

THE CHILDREN'S MUSEUM, INC.

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

THE CHILDREN'S MUSEUM, INC.

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Independent Auditors' Report

To the Board of Trustees
The Children's Museum, Inc.
West Hartford, Connecticut

We have audited the accompanying statements of financial position of The Children's Museum, Inc., as of June 30, 2010 and 2009, and the related statements of unrestricted activities, changes in net assets 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, Inc., as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

January 24, 2011

THE CHILDREN'S MUSEUM, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 244,380	\$ 333,335
Investments	1,231,414	1,160,855
Grant and other receivables	247,613	147,418
Note receivable	240,000	345,000
Inventories and prepaid expenses	37,932	40,455
Fixed assets, net	389,172	443,713
Beneficial interest in perpetual trusts	265,314	247,585
Total Assets	\$ <u>2,655,825</u>	\$ <u>2,718,361</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	\$ 74,833	\$ 74,496
Accounts payable and accrued expenses	96,907	103,236
Deferred revenue	124,828	101,382
Total liabilities	<u>296,568</u>	<u>279,114</u>
Net Assets		
Unrestricted	522,521	682,022
Temporarily restricted	254,795	193,013
Permanently restricted	1,581,941	1,564,212
Total net assets	<u>2,359,257</u>	<u>2,439,247</u>
Total Liabilities and Net Assets	\$ <u>2,655,825</u>	\$ <u>2,718,361</u>

The accompanying notes are an integral part of the financial statements

THE CHILDREN'S MUSEUM, INC.
STATEMENTS OF UNRESTRICTED ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Changes in Unrestricted Net Assets		
Operating:		
Revenues and support:		
Education programs	\$ 660,260	\$ 760,872
Admissions and memberships	698,124	809,650
Contributions and governmental grants	630,619	542,497
Science store sales	107,492	143,565
Investment income	35,611	43,028
Interest income - note receivable	29,184	31,938
Bequests and trusts	11,857	23,612
Contributed assets and services	46,563	27,768
Miscellaneous income	30,280	-
Gain on sale of fixed asset	-	5,500
Total unrestricted revenues and support	2,249,990	2,388,430
Net assets released from restrictions - satisfaction of program restrictions		
	228,410	243,113
Total unrestricted revenues and other support	2,478,400	2,631,543
Expenses:		
Education programs	945,359	988,106
Exhibits	499,347	485,983
Science store	43,800	53,979
Operations	330,972	271,788
Finance and administration	504,931	547,310
Marketing and membership	103,360	113,879
Fundraising	198,172	167,186
Total expenses	2,625,941	2,628,231
Change in unrestricted net assets - operations before depreciation	(147,541)	3,312
Depreciation expense	(111,770)	(114,337)
Change in unrestricted net assets - operations	(259,311)	(111,025)
Other changes in unrestricted net assets:		
Realized/unrealized gains (losses) on investments	99,810	(149,928)
Change in Unrestricted Net Assets	\$ (159,501)	\$ (260,953)

The accompanying notes are an integral part of the financial statements

THE CHILDREN'S MUSEUM, INC.
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Changes in Unrestricted Net Assets		
Total unrestricted revenues and other support	\$ 2,478,400	\$ 2,631,543
Total expenses	(2,737,711)	(2,742,568)
Other changes in unrestricted net assets	99,810	(149,928)
Decrease in unrestricted net assets	<u>(159,501)</u>	<u>(260,953)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	290,192	216,038
Net assets released from restrictions	(228,410)	(243,113)
Increase (decrease) in temporarily restricted net assets	<u>61,782</u>	<u>(27,075)</u>
Changes in Permanently Restricted Net Assets		
Increase (decrease) in value of beneficial interest in perpetual trusts	<u>17,729</u>	<u>(38,892)</u>
Decrease in Net Assets	(79,990)	(326,920)
Net Assets - Beginning of Year	<u>2,439,247</u>	<u>2,766,167</u>
Net Assets - End of Year	<u>\$ 2,359,257</u>	<u>\$ 2,439,247</u>

The accompanying notes are an integral part of the financial statements

THE CHILDREN'S MUSEUM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (79,990)	\$ (326,920)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	111,770	114,337
Change in value of beneficial interest in perpetual trusts	(17,729)	38,892
Net investment (gains) losses	(99,810)	149,928
Bad debt expense	6,553	14,333
(Increase) decrease in operating assets:		
Grant and other receivables	(106,748)	(18,070)
Inventories and prepaid expenses	2,523	(32,332)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(6,329)	6,509
Deferred revenue	23,446	10,477
Net cash used in operating activities	<u>(166,314)</u>	<u>(42,846)</u>
Cash Flows from Investing Activities		
Cash receipts on note receivable	105,000	105,000
Purchase of investments	(120,939)	(111,100)
Proceeds from the sale of investments	150,190	125,949
Purchases of fixed assets	(57,229)	(55,833)
Net cash provided by investing activities	<u>77,022</u>	<u>64,016</u>
Cash Flows from Financing Activities		
Proceeds from line of credit, net	337	-
Repayment of note payable	-	(3,042)
Net cash provided by (used in) financing activities	<u>337</u>	<u>(3,042)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(88,955)	18,128
Cash and Cash Equivalents - Beginning of Year	<u>333,335</u>	<u>315,207</u>
Cash and Cash Equivalents - End of Year	<u>\$ 244,380</u>	<u>\$ 333,335</u>
Cash Paid During the Year for Interest	<u>\$ 4,331</u>	<u>\$ 8,654</u>

The accompanying notes are an integral part of the financial statements

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Activities - The Children's Museum, Inc. (the Museum) is a nonprofit children's museum that provides experiences and resources that inspire curiosity and make learning about science, nature and technology fun for young children. Through an aggressive, hands-on, educational approach to improving scientific and technological literacy, the Museum provides a clear understanding of today's world and tomorrow's challenges. The Museum operates two facilities in West Hartford, Connecticut: The Children's Museum and The Children's Museum School. The main facility, The Children's Museum, houses exhibits and programs for schools and the general public. The Children's Museum School is an enrichment program for preschoolers.

The Museum also operates Roaring Brook Nature Center (Roaring Brook) located in Canton, Connecticut. Roaring Brook offers exhibits and programs focused on the natural sciences.

Basis of Accounting and Presentation - The financial statements of the Museum have been prepared in accordance with accounting principles generally accepted in the United States of America. The Museum reports 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.

Unrestricted Net Assets - These assets represent resources that may be expended at the discretion of the Board of Trustees to support operations.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and also include accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure.

Permanently Restricted Net Assets - These assets represent resources that have donor-imposed restrictions that stipulate that resources be invested permanently but permit the Museum to expend the income earned thereon.

Measure of Operations - The Museum's measure of operations, as presented, includes all changes in unrestricted net assets except for unrealized gains and losses on investments.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ materially from those estimates.

Cash and Cash Equivalents - The Museum considers all highly liquid debt instruments purchased with a maturity of six months or less to be cash equivalents. Money market funds held by the investment custodians as part of the Museum's long-term investments (endowment) are considered to be investments.

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - Investments in equity securities with readily determinable fair values and investments in debt securities are carried at fair value in the statements of financial position. Realized and unrealized gains and losses and investment income on donor-restricted endowment assets are classified as increases or decreases in temporarily restricted net assets until appropriated for expenditure.

Inventories - Inventories are stated at the lower of cost or market, using the first-in, first-out method.

Fixed Assets and Depreciation - Fixed asset acquisitions and improvements that individually exceed \$1,000 are capitalized at cost. Depreciation of buildings, improvements, equipment and exhibits is provided over the estimated useful lives (ranging from 3 to 20 years) of the respective assets on a straight-line basis. Depreciation of exhibits commences when they are placed in service and continues over their useful lives of five years regardless of whether such exhibits are "on display" for their entire economic useful life.

Perpetual Trust Funds - The Museum has been named a participating beneficiary in two perpetual trusts. Under the terms of these trusts, the Museum has the irrevocable right to receive the income earned on the trust assets in perpetuity. The trusts are presented at the estimated present value of the future payments to the Museum, which is considered to be the fair value of the assets held in trust. Changes in the carrying amounts of the beneficial interests are recognized as increases or decreases in permanently restricted net assets. Income received during the years ended June 30, 2010 and 2009, with respect to these trusts was \$9,669 and \$11,562, respectively.

Contributions - The Museum reports contributions and grants as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give are recognized as revenues or gains in the period received and as assets or decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Museum has elected to report all contributions with time or purpose restrictions as increases in temporarily restricted net assets, even if expended in the same fiscal year as they are received.

Contributed Services and Facilities - Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. Contributed assets or the use of assets are recognized as unrestricted support and a corresponding asset at estimated current value when received.

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax-Exempt Status - The Museum qualifies as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and, as such, is not subject to federal or state corporation income taxes on its exempt function income. The Museum's informational returns for the years ended June 30, 2007 through 2010 are subject to examination by the Internal Revenue Service and the State of Connecticut.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in Note 12. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising - Advertising costs are expensed as incurred.

Reclassifications - Certain amounts in the 2009 financial statements have been reclassified to conform with the current year's presentation.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through January 24, 2011, which represents the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The levels of valuation inputs under applicable accounting standards for financial instruments carried at fair value are as follows:

Level 1 - Quoted market prices for identical assets on an active market to which an entity has access at the measurement date.

Level 2 - Inputs and information other than quoted market indices included in Level 1 that are observable for the asset, either directly or indirectly, and the Museum has the ability to redeem the asset in the near term subsequent to the measurement date.

Level 3 - Unobservable inputs for the asset. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available, and the Museum does not have the ability to redeem the asset in the near term.

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Recurring Basis - The following is a summary of the source of fair value measurements for assets that are measured at fair value on a recurring basis as of June 30, 2010 and 2009:

<u>Description</u>	<u>2010</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money market funds	\$ 41,601	\$ 41,601	\$ -	\$ -
Equity mutual funds	667,966	667,966	-	-
Bond mutual funds	521,847	521,847	-	-
Beneficial interests in trusts	265,314	-	-	265,314

<u>Description</u>	<u>2009</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money market funds	\$ 42,384	\$ 42,384	\$ -	\$ -
Equity mutual funds	516,956	516,956	-	-
Bond mutual funds	601,515	601,515	-	-
Beneficial interests in trusts	247,585	-	-	247,585

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - The following is a summary of the changes in the balances of beneficial interests in trusts measured at fair value on a recurring basis using significant unobservable inputs for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Balance - beginning of year	\$ 247,585	286,477
Total gains (losses) (realized and unrealized) included in the change in net assets	<u>17,729</u>	<u>(38,892)</u>
Balance - End of Year	<u>\$ 265,314</u>	<u>247,585</u>
The Amount of Total Gains for the Period Included in Changes in Net Assets Attributable to the Change in Unrealized Gains (Losses) Relating to Assets Still Held at Year End	<u>\$ 17,729</u>	<u>(38,892)</u>

The change in realized/unrealized gains (losses) relating to investments that are still held at year end is \$249,798 and \$(32,196) for the years ended June 30, 2010 and 2009, respectively.

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - NOTE RECEIVABLE

The Museum received a note receivable in the amount of \$975,000 from the sale of the West Hartford property that bears interest at 7%. The note is receivable in annual principal installments of \$105,000. During the year, the note receivable was extended with a final installment of \$240,000 due June 30, 2011.

NOTE 4 - FIXED ASSETS

Fixed assets as of June 30, 2010 and 2009, include the following:

	2010	2009
Buildings and improvements	\$ 307,617	\$ 278,848
Equipment and exhibits	667,433	638,973
	975,050	917,821
Less accumulated depreciation	585,878	474,108
Net Fixed Assets	\$ 389,172	\$ 443,713

NOTE 5 - LINE OF CREDIT

The Museum has an available line of credit of \$250,000. The line of credit is renewed annually each November with interest at 3%. The amount outstanding under the line of credit was \$74,833 and \$74,496 as of June 30, 2010 and 2009, respectively.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes as of June 30, 2010 and 2009:

	2010	2009
Education programs	\$ 180,984	\$ 160,567
Capital projects - Children's Museum	15,811	24,985
Capital projects - Roaring Brook Nature Center	-	7,461
Administrative	40,000	-
Development	18,000	-
	\$ 254,795	\$ 193,013

**THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS (Continued)

Net assets were released from restrictions by incurring expenses satisfying the following purpose restrictions for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Education programs	\$ 208,275	\$ 202,871
Facilities	3,500	-
Capital projects	<u>16,635</u>	<u>40,242</u>
	<u>\$ 228,410</u>	<u>\$ 243,113</u>

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2010 and 2009, are comprised of the following:

	<u>2010</u>	<u>2009</u>
Restricted to investment, income expendable to support operations	\$ 1,316,627	\$ 1,316,627
Perpetual trusts held by third parties	<u>265,314</u>	<u>247,585</u>
	<u>\$ 1,581,941</u>	<u>\$ 1,564,212</u>

NOTE 8 - ENDOWMENT

The Museum's endowment consists of approximately nine individual funds established for a variety of purposes. Its endowment consists solely of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees of the Museum has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - ENDOWMENT (Continued)

expenditure by the Museum in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Endowment Net Assets - Endowment net asset composition by type of fund are as follows as of June 30, 2010 and 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, at July 1, 2008	\$ (190,383)	\$ -	\$ 1,316,627	\$ 1,126,244
Investment income	43,028	-	-	43,028
Investment losses	(149,928)	-	-	(149,928)
Total investment return	<u>(106,900)</u>	<u>-</u>	<u>-</u>	<u>(106,900)</u>
Endowment assets appropriated for expenditure	<u>(35,000)</u>	<u>-</u>	<u>-</u>	<u>(35,000)</u>
Endowment Net Assets, at June 30, 2009	<u>(332,283)</u>	<u>-</u>	<u>1,316,627</u>	<u>984,344</u>
Investment income	35,611	-	-	35,611
Investment losses	99,810	-	-	99,810
Total investment return	<u>135,421</u>	<u>-</u>	<u>-</u>	<u>135,421</u>
Endowment assets appropriated for expenditure	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
Endowment Net Assets, at June 30, 2010	<u><u>(246,862)</u></u>	<u><u>-</u></u>	<u><u>1,316,627</u></u>	<u><u>1,069,765</u></u>

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by CTPMIFA was \$1,316,627 as of June 30, 2010 and 2009.

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - ENDOWMENT (Continued)

Funds with Deficiencies - From time to time, the fair value of investments associated with donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$246,862 and \$332,283 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters - The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted assets that the Museum must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Museum has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long-term, the Museum expects the current spending policy to preserve the value of the assets. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - CONTRIBUTED ASSETS AND SERVICES

The Museum receives unrestricted contributions of assets and services for program and management support. These contributions have been recorded at their estimated fair value and are summarized as follows:

	<u>2010</u>	<u>2009</u>
Contributed services:		
Operations	\$ 6,000	\$ -
Facility maintenance	4,000	-
Finance and administration	15,538	16,288
Marketing and membership	-	1,150
	<u>25,538</u>	<u>17,438</u>
Contributed assets:		
Education program - exhibits	16,500	6,630
Education program - other	280	-
Operations	50	1,200
Fundraising	4,195	2,500
	<u>21,025</u>	<u>10,330</u>
Total Contributed Assets and Services	<u>\$ 46,563</u>	<u>\$ 27,768</u>

The Museum also received significant donated services from volunteers that did not qualify for recognition in the statements of unrestricted activities. These services totaled approximately 7,400 hours, with an estimated value of \$111,000 for the year ended June 30, 2010, and 7,412 hours, with an estimated value of \$111,180 for the year ended June 30, 2009.

NOTE 10 - LEASE COMMITMENTS

In 2003, the Museum entered into an agreement with Kingswood-Oxford School (the School) for the sale and leaseback of its West Hartford property. The original agreement required annual lease payments of \$108,800 due to the School through April 27, 2009. Beginning April 28, 2009, a payment of \$127,877 was required for the year ended June 30, 2010.

Beginning July 1, 2010, required annual payments are \$108,800 for the remainder of the lease term, expiring June 30, 2014.

The Museum also leases exhibit and office equipment under operating leases that expire through 2014.

Rent expense for the years ended June 30, 2010 and 2009, was \$121,093 and \$139,841 respectively.

**THE CHILDREN'S MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - LEASE COMMITMENTS (Continued)

Future minimum lease payments under the lease agreements are as follows:

Year Ending June 30

2011	\$ 118,368
2012	113,344
2013	110,832
2014	<u>110,832</u>
Total Minimum Lease Payments	<u>\$ 453,376</u>

NOTE 11 - FEDERAL AND STATE ASSISTANCE PROGRAMS

The Museum participated in a number of federal- and state-assisted grant programs. The use of grants in programs is subject to future review by the grantors. Such reviews may result in liabilities to grantors. The Museum is not aware of any such liabilities at June 30, 2010.

NOTE 12 - EXPENSES BY FUNCTION

Expenses by function for the years ended June 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Program services	\$ 1,950,781	\$ 1,942,318
Management and general	588,758	633,064
Fundraising	<u>198,172</u>	<u>167,186</u>
Total Expenses	<u>\$ 2,737,711</u>	<u>\$ 2,742,568</u>