

CHILDREN'S MUSEUM OF LA CROSSE, INC.

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2011

CHILDREN'S MUSEUM OF LA CROSSE, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children's Museum of La Crosse, Inc.

We have audited the accompanying statement of financial position of Children's Museum of La Crosse, Inc. (the "Museum") as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, 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 auditing standards generally accepted in the United States. 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 audit provides 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 Museum, as of December 31, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Franke & Turnbull, CPA's

La Crosse, Wisconsin
October 29, 2012

CHILDREN'S MUSEUM OF LA CROSSE, INC.
STATEMENT OF FINANCIAL POSITION

| <u>ASSETS</u> | DECEMBER 31, | |
|---|----------------------------|----------------------------|
| | 2011 | 2010 |
| Cash and cash equivalents | \$ 55,501 | \$ 92,355 |
| Investments | 536,092 | 396,005 |
| Accounts receivable | 5,335 | 5,486 |
| Inventories | 13,499 | 7,431 |
| Prepaid expenses and deposits | 40,913 | 7,958 |
| Property and equipment – net | 1,696,978 | 1,799,207 |
| Assets whose use are limited: | | |
| Certificate of deposit - UC Reserve | 4,864 | 4,834 |
| Cash and cash equivalents | 38,812 | - |
| Investments | - | 1,905 |
| Investments - quasi-endowment | 70,140 | 72,009 |
| Promises to give | 67,422 | 111,417 |
| Due from charitable remainder unitrust | - | 73,887 |
| Perpetual trust | 600,967 | 644,042 |
| TOTAL ASSETS | <u>\$ 3,130,523</u> | <u>\$ 3,216,536</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| LIABILITIES | | |
| Accounts payable | \$ 5,263 | \$ 8,466 |
| Payroll taxes | 7,445 | 6,775 |
| Sales tax payable | 544 | 135 |
| Accrued compensation | 11,098 | 9,438 |
| Deferred revenue | 3,940 | 5,361 |
| TOTAL LIABILITIES | <u>28,290</u> | <u>30,175</u> |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated | 2,324,892 | 2,283,101 |
| Designated | 70,140 | 72,009 |
| Temporarily restricted | 106,234 | 187,209 |
| Permanently restricted | 600,967 | 644,042 |
| TOTAL NET ASSETS | <u>3,102,233</u> | <u>3,186,361</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,130,523</u> | <u>\$ 3,216,536</u> |

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

CHILDREN'S MUSEUM OF LA CROSSE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

| | YEAR ENDED DECEMBER 31, 2011 | | | |
|---|------------------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE, GAINS AND OTHER SUPPORT | | | | |
| Public support | | | | |
| Contributions and grants | \$ 56,253 | \$ 38,812 | \$ - | \$ 95,065 |
| Fundraising and special events | 34,673 | - | - | 34,673 |
| Operating revenue | | | | |
| Admissions | 148,960 | - | - | 148,960 |
| Memberships | 113,177 | - | - | 113,177 |
| Programs, parties and field trips | 71,916 | - | - | 71,916 |
| Rental | 4,172 | - | - | 4,172 |
| Gift Shop | 40,346 | - | - | 40,346 |
| Investment income | 13,420 | - | - | 13,420 |
| Change in value of perpetual trust | - | - | (43,075) | (43,075) |
| Change in value of charitable remainder unitrust | - | - | - | - |
| Other income | 934 | - | - | 934 |
| Release of restrictions | 119,787 | (119,787) | - | - |
| TOTAL REVENUE, GAINS AND OTHER SUPPORT | <u>603,638</u> | <u>(80,975)</u> | <u>(43,075)</u> | <u>479,588</u> |
| EXPENSES | | | | |
| Program | | | | |
| Gift shop cost of sales | 21,213 | - | - | 21,213 |
| Operations | 440,157 | - | - | 440,157 |
| Management and general | 6,799 | - | - | 6,799 |
| Public support | 95,547 | - | - | 95,547 |
| TOTAL EXPENSES | <u>563,716</u> | <u>-</u> | <u>-</u> | <u>563,716</u> |
| Change in net assets | 39,922 | (80,975) | (43,075) | (84,128) |
| NET ASSETS AT BEGINNING OF YEAR | <u>2,355,110</u> | <u>187,209</u> | <u>644,042</u> | <u>3,186,361</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 2,395,032</u> | <u>\$ 106,234</u> | <u>\$ 600,967</u> | <u>\$ 3,102,233</u> |

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

YEAR ENDED DECEMBER 31, 2010

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------|---------------------------|---------------------------|----------------------------|
| \$ 80,858 | \$ 12,648 | \$ - | \$ 93,506 |
| 16,200 | - | - | 16,200 |
| 147,616 | - | - | 147,616 |
| 96,078 | - | - | 96,078 |
| 70,958 | - | - | 70,958 |
| 4,865 | - | - | 4,865 |
| 34,039 | - | - | 34,039 |
| 78,260 | - | - | 78,260 |
| - | - | 59,196 | 59,196 |
| - | 3,309 | - | 3,309 |
| 120 | - | - | 120 |
| 92,327 | (92,327) | - | - |
| <u>621,321</u> | <u>(76,370)</u> | <u>59,196</u> | <u>604,147</u> |
| 17,603 | - | - | 17,603 |
| 372,068 | - | - | 372,068 |
| 3,330 | - | - | 3,330 |
| 91,683 | - | - | 91,683 |
| <u>484,684</u> | <u>-</u> | <u>-</u> | <u>484,684</u> |
| 136,637 | (76,370) | 59,196 | 119,463 |
| <u>2,218,473</u> | <u>263,579</u> | <u>584,846</u> | <u>3,066,898</u> |
| <u>\$ 2,355,110</u> | <u>\$ 187,209</u> | <u>\$ 644,042</u> | <u>\$ 3,186,361</u> |

CHILDREN'S MUSEUM OF LA CROSSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

| | YEAR ENDED DECEMBER 31, 2011 | | | |
|----------------------------------|------------------------------|---------------------------|-------------------------|--------------------------|
| | Program Services | Management and General | Public Support | Total |
| Employee Compensation | | | | |
| Salaries and wages | \$ 72,452 | \$ 86,832 | \$ 51,977 | \$ 211,261 |
| Employee benefits | 4,548 | 18,644 | 6,940 | 30,132 |
| Total Employee Compensation | <u>77,000</u> | <u>105,476</u> | <u>58,917</u> | <u>241,393</u> |
| Other Expenses | | | | |
| Gift shop cost of sales | 21,213 | - | - | 21,213 |
| Program expenses | 8,169 | - | 6,675 | 14,844 |
| Repairs and maintenance | 19,179 | 246 | 82 | 19,507 |
| Exhibit rental and expense | 49,984 | - | - | 49,984 |
| Advertising and promotion | - | 9,249 | - | 9,249 |
| Utilities | 24,146 | 309 | 103 | 24,558 |
| Seminars and training | - | 5,430 | - | 5,430 |
| Office expense | - | 4,228 | - | 4,228 |
| Dues and subscriptions | - | 3,374 | - | 3,374 |
| Insurance | 7,602 | 97 | 33 | 7,732 |
| Telephone | 5,260 | 67 | 23 | 5,350 |
| Permits and licenses | - | 95 | - | 95 |
| Postage and shipping | - | 2,340 | 350 | 2,690 |
| Printing and copies | - | 3,403 | - | 3,403 |
| Bad debts | - | - | - | - |
| Depreciation | 103,620 | 1,278 | 426 | 105,324 |
| Professional fees | - | 34,835 | - | 34,835 |
| Bank and credit card fees | - | 7,551 | - | 7,551 |
| Other | - | 2,514 | 442 | 2,956 |
| Total Other Expenses | <u>239,173</u> | <u>75,016</u> | <u>8,134</u> | <u>322,323</u> |
| Allocation of Indirect Costs | <u>145,197</u> | <u>(173,693)</u> | <u>28,496</u> | <u>-</u> |
| TOTAL FUNCTIONAL EXPENSES | <u>\$ 461,370</u> | <u>\$ 6,799</u> | <u>\$ 95,547</u> | <u>\$ 563,716</u> |

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

YEAR ENDED DECEMBER 31, 2010

| <u>Program Services</u> | <u>Management and General</u> | <u>Public Support</u> | <u>Total</u> |
|--------------------------|-------------------------------|-------------------------|--------------------------|
| \$ 69,462 | \$ 80,098 | \$ 48,277 | \$ 197,837 |
| 7,786 | 15,577 | 7,867 | 31,230 |
| <u>77,248</u> | <u>95,675</u> | <u>56,144</u> | <u>229,067</u> |
| 17,603 | - | - | 17,603 |
| 8,825 | - | 11,830 | 20,655 |
| 25,475 | 276 | 91 | 25,842 |
| - | - | - | - |
| - | 9,993 | - | 9,993 |
| 21,929 | 281 | 94 | 22,304 |
| - | 3,824 | 300 | 4,124 |
| - | 2,484 | - | 2,484 |
| - | 3,527 | - | 3,527 |
| 7,557 | 97 | 32 | 7,686 |
| 5,322 | 68 | 23 | 5,413 |
| - | 1,302 | - | 1,302 |
| - | 2,810 | - | 2,810 |
| - | 5,515 | - | 5,515 |
| 151 | - | - | 151 |
| 96,846 | 994 | 331 | 98,171 |
| - | 18,870 | - | 18,870 |
| - | 5,644 | - | 5,644 |
| <u>180</u> | <u>3,343</u> | <u>-</u> | <u>3,523</u> |
| 183,888 | 59,028 | 12,701 | 255,617 |
| <u>128,535</u> | <u>(151,373)</u> | <u>22,838</u> | <u>-</u> |
| <u>\$ 389,671</u> | <u>\$ 3,330</u> | <u>\$ 91,683</u> | <u>\$ 484,684</u> |

CHILDREN'S MUSEUM OF LA CROSSE, INC.
STATEMENT OF CASH FLOWS

| | <u>YEAR ENDED DECEMBER 31</u> | |
|---|-------------------------------|-------------------------|
| | <u>2011</u> | <u>2010</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (84,128) | \$ 119,463 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 105,324 | 98,171 |
| Net unrealized (gains) losses on investments | 40,264 | (40,427) |
| Change in value of perpetual trust | 43,075 | (59,196) |
| Change in value of remainder trust | - | (3,309) |
| Net (gain) on disposal of assets | (895) | - |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 151 | 2,910 |
| Promises to give | 43,995 | 62,370 |
| Inventories | (6,068) | 298 |
| Prepaid expenses | (32,955) | 29,024 |
| Accounts payable | (3,203) | (348) |
| Other accrued liabilities | 2,739 | (4,492) |
| Deferred revenue | (1,421) | 5,261 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>106,878</u> | <u>209,725</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from disposal of fixed assets | 3,000 | - |
| Purchase of property and equipment | (5,200) | (140,001) |
| Net change in investments including investment income re-invested | (176,607) | (96,876) |
| NET CASH (USED IN) INVESTING ACTIVITIES | <u>(178,807)</u> | <u>(236,877)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Charitable remainder trust distribution | 73,887 | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>73,887</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,958 | (27,152) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>92,355</u> | <u>119,507</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 94,313</u></u> | <u><u>\$ 92,355</u></u> |

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

CHILDREN'S MUSEUM OF LA CROSSE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – Nature of Organization and Summary of Significant Accounting Policies

The Children's Museum of La Crosse, Inc. (the "Museum") was incorporated in July 1996 for the purpose of creating a hands-on, interactive environment for children; a family place where children can explore, create, experiment, learn and exercise their imaginations. The Museum opened in February 1999.

A summary of significant accounting policies follows:

Basis of Accounting – The Museum utilizes the accrual method of accounting, whereby revenue is recognized when earned, and expenses are recognized when incurred. The Museum's financial statements are prepared in accordance with the provisions of the Financial Accounting Standards Board FASB ASC 958-205 (formerly Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*). Under FASB ASC 958-205, 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:

Net Assets – All assets have been recorded and reported as either: unrestricted, temporarily restricted, or permanently restricted net assets.

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Museum and include those expendable resources which have been designated for special use by the Museum's Board of Directors.

Temporarily restricted net assets represent those amounts, which are donor restricted for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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.

Permanently restricted net assets result from contributions from donors who place restrictions on the use of the funds, which mandate that the original principal be invested in perpetuity. This original principal is reported as a permanently restricted net asset, the income from which may be either temporarily restricted or unrestricted, depending on the donor's specifications.

Promises to Give – Contributions are recognized when the donor makes a promise to give to the Museum, that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

Cash and Cash Equivalents – For the purpose of the statement of cash flows, the Museum considers all deposits in financial institutions, with a maturity of three months or less, to be cash equivalents.

Contributed Services – During the years ended December 31, 2011 and 2010, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Income Tax Status – The Museum is recognized by the Internal Revenue Service to be an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

CHILDREN'S MUSEUM OF LA CROSSE, INC.
NOTES TO THE FINANCIAL STATEMENTS - continued
DECEMBER 31, 2011 AND 2010

NOTE 1 – Nature of Organization and Summary of Significant Accounting Policies - continued

Income Tax Status (continued) – FASB ASC 740-10 (previously Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes) prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Museum believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Museum's federal Exempt Organization Returns for 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

Inventories – Materials held for sale are stated at the lower of cost (first-in, first-out) or market and consist of gift shop items for resale.

Property and Equipment – Property and equipment in excess of \$1,000 are capitalized at cost or at their estimated fair value at date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. It is the Museum's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as support increasing temporarily restricted net assets. The Museum reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of the donated property and equipment's depreciation expense. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

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

Fair Value Measurements – The Museum has determined the fair value of certain assets in accordance with the provisions of FASB ASC 820-10 (formerly FASB Statement No. 157, *Fair Value Measurements*), which provides a framework for measuring fair value.

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. FASB ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

Advertising – The Museum expenses advertising costs as incurred.

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

Subsequent Events – The Museum has evaluated subsequent events through October 29, 2012, the date which the financial statements were available to be issued.

CHILDREN'S MUSEUM OF LA CROSSE, INC.
NOTES TO THE FINANCIAL STATEMENTS - continued
DECEMBER 31, 2011 AND 2010

NOTE 2 – Investments

Investments consist of the following at December 31:

| | <u>2011</u> | | <u>2010</u> | |
|-------------|-------------------|-------------------|-------------------|-------------------|
| | FAIR VALUE | COST | FAIR VALUE | COST |
| Trust Point | <u>\$ 606,232</u> | <u>\$ 583,545</u> | <u>\$ 469,919</u> | <u>\$ 407,268</u> |

At December 31, aggregate carrying amounts by major types are as follows:

| | <u>2011</u> | <u>2010</u> |
|------------------|--------------------------|--------------------------|
| Cash Equivalents | \$ 15,615 | \$ 45,619 |
| Bond Funds | 211,923 | 118,021 |
| Stock Funds | <u>378,694</u> | <u>306,279</u> |
| TOTAL | <u>\$ 606,232</u> | <u>\$ 469,919</u> |

For the year ended December 31, the investment return consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------------|-------------------------|
| Interest, dividends and mutual fund income | \$ 40,650 | \$ 38,281 |
| Net realized gains (losses) | 13,034 | (448) |
| Net unrealized gains (losses) | <u>(40,264)</u> | <u>40,427</u> |
| TOTAL | <u>\$ 13,420</u> | <u>\$ 78,260</u> |

NOTE 3 – Pledges Receivable

Unconditional promises to give at December 31, 2011, are as follows:

| | |
|---|-------------------------|
| Receivable in less than one year | \$ 70,375 |
| Receivable in one to five years | <u>-</u> |
| | 70,375 |
| Less discount to net present value at 6% | (2,953) |
| Less allowance for uncollectibles | <u>-</u> |
| Net unconditional promises to give | <u>\$ 67,422</u> |

NOTE 4 – Charitable Remainder Unitrust

On February 10, 1998, the Museum was named as a remainderman under “The Adolf L. & Virginia D. Gundersen Charitable Remainder Unitrust”. At December 31, the Museum has reflected a contribution receivable representing the remainder interest at fair market value.

On June 23, 2011, the Museum, as a 50% charitable remainder beneficiary, received a final distribution of the remainder interest totaling \$75,023.87.

CHILDREN'S MUSEUM OF LA CROSSE, INC.
NOTES TO THE FINANCIAL STATEMENTS - continued
DECEMBER 31, 2011 AND 2010

NOTE 5 – Property and Equipment

Property and equipment consist of the following at December 31:

| | <u>2011</u> | <u>2010</u> |
|---------------------------|----------------------------|----------------------------|
| Land | \$ 77,000 | \$ 77,000 |
| Building and improvements | 2,176,315 | 2,176,315 |
| Fixtures and equipment | 68,612 | 65,315 |
| Exhibits | <u>486,146</u> | <u>527,118</u> |
| | 2,808,073 | 2,845,748 |
| Accumulated depreciation | <u>(1,111,095)</u> | <u>(1,046,541)</u> |
| TOTAL | <u>\$ 1,696,978</u> | <u>\$ 1,799,207</u> |

NOTE 6 – Line of Credit

As of December 31, 2011 and 2010, the Museum has a line of credit with the Coulee Bank in the amount of \$50,000, of which \$0 was outstanding. The line of credit bears interest at the prime rate and is due and renewable, annually, in February.

NOTE 7 – Net Assets

Temporarily restricted net assets consist of the following at December 31:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|--------------------------|--------------------------|
| Time restriction: | | |
| Unconditional promises to give | \$ 67,422 | \$ 111,417 |
| Capital donations | 38,812 | 1,905 |
| Charitable remainder unitrust | <u>-</u> | <u>73,887</u> |
| TOTAL | <u>\$ 106,234</u> | <u>\$ 187,209</u> |

NOTE 8 – Endowment Funds and Perpetual Trusts

FASB ASC 958-205 (formerly FASB Staff Position No. FAS 117-1, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds”) provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”), which was enacted by the State of Wisconsin in July of 2009. FASB ASC 958-205 also requires additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

CHILDREN'S MUSEUM OF LA CROSSE, INC.
NOTES TO THE FINANCIAL STATEMENTS - continued
DECEMBER 31, 2011 AND 2010

NOTE 8 – Endowment Funds and Perpetual Trusts – continued

As described below, the Museum's endowments and perpetual trusts include both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Museum has interpreted the State of Wisconsin enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Museum, and (7) the Museum's investment policies.

Following is a description of the Museum's endowment funds and perpetual trusts for purposes of the requirements of FASB ASC 958-205:

Board-Designated Endowment

In 2004, the Museum established a fund that is to function as an endowment. The purpose of the fund is to receive and hold property, transferred to the Museum, in perpetuity. The net income of the fund is to be distributed, from time to time, for the benefit of the Museum. Principle payments may be made, at the discretion of the Board of Directors, for necessary or appropriate purposes. These designated assets are held and maintained under an agency agreement with Trust Point and subject to the Museum's investment policy.

Perpetual Trusts

Permanently restricted net assets consist of funds held in a perpetual trust and administered by the La Crosse Community Foundation (the "Foundation"). Investment decisions of funds held in perpetual trust are determined by the Foundation rather than the Museum.

The Museum is one of the beneficiaries of the Evelyn Bach Combined Foundation Trust. This perpetual trust, administered by a third party trustee, provides the irrevocable right to receive unrestricted income distributions in perpetuity.

CHILDREN'S MUSEUM OF LA CROSSE, INC.
 NOTES TO THE FINANCIAL STATEMENTS - continued
 DECEMBER 31, 2011 AND 2010

NOTE 8 – Endowment Funds and Perpetual Trusts - continued

Endowment and perpetual trust net asset composition by type of fund as of December 31, 2011 is as follows:

| | <u>Permanently Restricted Net Assets</u> | <u>Temporarily Restricted Net Assets</u> | <u>Unrestricted Net Assets</u> | <u>Total</u> |
|-------------------------------------|---|---|---|--------------------------|
| Board-designated endowment funds | \$ - | \$ - | \$ 70,140 | \$ 70,140 |
| Perpetual trusts | <u>600,967</u> | <u>-</u> | <u>-</u> | <u>600,967</u> |
| TOTAL | <u>\$ 600,967</u> | <u>\$ -</u> | <u>\$ 70,140</u> | <u>\$ 671,107</u> |

Endowment and perpetual trust net asset composition by type of fund as of December 31, 2010 is as follows:

| | <u>Permanently Restricted Net Assets</u> | <u>Temporarily Restricted Net Assets</u> | <u>Unrestricted Net Assets</u> | <u>Total</u> |
|-------------------------------------|---|---|---|--------------------------|
| Board-designated endowment funds | \$ - | \$ - | \$ 72,009 | \$ 72,009 |
| Perpetual trusts | <u>644,042</u> | <u>-</u> | <u>-</u> | <u>644,042</u> |
| TOTAL | <u>\$ 644,042</u> | <u>\$ -</u> | <u>\$ 72,009</u> | <u>\$ 716,051</u> |

Changes in endowment and perpetual trust net assets for the year ended December 31, 2011 are as follows:

| | <u>Permanently Restricted Net Assets</u> | <u>Temporarily Restricted Net Assets</u> | <u>Unrestricted Net Assets</u> | <u>Total</u> |
|-----------------------------------|---|---|---|--------------------------|
| Balance at beginning of year | \$ 644,042 | \$ - | \$ 72,009 | \$ 716,051 |
| Donations | - | - | - | - |
| Investment income | - | - | 1,320 | 1,320 |
| Net (depreciation) | (43,075) | - | (3,189) | (46,264) |
| Distributions | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| BALANCE AT END OF YEAR | <u>\$ 600,967</u> | <u>\$ -</u> | <u>\$ 70,140</u> | <u>\$ 671,107</u> |

CHILDREN'S MUSEUM OF LA CROSSE, INC.
NOTES TO THE FINANCIAL STATEMENTS - continued
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NOTE 8 – Endowment Funds and Perpetual Trusts - continued

Changes in endowment and perpetual trust net assets for the year ended December 31, 2010 are as follows:

| | <u>Permanently Restricted Net Assets</u> | <u>Temporarily Restricted Net Assets</u> | <u>Unrestricted Net Assets</u> | <u>Total</u> |
|-----------------------------------|---|---|---|--------------------------|
| Balance at beginning of year | \$ 584,846 | \$ - | \$ 66,976 | \$ 651,822 |
| Donations | - | - | - | - |
| Investment income | - | - | 792 | 792 |
| Net appreciation | 59,196 | - | 7,255 | 66,451 |
| Distributions | - | - | (3,014) | (3,014) |
| BALANCE AT END OF YEAR | <u>\$ 644,042</u> | <u>\$ -</u> | <u>\$ 72,009</u> | <u>\$ 716,051</u> |

NOTE 9 – Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at December 31 are as follows:

| | <u>2011</u> | | <u>2010</u> | |
|---|----------------------------|---|----------------------------|---|
| | <u>Fair Value</u> | <u>Quoted Market Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Fair Value</u> | <u>Quoted Market Prices in Active Markets for Identical Assets (Level 1)</u> |
| Investments | \$ 606,232 | \$ 606,232 | \$ 469,919 | \$ 469,919 |
| Due from charitable remainder unitrust | - | - | 73,887 | 73,887 |
| Perpetual trust | 600,967 | 600,967 | 644,042 | 644,042 |
| TOTAL | <u>\$ 1,207,199</u> | <u>\$ 1,207,199</u> | <u>\$ 1,187,848</u> | <u>\$ 1,187,848</u> |