	676,607
Supplemental cash flow information:		
Non-cash investing and financing activities:		
In-kind contributions of property and equipment	\$ -	5,966

See accompanying notes to financial statements.

The Children's Museum of Denver, Inc.

Notes to Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) General

The Children's Museum of Denver, Inc. (the Museum), is a not-for-profit corporation formed in 1973 for the purpose of creating a community where children and grownups learn through play.

(b) Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no permanently restricted net assets at June 30, 2008 and 2007.

(d) Contributions

The Museum accounts for contributions in accordance with the requirements of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Children's Museum of Denver, Inc.

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period the promise is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met.

The Museum uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

(f) Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Museum considers all unrestricted highly liquid investments with an original maturity of three months or less, and which are not held as part of an investment portfolio, to be cash equivalents.

(g) Concentrations of Credit Risk

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of cash and cash equivalents, certificates of deposit and money market funds.

The Museum places its cash and money market accounts and certificates of deposit with creditworthy, high quality financial institutions. At times, a portion of these cash balances may not be insured by the Federal Deposit Insurance Corporation or any other related entity.

(h) Merchandise Held for Resale

Merchandise held for resale consists of gift shop items that are valued at the lower of cost or market with cost determined using the first-in, first-out method.

(i) Accounts Receivable

Accounts receivable represent claims for reimbursement and other fees earned or due under contracts and fee agreements. The allowance for doubtful accounts is based on past collection experience and on analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Receivable balances are considered to be past due based on contractual terms.

The Children's Museum of Denver, Inc.

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the statements of activities.

(k) Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair market value at date of donation. The Museum capitalizes property and equipment with a cost or fair market value at the date of donation of \$1,000 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. 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 reported amounts of revenues and expenses. Actual results could differ from those estimates.

(m) Deferred Revenue

Membership payments are recognized as revenue ratably over the term of the membership period. Amounts received but not yet earned are reported as deferred revenue. Income from advance admissions and fees is deferred and recognized when used or earned.

(n) Advertising

The Museum uses advertising to promote its programs among audiences it serves. The production costs of advertising are expensed as incurred. During the year ended June 30, 2008, advertising costs totaled \$71,611, which includes donated advertising totaling \$35,200. During the year ended June 30, 2007, advertising costs totaled \$65,710.

The Children's Museum of Denver, Inc.

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(o) Donated Goods and Services

Donated goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. Donated goods and services received for the years ended June 30, are as follows:

	<u>2008</u>	<u>2007</u>
Donated goods	\$ 63,041	93,128
Donated advertising	35,200	-
Free use of facilities	28,620	34,120
Donated property and equipment	-	5,966
Donated services used primarily for special events	<u>11,810</u>	<u>9,838</u>
Total in-kind revenue	138,671	143,052
Less amounts included in special event revenue	<u>(27,851)</u>	<u>(40,050)</u>
	\$ <u>110,820</u>	<u>103,002</u>

Many individuals volunteer their time and perform a variety of tasks that assist the Museum in its programs and general operations. The Museum received 7,754 and 7,145 volunteer hours during the years ended June 30, 2008 and 2007, respectively, but these were not recognized in the financial statements because they did not meet the criteria for recognition under SFAS No. 116.

(p) Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

During the years ended June 30, 2008 and 2007, the Museum incurred joint costs of \$62,848 and \$51,692, respectively, for informational materials that include fund raising appeals and achieve the Museum's programmatic and management and general goals. The costs of these activities are allocated as follows at June 30:

	<u>2008</u>	<u>2007</u>
Visitor experiences	\$ 40,787	44,736
General and administrative	12,273	4,471
Fundraising and development	<u>9,788</u>	<u>2,485</u>
	\$ <u>62,848</u>	<u>51,692</u>

(q) Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and qualifies for the charitable contribution deduction. However, income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business taxable income.

The Children's Museum of Denver, Inc.

Notes to Financial Statements, Continued

(2) Contributions Receivable

Contributions receivable total \$23,095 and \$25,275 at June 30, 2008 and 2007, respectively. Management has determined that the pledges are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2008 and 2007. All amounts are due in one year.

(3) Investments

Investments are comprised of the following at June 30:

	<u>2008</u>	<u>2007</u>
Certificates of deposit	\$ 735,000	494,000
Money market fund	372,105	-
Government agency bonds	<u>85,000</u>	<u>320,000</u>
	<u>\$ 1,192,105</u>	<u>814,000</u>

The fair value of these investments approximates the cost basis. The certificates of deposit and government agency bond bear interest at rates ranging from 3.70% to 5.00% and mature at various dates through December 2009. Investment income for all investments, including cash equivalents, was \$56,161 and \$44,110 for 2008 and 2007, respectively.

(4) Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2008</u>	<u>2007</u>
Land	\$ 218,590	218,590
Building, improvements, and exhibits	5,130,782	5,057,417
Furniture and equipment	768,507	729,487
Vehicles	<u>46,490</u>	<u>46,490</u>
	6,164,369	6,051,984
Less accumulated depreciation	<u>(3,491,215)</u>	<u>(3,224,433)</u>
Net property and equipment	<u>\$ 2,673,154</u>	<u>2,827,551</u>

(5) Line-of-Credit Agreement

The Museum has a \$300,000 line-of-credit agreement with a bank, which expires January 2009. The line-of-credit agreement requires monthly interest payments at the bank's prime rate, as defined (5.75% at June 30, 2008). Amounts outstanding on the line-of-credit are collateralized by all business assets of the Museum. No amounts were outstanding under this agreement at June 30, 2008.

The Children's Museum of Denver, Inc.

Notes to Financial Statements, Continued

(6) Net Assets

Designated Unrestricted Net Assets

At June 30, a portion of unrestricted net assets is designated by the Board of Directors for the following purposes:

	<u>2008</u>	<u>2007</u>
Operating reserve	\$ 180,000	180,000
Board designated endowment	<u>36,004</u>	<u>36,004</u>
	<u>\$ 216,004</u>	<u>216,004</u>

Temporarily Restricted

At June 30, temporarily restricted net assets consist of pledges and unexpended cash restricted for the following purposes or periods:

	<u>2008</u>	<u>2007</u>
Initiatives	\$ 39,739	54,925
Other programs	58,000	47,500
Exhibits	2,500	22,839
Sponsored admissions	96,997	82,313
Future operations	<u>-</u>	<u>17,000</u>
	<u>\$ 197,236</u>	<u>224,577</u>

For the years ended June 30, 2008 and 2007, net assets of \$451,107 and \$399,962, respectively, were released from restrictions due to the purpose restrictions being accomplished or the passage of time.

(7) Scientific and Cultural Facilities District Funds

In November 1988, the voters of the Denver metropolitan area approved formation of a special tax district to support the scientific and cultural institutions within the district. Beginning in 1989, revenues for the district were generated through a sales tax and distributed to various institutions in accordance with the provisions of the act. In 1994 and again in 2004, the voters of the Denver Metropolitan area extended the expiration date of the special tax district. The special tax district is currently scheduled to expire in June 2018. During the years ended June 30, 2008 and 2007, the Museum recorded revenue of \$556,594 and \$560,420, respectively, from the SCFD.

(8) Retirement Plan

The Museum sponsors a defined contribution plan under the provisions of Internal Revenue Code Section 401(k). The plan is open to all employees of the Museum who have completed one month of service. Participants are eligible to contribute up to 25% percent of their earnings, not to exceed limits set by the Internal Revenue Service. The Museum has no matching obligations on contributions made to this plan. However, the Museum may make a discretionary contribution based upon a percentage of the employee's annual salary, to be determined annually. The Museum made no contributions to this Plan during the years ended June 30, 2008 and 2007.

The Children's Museum of Denver, Inc.

Notes to Financial Statements, Continued

(9) Operating Leases

The Museum leases certain office equipment under non-cancelable operating leases that expire through December 2014. Future minimum lease payments required under these non-cancelable operating leases are as follows as of June 30, 2008:

Year Ended June 30:

2009	\$ 10,497
2010	10,497
2011	10,497
2012	3,920
2013	2,604
Thereafter	<u>3,906</u>
	\$ <u>41,921</u>

Total lease expense was \$10,728 and \$12,038 for the years ended June 30, 2008 and 2007, respectively.

(10) The Helen M. McLoraine Children's Museum of Denver Endowment Fund

In 2003, a donor established a \$1 million dollar endowment fund, called The Helen M. McLoraine Children's Museum of Denver Endowment Fund (the Fund), at The Denver Foundation and named the Museum as the designated beneficiary. The Fund was established to provide support for the Museum's sponsored admissions program. The agreement gives The Denver Foundation variance power which allows it to redirect the funds to another beneficiary. Since The Denver Foundation has variance power over the gift, the fund is not recorded as an asset in the financial records of the Museum. Per the agreement, the donor intended that an annual distribution equal to 5% of the Fund be made each year to the Museum. During 2008 and 2007, \$65,110 and \$58,189, respectively, were received from the Fund and recorded as contributions on the Museum's statements of activities.