

CHILDREN'S MUSEUM OF PITTSBURGH
Pittsburgh, Pennsylvania

Consolidated Financial Statements
and
Supplementary Information
for the years ended June 30, 2018 and 2017
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's Museum of Pittsburgh
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of the Children's Museum of Pittsburgh (Museum), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated 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.

Auditors' 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 consolidated financial position of the Museum as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 8, 2018

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CHILDREN'S MUSEUM OF PITTSBURGH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30	
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 3,318,952	\$ 3,160,554
Restricted	6,373,647	3,881,088
Pledges receivable	1,889,430	1,573,720
Accounts receivable, net	189,250	35,770
Inventory	76,911	85,399
Prepaid and other expenses	170,293	161,963
	12,018,483	8,898,494
Total Current Assets	12,018,483	8,898,494
PLEDGES RECEIVABLE, NET	1,198,915	478,948
LEVERAGE LOAN RECEIVABLE	6,035,700	-
INVESTMENTS	9,123,666	8,445,478
PROPERTY, EQUIPMENT AND EXHIBITS, net	16,511,609	12,194,023
OTHER ASSETS	84,690	66,190
	\$ 44,973,063	\$ 30,083,133
	\$ 44,973,063	\$ 30,083,133
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,274,193	\$ 431,053
Accrued expenses	297,048	337,031
Deferred revenue	1,412,086	1,141,894
	2,983,327	1,909,978
Total Current Liabilities	2,983,327	1,909,978
OTHER LIABILITIES	84,690	66,190
NEW MARKET TAX CREDIT LOANS	9,140,000	-
NET ASSETS		
Unrestricted	13,418,375	14,114,880
Temporarily restricted	10,541,413	5,846,071
Permanently restricted	8,805,258	8,146,014
	32,765,046	28,106,965
Total Net Assets	32,765,046	28,106,965
Total Liabilities And Net Assets	\$ 44,973,063	\$ 30,083,133
	\$ 44,973,063	\$ 30,083,133

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Grants	\$ 920,815	\$ 997,975	-	\$ 1,918,790
Contributions	534,110	213,719	-	747,829
Sponsorships	252,150	25,000	-	277,150
Contributed services and equipment	316,977	-	-	316,977
Capital campaign revenue	360,000	5,665,606	\$ 1,000,000	7,025,606
Special event	420,048	-	-	420,048
Total Support	<u>2,804,100</u>	<u>6,902,300</u>	<u>1,000,000</u>	<u>10,706,400</u>
Program revenue	123,657	-	-	123,657
Admissions	1,425,222	-	-	1,425,222
Memberships	769,096	-	-	769,096
Retail sales	218,695	-	-	218,695
Other income	380,245	-	-	380,245
Café	560,170	-	-	560,170
Parking	364,683	-	-	364,683
Investment income	59,821	-	184,416	244,237
Exhibit rentals	474,243	65,204	-	539,447
Exhibit sales and contracted revenues	750,721	-	-	750,721
Total Revenue	<u>5,126,553</u>	<u>65,204</u>	<u>184,416</u>	<u>5,376,173</u>
Net realized and unrealized gain on investments	4,651	-	85,694	90,345
Gain on disposal of property, equipment and exhibits	300	-	-	300
Net assets released from restrictions	2,272,162	(2,272,162)	-	-
Endowment draw	610,866	-	(610,866)	-
Total Support And Revenue	<u>10,818,632</u>	<u>4,695,342</u>	<u>659,244</u>	<u>16,173,218</u>
EXPENSES				
Program	9,079,196	-	-	9,079,196
General and administrative	1,276,992	-	-	1,276,992
Marketing and development	1,121,811	-	-	1,121,811
Cost of direct benefits to donors	37,138	-	-	37,138
Total Expenses	<u>11,515,137</u>	<u>-</u>	<u>-</u>	<u>11,515,137</u>
Changes In Net Assets	(696,505)	4,695,342	659,244	4,658,081
NET ASSETS				
Beginning of year	<u>14,114,880</u>	<u>5,846,071</u>	<u>8,146,014</u>	<u>28,106,965</u>
End of year	<u>\$ 13,418,375</u>	<u>\$ 10,541,413</u>	<u>\$ 8,805,258</u>	<u>\$ 32,765,046</u>

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,011,907	\$ 365,517	-	\$ 1,377,424
514,786	22,230	-	537,016
529,288	636,312	-	1,165,600
306,111	-	-	306,111
247,578	4,184,175	-	4,431,753
354,358	-	-	354,358
<u>2,964,028</u>	<u>5,208,234</u>	<u>-</u>	<u>8,172,262</u>
100,042	-	-	100,042
1,546,482	-	-	1,546,482
756,567	-	-	756,567
212,506	-	-	212,506
365,464	-	-	365,464
613,357	-	-	613,357
368,741	-	-	368,741
21,523	-	\$ 112,723	134,246
400,311	34,537	-	434,848
1,061,903	-	-	1,061,903
<u>5,446,896</u>	<u>34,537</u>	<u>112,723</u>	<u>5,594,156</u>
23,046	-	1,150,834	1,173,880
-	-	-	-
995,723	(995,723)	-	-
412,131	-	(412,131)	-
<u>9,841,824</u>	<u>4,247,048</u>	<u>851,426</u>	<u>14,940,298</u>
7,965,033	-	-	7,965,033
1,171,386	-	-	1,171,386
972,117	-	-	972,117
49,726	-	-	49,726
<u>10,158,262</u>	<u>-</u>	<u>-</u>	<u>10,158,262</u>
(316,438)	4,247,048	851,426	4,782,036
<u>14,431,318</u>	<u>1,599,023</u>	<u>7,294,588</u>	<u>23,324,929</u>
<u>\$ 14,114,880</u>	<u>\$ 5,846,071</u>	<u>\$ 8,146,014</u>	<u>\$ 28,106,965</u>

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 4,658,081	\$ 4,782,036
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,135,647	1,046,521
Realized and unrealized (gain)/loss on investments	90,345	(1,173,880)
Permanently restricted investment income	184,416	(112,723)
Gifts restricted for long-term capital investment	(4,147,559)	(2,324,542)
Changes in assets and liabilities:		
Operating receivables	(446,597)	610,456
Capital campaign receivables	302,935	(472,324)
Inventory	8,488	(5,154)
Prepaid expenses and other assets	(26,830)	(41,108)
Accounts payable	843,140	12,503
Accrued expenses	(21,483)	(33,526)
Deferred revenue	270,192	(110,060)
Net Cash Provided By Operating Activities	2,850,775	2,178,199
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and exhibits	(5,453,233)	(1,083,598)
Purchases of investments	(6,301,339)	(2,475,506)
Proceeds from sale of investments	5,348,390	1,501,444
Gifts restricted for long-term capital investment	2,102,064	1,691,580
Net Cash Used In Investing Activities	(4,304,118)	(366,080)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts restricted for long-term capital investment	1,000,000	-
Issuance of leveraged loans	(6,035,700)	-
Proceeds from new market tax credit loans	9,140,000	-
Net Cash Provided By Investing Activities	4,104,300	-
 Net Increase In Cash And Cash Equivalents	2,650,957	1,812,119
CASH AND CASH EQUIVALENTS		
Cash beginning of year	7,041,642	5,229,523
Cash end of year	\$ 9,692,599	\$ 7,041,642
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 30,753	-
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
As of June 30, 2018, the Museum has accounts payable of approximately \$871,000 related to construction in progress property and equipment.		

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - ORGANIZATION

Children's Museum of Pittsburgh (the Museum) is a nonprofit organization established in 1980 and opened in 1983 to serve children in the tri-state area. At the heart of the Museum is its mission to provide innovative museum experiences that inspire joy, creativity and curiosity. The Museum is a partner and a resource for people who work with or on behalf of children, youth and families. Interactive museum experiences are at the core of the Children's Museum's mission. Each of the Museum's ten permanent exhibits are grounded in its longstanding Play with Real Stuff philosophy, which asserts that children need a solid foundation of developmentally appropriate learning activities that are concrete, real and relevant to their lives.

The Museum has emerged as a national leader in hands-on making and learning initiatives and research with recognition from the museum and library field and local and national education leaders. The Museum has routinely participated in national conversations about its MAKESHOP and learning and research with stakeholders from across the country to advance participation in making. The Museum has also participated in White House Maker Faire and the Congressional Maker Faire, as well as numerous federal and field-wide symposia, conferences and working groups on making as a learning process. At the same time, in the past decade the Museum has become well-known in the museum and library field as a leading creator of traveling exhibits for rental and is sought after for design and consulting services nationally.

High-quality, interactive exhibits and open-ended learning experiences are at the core of the Museum's experience. The Museum features ten permanent exhibits, including the Attic, Backyard, Garden, Garage, Studio, MAKESHOP, Nursery, Outdoor Classroom, Theater and Waterplay, and hosts a rotating slate of traveling exhibitions throughout the year. The Museum develops in-house, one-of-a kind traveling exhibits to rent and share with the field, commissions new interactive art and partners with hundreds of local working artists, and engages in accessibility and inclusion programming for all families.

The Museum creates and presents educational programs that connect with and engage all types of learners in 21st century skills. Teacher education, youth programs and classes on the Museum's floor provide opportunities for learning and play. Visiting a children's museum focused on real stuff, children and adults alike have opportunities to try new things, explore creative outlets and take a fresh, new look at the world around them. Children are encouraged to find their own answers through hands-on exploration. Outreach programs provide services to the general public outside the Museum, primarily in schools. Other venues include community festivals, malls and health fairs.

The Museum is a catalyst for positive change and works to use its resources to improve the quality of its immediate neighborhood with the goal of creating a safe, family-friendly destination. The physical structure of the Museum provides inspiration in its unique architecture incorporating three centuries and the latest in "green" technologies.

The Museum is a place of light and laughter, where children and the adults who love them can explore and grow together. The Museum is committed to the families of Western Pennsylvania.

In 2018, the Museum established Children's MuseumLAB Advancement Initiative (CMAI) as a nonprofit organization to hold the Museum Lab's fixed assets and Qualified Low-Income Community Investment (QLICI) loans. This transaction took place to facilitate the new market tax credit structure in conjunction with the creation of the Museum Lab. Note 9 provides further information on this transaction and new facility. The Museum is the sole voting member of CMAI and uses the Museum Lab for its exclusive benefit and use. Therefore, CMAI is consolidated into the financial statements of the Museum.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The financial statements as of and for the year ended June 30, 2018 and 2017 include accounts of the Children's Museum of Pittsburgh and CMAI. The consolidated organizations are herein referred to as the Museum. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Net Assets - The Museum classifies resources for accounting and reporting purposes into separate net asset classes based on the absence or existence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories.

A description of the Museum's net asset categories is as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use. Such net assets may be designated by the Board of Directors (Board) of the Museum for specific purposes or limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of the Museum or the passage of time.

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed restrictions of investing the principal contribution in perpetuity and the investment income be used only for the Museum's operations and programs.

The Museum reports gifts of cash and other assets as restricted support if they are received with donor-imposed restrictions that limit the use of the donated assets. When a donor 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. If a gift's restrictions are met in the same fiscal year in which the gift was received, the gift is recorded as an unrestricted gift.

Receipts of unconditional promises to give with payments due in future periods are recorded as pledges receivable and recognized as increases to net assets at the date of promise. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, will be recognized when the conditions on which they depend are substantially met. There is no allowance for doubtful accounts recorded as of June 30, 2018 and 2017. The allowance is based on the Museum's historical collection experience and review of the current status of receivables and judgment. Decisions to charge-off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. It is reasonably possible that the Museum's estimate of the allowance for doubtful accounts will change.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - The Museum considers highly liquid debt instruments with a purchased maturity of 12 months or less to be cash equivalents. The Museum maintains, at various financial institutions, cash and cash equivalents that may exceed federally insured amounts at times.

Investments and Investment Activities - Investments consist of equity securities, fixed-income obligations and other investment securities and are measured at fair value in the statement of financial position. Accordingly, the change in net unrealized appreciation or depreciation for the year is included in the statements of activities.

The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market. (See Note 4.)

Investment securities are exposed to various risks caused by changes in interest rates, general market volatility and credit risk, etc. Due to the level of risk associated with certain investment securities, it is possible that changes in risks in the near term could materially affect account balances and the amounts reported in the consolidated statements of activities and the consolidated balance sheets.

The Museum has an investment policy seeking total return on the Museum's permanent endowment. The income to be utilized by operations is calculated as not less than 2% or more than 7% of the average fair market value of the endowment during the preceding three (3) years. This policy was adopted to adhere to contractual agreements, as well as state statutes. The rate of the draw approximated 7% and 5% for the years ended June 30, 2018 and 2017, respectively.

Inventory - Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory represents items available for sale in the Museum's retail store and café.

Property, Equipment and Exhibits - Property, equipment and exhibits are recorded at the lower of cost or market. Donated equipment is recorded at its fair market value at the date of donation. Depreciation expense is recorded on the straight-line method over estimated useful lives. Repairs and maintenance costs that do not extend the lives of the applicable assets are charged to expense as incurred. Gain or loss resulting from the retirement or other disposition of assets is included in the consolidated statement of activities.

The Museum reviews the carrying value of property, equipment and exhibits for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The Museum identified no events or changes in circumstances that necessitated an evaluation for impairment of property, equipment or exhibits for the fiscal years ended June 30, 2018 and 2017.

Inexhaustible Collections - In conformity with the practice followed by many museums, inexhaustible collections are not included because their values are not readily determinable. Items held by the Museum include paintings, models, dolls and puppets.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Deferred Revenue - Admission and performance fees collected in advance of the events are included in deferred revenue and recognized as revenue in the year such events occur. Membership revenues are recognized over the life of the membership; the portion of membership revenues that extend beyond June 30 are included in deferred revenue. Revenues for traveling exhibit rentals are recognized over the period of the rental agreement. Revenues for exhibit sales and traveling exhibit rentals that are received in advance of performance under the contract are deferred and recognized in the year revenue recognition criteria is met. Revenues for in-house programs and shows that are received in advance of the activities are deferred and recognized in the year the activities occur. Revenues for exhibit sales are recognized on a percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that estimates of costs and revenues will change within the near term. Contract costs include all material and labor costs and fringe benefits. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses are determined. Profits are included in revenues when their realization is reasonably assured.

Contributions - Contributions include pledges receivable and volunteer and donated professional services, as well as donated supplies, printing, rent and equipment. During the years ended June 30, 2018 and 2017, approximately \$317,000 and \$306,000, respectively, were recorded as in-kind contributions.

Although Board members have donated a substantial amount of time to the operation of the Museum, no amounts have been reflected in the accompanying consolidated financial statements for services of the Board members because no objective basis is available to measure the value of such services.

Advertising Costs - The Museum has a policy of expensing advertising costs in the period incurred. Such costs approximated \$214,000 and \$296,000 for the years ended June 30, 2018 and 2017, respectively.

Income Tax - The Museum and CMAI are exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Museum and CMAI recognize and report income tax liabilities arising from unrelated business activities on Federal Form 990-T. The Museum and CMAI follow the codification topic on income taxes. The topic prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. The Museum's consolidated statements of financial position at June 30, 2018 and 2017 do not include any liabilities associated with uncertain tax positions; further, the Museum and CMAI have no unrecognized tax benefits. The Museum is no longer subject to examinations by tax authorities for fiscal years before 2015.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 is the result of a joint project of FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S. and internationally. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605 of the FASB Codification and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Principal Versus Agent Considerations), to clarify the implantation guidance on principal versus agent considerations. The standard will be effective for annual reporting periods beginning after December 15, 2018. The Museum is assessing the impact that that this standard will have on its consolidated financial statements and corresponding disclosures.

The FASB has issued ASU 2016-02 Leases (Topic 842) (ASU 2016-02), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Museum is assessing the impact that ASU 2016-12 will have on its consolidated financial statements and corresponding disclosures.

In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This new ASU is intended to simplify and improve not-for-profit financial reporting.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Specifically, the new guidance:

- Revises the net asset classification scheme to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three, while maintaining the requirement to report total net assets and changes in the classes of and total net assets.
- Continues to allow for a choice between the direct and indirect method of reporting operating cash flows; however, presentation of the indirect reconciliation is no longer required if using the direct method.
- Enhances disclosures for:
 - Self-imposed limits on the use of resources without donor-imposed restrictions
 - Composition of net assets with donor restrictions, and how the restrictions affect the use of resources
 - Qualitative disclosures on how a not-for-profit manages its available liquid resources, to meet cash needs for general expenditures within one year of the balance sheet date
 - Quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date
 - Methods used to allocate costs among program and support functions
- Requires the presentation of expenses by nature as well as function, including an analysis of expenses showing the relationship between functional and natural classification for all expenses.
- Updates the accounting and disclosure requirements for underwater endowment funds, which include required disclosure of (1) policy concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate original gift amount (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater, which are to be classified as part of net assets with donor restrictions.
- Requires net presentation of investment expenses against investment return on the statement of activities and eliminates the requirement to disclose investment expenses that have been netted.
- Requires the use of, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expiration of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassification of amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restrictions over the estimated useful life of the acquired asset).

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 with early application permitted. The Museum is currently evaluating the impact this standard will have on its consolidated financial statements and corresponding disclosures.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The FASB issued ASU No. 2016-18 Statement of Cash Flows, Restricted Cash (ASU 2016-18). This amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 with early application permitted. This ASU has been applied retrospectively to each of the periods presented in the accompanying statement of consolidated cash flows with a corresponding reconciliation prepared to amounts reflected in the accompanying consolidated balance sheet at June 30, 2017, for cash and cash equivalents and restricted cash balances. The retrospective adoption of this ASU has resulted in an increase to cash used for investing activities in the accompanying consolidated statement of cash flows of approximately \$3,152,000 for 2017 as compared to amounts previously reported by the Museum in addition to the other presentation changes associated with this ASU.

In June 2018, the FASB issued ASU No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2018. For transactions in which the entity serves as the resource provider, ASU 2018-08 is effective for annual periods beginning after December 15, 2019. The Museum is currently in the process of evaluating the impact that the adoption of ASU 2018-18 will have on its financial statements.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through November 8, 2018, the date on which the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments are presented in the consolidated financial statements at fair market value as follows and are primarily permanently restricted as of June 30:

	2018		2017	
	Market	Cost	Market	Cost
Domestic equity funds	\$ 6,188,845	\$ 5,084,624	\$ 5,640,140	\$ 2,819,164
Fixed-income holdings	1,959,454	1,984,570	1,368,938	2,628,508
Cash and cash equivalents	975,367	975,367	1,436,400	1,436,400
	<u>\$ 9,123,666</u>	<u>\$ 8,044,561</u>	<u>\$ 8,445,478</u>	<u>\$ 6,884,072</u>

Net realized gains on the sale of securities were approximately \$599,000 and \$408,000 for 2018 and 2017, respectively. Unrealized gains/(losses) were approximately \$(482,000) and \$766,000 for 2018 and 2017, respectively. Investment fees were approximately \$26,000 and \$22,000 for 2018 and 2017, respectively.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - FAIR VALUE MEASUREMENT

The Fair Value Measurement and Disclosures topic defines fair value as the price that would be received to sell an asset or transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. It requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant judgment. Financial assets and liabilities are classified based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect the Museum's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The fair value of other financial assets comprising the Museum's investments at June 30, 2018 and 2017 is shown in the following table. The estimated fair values have been measured as of year-end and have not been re-evaluated or updated for the purposes of these consolidated financial statements subsequent to June 30, 2018. As such, the estimated fair values could be materially different, in either a positive or negative manner, at a subsequent date.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

		2018			
		Level 1	Level 2	Level 3	Total
Domestic equity funds	\$	6,188,845	-	-	\$ 6,188,845
Fixed-income holdings		1,959,454	-	-	1,959,454
Money market funds		975,367	-	-	975,367
		9,123,666	-	-	\$ 9,123,666
		2017			
		Level 1	Level 2	Level 3	Total
Domestic equity funds	\$	5,640,140	-	-	\$ 5,640,140
Fixed-income holdings		1,368,938	-	-	1,368,938
Money market funds		1,436,400	-	-	1,436,400
		8,445,478	-	-	\$ 8,445,478

The fair value of investments categorized as Level 1 includes investments in common stock and U.S. Treasury securities, the fair values of which are based on quoted market prices for identical securities traded in active markets that are readily and regularly available to the Museum.

The Museum has no investments that require the use of Level 3 inputs.

Realized gains and unrealized (depreciation) are included in investment return in excess of (less than) the amount designated for current operations. Unrealized appreciation/(depreciation) relates to investments held as of June 30, 2018 and 2017, respectively.

NOTE 5 - ENDOWMENT

The Museum's endowment consists of various investment funds established or designated primarily for support of the organization's mission. Its endowment includes donor-restricted endowment funds and those designated by the Board. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Museum to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of the Museum has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141) for the donor-restricted endowment funds. Act 141 is a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. The Museum has elected a policy to allow the corpus of the permanently restricted net assets to be sustained even if the investment is less than the corpus.

The Museum has not adopted Act 141 for the funds that are Board-designated for endowment. These funds are monitored by the Finance Committee of the Board under operation of the Investment Policy. The Museum transfers funds as needed for specific capital projects. A release from the Board-designated fund requires approval of the full Board.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - ENDOWMENT (continued)

In accordance with Act 141, the Museum has adopted a written investment policy, of which a section specifically relates to the endowment fund. The Museum considers the following factors in making a determination to set a spending rate for both the donor-restricted and Board-designated endowment funds:

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws.

Endowment fund net assets as of June 30 comprise the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2018				
Donor-restricted endowment funds	-	-	\$ 8,805,258	\$ 8,805,258
Board-designated endowment funds	\$ 1,100,424	-	-	1,100,424
Total Funds	<u>\$ 1,100,424</u>	<u>-</u>	<u>\$ 8,805,258</u>	<u>\$ 9,905,682</u>
June 30, 2017				
Donor-restricted endowment funds	-	-	\$ 8,146,014	\$ 8,146,014
Board-designated endowment funds	\$ 1,113,137	-	-	1,113,137
Total Funds	<u>\$ 1,113,137</u>	<u>-</u>	<u>\$ 8,146,014</u>	<u>\$ 9,259,151</u>

The change in endowment funds by net asset type for the year ended June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted:		
Board-designated net assets		
Beginning of year	\$ 1,113,137	\$ 882,881
Investment return:		
Investment income	453	9,392
Net realized gain	22,328	9,214
Net unrealized appreciation/(depreciation)	(25,476)	21,573
Additional Board allocation	120,000	281,303
Release of Board-designated assets for expenditures	<u>(130,018)</u>	<u>(91,226)</u>
End of year	<u>\$ 1,100,424</u>	<u>\$ 1,113,137</u>

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - ENDOWMENT (Continued)

	<u>2018</u>	<u>2017</u>
Permanently restricted:		
Donor-restricted net assets		
Beginning of year	\$ 8,146,014	\$ 7,294,588
Investment return:		
Investment income	184,416	112,723
Net realized gain	567,292	406,516
Net unrealized appreciation/(depreciation)	(480,463)	744,318
Contribution to Endowment	1,000,000	-
Appropriation of endowment assets for expenditures	(610,866)	(412,131)
Miscellaneous Items	<u>1,135</u>	<u>-</u>
End of year	<u>\$ 8,805,258</u>	<u>\$ 8,146,014</u>

Return Objectives and Risk Parameters - The Museum has adopted investment and spending policies for endowment assets that attempt to provide a reasonable level of funding to programs supported by its endowment while seeking to enhance the purchasing power of the fund's corpus by striving for long-term growth. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period, and Board-designated endowment funds. Under this policy, as approved by the Board of Directors, the donor-restricted endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a blended benchmark of equity, fixed income, private equity and alternatives. The Board-designated endowment assets are invested based on the anticipated short-term and long-term needs of the Museum.

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 to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Finance Committee, are given guidelines to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - The Museum annually transfers between 2% and 7% of the previous 36-month market value average of the donor-restricted endowment fund to unrestricted net assets for use in current and future operations. The draw for the years ended June 30, 2018 and 2017 was approximately \$611,000 and \$412,000, respectively. The Museum believes that this spending policy is consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 - PLEDGES RECEIVABLE

The Museum has received unconditional promises to give in 2018 and 2017. The unconditional promises to give are due to be received as follows at June 30:

	<u>2018</u>		<u>2017</u>
Due in less than 1 year	\$ 1,889,430	\$	1,573,720
Due in 1-5 years	1,298,421		507,020
Discount to present value	<u>(99,506)</u>		<u>(28,072)</u>
	\$ <u>3,088,345</u>	\$	<u>2,052,668</u>

The unamortized discount relating to pledges receivable amounted to approximately \$100,000 and \$28,000 at June 30, 2018 and 2017, respectively. Discount rates approximated 3% and 2% at June 30, 2018 and 2017, respectively. Grants receivable of approximately \$839,000 and \$373,000 at June 30, 2018 and 2017, respectively, are restricted for the capital campaign or for a specific purpose.

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS

Property, equipment and exhibits at June 30 are summarized as follows:

	<u>2018</u>		<u>2017</u>
Building improvements	\$ 18,375,997	\$	18,336,297
Exhibits	5,809,240		5,442,036
Building	520,000		520,000
Equipment	1,312,049		1,180,582
Land	<u>130,000</u>		<u>130,000</u>
	26,147,286		25,608,915
Less - Accumulated depreciation	<u>15,000,791</u>		<u>13,872,504</u>
	11,146,495		11,736,411
Construction in progress	<u>5,365,114</u>		<u>457,612</u>
Property, equipment and exhibits, net	\$ <u>16,511,609</u>	\$	<u>12,194,023</u>

NOTE 8 - NOTES PAYABLE

The Museum has entered into a revolving line-of-credit agreement with PNC Bank, National Association that provides for borrowings up to \$500,000. The interest rate approximated 5.00% at June 30, 2018. The line expires in December 2018. The Museum has not taken a draw on the loan during the fiscal years ended June 30, 2018 and 2017. Additionally, no interest has been expensed related to this note.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 - NOTES PAYABLE (Continued)

On May 1, 2018, the Museum entered in to a term note with PNC Bank with an initial principal balance of \$119,079 to be used for the leverage loan as part of the new markets tax credit structure. (See Note 9). The term note bears interest of daily LIBOR (1.93% at June 30, 2018) plus 2.00% and payable in 36 monthly payments of approximately \$3,300 starting on June 1, 2018. This note was paid in full during the year ended June 30, 2018.

On May 1, 2018, the Museum entered into a delayed draw term note with PNC Bank with available borrowings of \$6,250,000 to be used for construction and renovation of Museum Lab. The Museum can request advances on the delayed draw term note through the conversion date of May 1, 2019. The delayed draw term note bears interest of daily LIBOR (1.93% at June 30, 2018) plus 2.30% and payable in interest only payments through May 1, 2019. Beginning on May 1, 2019, the delayed draw term note is payable in 48 monthly payments of principal and interest on the outstanding balance as of May 1, 2019. At June 30, 2018, there were no outstanding borrowings on the delayed draw term note.

NOTE 9 - NEW MARKET TAX CREDIT LOANS AND LEVERAGED LOAN RECEIVABLE

During 2018, the Museum entered into a series of transactions through its affiliate CMAI to create a new market tax credit structure to assist in the renovation of the old Carnegie Free Library of Allegheny into the Museum LAB. These transactions allow for additional funding that is not typically available through traditional financing. The Museum and Community Development Enterprises (CDEs) loaned funds to CMAI to use in this renovation and construction project. The Museum's \$6,035,700 in leveraged loans to CMAI helped CMAI received approximately \$9,140,000 in funds after transactions costs and fees.

PNC CDE 85, LLC (PNC) and Pittsburgh Urban Initiatives Sub-CDE 23, LP (PUI), collectively known as CDEs, provided new market tax credit enhanced mortgage loans (NMTC loans) to CMAI to finance the Museum LAB. These loans were made in conjunction with the leveraged loan from CMP.

The CDEs received allocations of new market tax credits (NMTC) pursuant to Section 45D of the Internal Revenue Code in order to assist eligible businesses in making investments in certain low-income communities. The availability of NMTC allowed PNC New Markets Investments Partners, LLC (PNC NMTC) to invest \$3,264,300 in Children's Way Investment Fund, LLC (Investment Fund). In addition, the Museum made a leveraged loan of \$6,035,700 from the proceeds of the PNC Bank Short-Term Bridge Loan and the Museum equity. The Investment Fund used the combined amount to make equity contributions of \$8,000,000 to PUI and \$1,300,000 to PNC. The CDEs, in turn, used the contributions to make the NMTC loans to CMAI. The NMTC loans are secured by the assignment of leases and rents and interest in leasehold improvements related to construction of Museum LAB and a guarantee by the Museum.

The NMTC loans mature on June 30, 2040, and the principal is payable in quarterly installments, commencing September 5, 2025. Interest is payable quarterly, commencing June 5, 2018 at the following interest rates:

	Principal Amounts	Interest Rates
PNC	\$ 1,300,000	2%
PUI	7,840,000	2%
Total new market tax credit loans	<u>\$ 9,140,000</u>	

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 - NEW MARKET TAX CREDIT LOANS AND LEVERAGED LOAN RECEIVABLE (Continued)

The Museum expects to receive quarterly interest payments of 3.02% on the leveraged loans from the Investment Fund from June 15, 2018 through June 15, 2025. The leveraged loans mature on September 30, 2036, and principal is payable in quarterly installments, commencing September 15, 2025. Amounts received from the Investment Fund as payment on the leveraged loans will be used to make interest payments on the NMTC loans.

On May 1, 2025, PNC New Markets Investment Partners, LLC (100% owner of PNC NMTC) has a right and option, but no an obligation, for a period of 120 days, to require the Museum to purchase all of PNC New Markets Investment Partners, LLC's interest in the Investment Fund for a put exercise price of \$1,000 plus the cost of closing costs. If the put is not exercised, then the Museum has the right to purchase PNC New Markets Investment Partners, LLC's interest in the Investment Fund at an amount equal to the fair market value of PNC New Markets Investment Partners, LLC's interest in the Investment Fund.

NOTE 10 - RESTRICTIONS ON ASSETS

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

	<u>2018</u>	<u>2017</u>
Capital campaign	\$ 7,231,592	\$ 3,074,208
Exhibits/programs	1,561,773	1,340,329
Growth capital	<u>1,748,048</u>	<u>1,431,534</u>
	<u>\$ 10,541,413</u>	<u>\$ 5,846,071</u>

Permanently restricted assets consist of donor-restricted funds to be invested in perpetuity, with the income available for use for the following purposes:

	<u>2018</u>	<u>2017</u>
Park maintenance	\$ 142,738	\$ 144,932
Museum operations	7,649,520	8,001,082
Growth capital	<u>1,013,000</u>	<u>-</u>
	<u>\$ 8,805,258</u>	<u>\$ 8,146,014</u>

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 - RELEASE OF TEMPORARILY RESTRICTED ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors at June 30 as follows:

	2018	2017
Restrictions accomplished:		
Capital campaign:		
Making Community Places project	\$ 27,779	\$ 33,802
Museum LAB	1,033,176	31,825
Growth Capital Fund	249,133	103,000
Operations:		
Exhibits/programs	896,870	827,096
	\$ 2,206,958	\$ 995,723

NOTE 12 - LEASED PROPERTY

In November 2002, the Museum executed a land lease agreement with the City of Pittsburgh. The lease is for an initial term of 30 years and provides for renewal options, which both parties will negotiate at that time. Rental payments under the lease agreement are \$1 per year. The Museum is responsible for all operating costs and repairs and maintenance, including taxes, assessments, water and sewer rents and all other governmental charges or levies. The Museum has recorded \$240,000 as in-kind rent for the value of this lease for each of the fiscal years ended 2018 and 2017.

In September 2004, the Museum executed a land lease agreement with Allegheny Center Associates. This property was sold to a new owner during fiscal 2014 that requires the Museum to pay for all operating costs and repairs and maintenance, including taxes, utilities and all other government charges and levies.

In January 2018, the Museum executed a land lease agreement with the City of Pittsburgh. The lease includes the building formally called Carnegie Free Library of Allegheny, which will be used as the Museum's new Museum Lab. The initial lease term is for 29 years for \$1 per year. The Museum did not recognize any in-kind rent for the value of this lease for the fiscal year ended 2018.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 - LEASED PROPERTY (Continued)

The Museum leases certain equipment under long-term lease agreements. The following is a schedule, by year, of future minimum rental payments required under these agreements that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2018:

Fiscal Year Ending June 30	Amount
2019	\$ 169,213
2020	169,213
2021	169,213
2022	169,213
2023	169,213
Thereafter	<u>82,636</u>
	\$ <u>928,701</u>

In addition, the Museum leases certain exhibits and storage space under short-term or cancelable leases. The Museum's rental expense for fiscal years 2018 and 2017 approximated \$519,000 and \$553,000, respectively.

NOTE 13 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on an analysis of personnel time on the related activities.

NOTE 14 - EMPLOYEE BENEFITS

The Museum offers its employees health insurance, dental insurance, life insurance, short-term and long-term disability insurance, accidental death and dismemberment insurance and up to a 3% salary match for deposit to a 403(b) defined contribution retirement plan. Employees who waive health insurance receive one additional week of vacation. Employee benefit expense approximated \$448,000 and \$436,000 for the years ended June 30, 2018 and 2017, respectively. During the year ended 2014, the Museum added a 457(b) savings plan to offer eligible employees the opportunity to accumulate supplemental retirement savings. Amounts payable under this plan, included in accrued expenses in the accompanying statements of financial position, and the related fair value of assets held by the Museum, are approximately \$84,000 and \$66,000 as of June 30, 2018 and 2017, respectively.

CHILDREN'S MUSEUM OF PITTSBURGH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 15 - CAPITAL CAMPAIGN

In August 2011, the Museum entered into a Project, Maintenance and License Agreement with the City of Pittsburgh (City) for Allegheny Public Square, the public park where the Museum is making improvements. The Agreement extends to July 2032, and the Museum can negotiate in the final year of the contract to extend the term. The Agreement grants a temporary construction license for project work and outlines the Museum's responsibilities for maintenance following the completion of construction. All capital improvements made and paid for by the Museum will be owned by the City upon installation. As such, the Museum has expensed all capital-related items for this project in prior fiscal years. Repairs and maintenance for this project are recorded to expense as incurred in accordance with the Agreement.

In 2017, the Museum's Board approved an \$18,550,000 Museum Lab Capital Campaign. The endeavor, rooted in the Museum's mission to provide innovative museum experiences that inspire joy, creativity and curiosity, and leverages its national recognition in hands-on making and learning. Through this project, the North Side of Pittsburgh will become home to the Largest Cultural Campus for Children in the United States. To accomplish the vision the Museum will:

- Launch the Museum Lab, a site to test innovative approaches to improve education within the vacant historic Carnegie Library Allegheny;
- Create new innovative exhibits and experiences in the existing museum for rapidly expanding audience; and
- Expand and invest in financial vitality through the creation of new funds, including the new Growth Capital Fund.

The Museum Lab Capital Campaign will build on the Children's Museum's work in the community and continue to restore the core of what was Allegheny City in a beautiful historic building. At the same time, it launches the Children's Museum into its next phase of growth and relevancy.

As of June 30, 2018, the Museum received total pledges toward this campaign of approximately \$16,550,000. Subsequent to year end through October 31, 2018, the Museum received additional pledges of approximately \$300,000, bringing total pledges received for this campaign to approximately \$16,850,000. As of June 30, 2018, the Museum has spent approximately \$9,760,000 on the project, of which approximately \$5,140,000 relates to construction in progress.

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SUPPLEMENTARY INFORMATION



Big Thinking. Personal Focus.

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION

Board of Directors
Children's Museum of Pittsburgh
Pittsburgh, Pennsylvania

We have audited the consolidated financial statements of the Children's Museum of Pittsburgh as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated November 8, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The schedule of functional expenses and consolidating schedules are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 8, 2018

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

(With Comparative Totals for 2017)

	Program Services					
	Museum Experience	Education	Learning and Research	Business Development	Visitor Services	Museum Lab
Salaries and wages	\$ 785,164	\$ 445,211	\$ 117,398	\$ 168,405	\$ 1,042,550	\$ 134,920
Payroll taxes	65,153	35,539	9,587	14,688	68,427	10,319
Other employee benefits	86,359	51,035	13,764	22,597	130,890	15,823
Staff training	752	4,995	1,167	-	1,942	10
Professional memberships	-	-	-	650	842	150
Printing and publications	1,634	9,673	-	4,411	12,390	5,285
Postage and shipping	16,447	181	102	14,922	7,293	525
Rent	135,337	79,489	2,655	1,566	209,791	227
Exhibit rental	45,000	-	-	-	-	-
Utilities	74,133	16,638	6,655	776	67,145	-
Telephone	1,081	54	22	203	578	88
Supplies	117,433	68,292	3,143	66,107	78,464	2,291
Repairs and maintenance	34,484	7,422	2,969	10,990	38,281	-
Service contracts	76,747	201,806	6,622	202,530	168,641	715,648
Royalties	3,480	5,000	-	129,852	-	-
Advertising	295	23,326	357	7,256	10,477	216
Insurance	30,691	13,067	1,931	16,719	26,860	23,977
Cost of goods sold	-	-	-	-	344,405	-
Legal and professional fees	-	-	-	9,500	-	300,823
Travel	6,868	22,277	9,317	13,090	5,367	8,379
Depreciation	10,501	7,270	1,616	106,804	23,888	8,886
Miscellaneous	280	838	-	1,775	233,743	11,461
Meeting expense	608	3,267	155	140	289	2,292
General and administrative	679	233	25	1,085	762	41,331
Interest	-	-	-	-	-	30,753
	<u>\$ 1,493,126</u>	<u>\$ 995,613</u>	<u>\$ 177,485</u>	<u>\$ 794,066</u>	<u>\$ 2,473,025</u>	<u>\$ 1,313,404</u>

Program Services		Support Services				Total	
Special Projects	Total	Administration	Marketing	Development	Total	2018	2017
\$ 159,570	\$ 2,853,218	\$ 674,903	\$ 270,528	\$ 250,712	\$ 1,196,143	\$ 4,049,361	\$ 3,815,773
12,783	216,496	53,685	20,294	19,813	93,792	310,288	298,909
19,004	339,472	99,194	30,403	30,339	159,936	499,408	435,640
614	9,480	9,989	830	705	11,524	21,004	29,810
-	1,642	20,866	825	690	22,381	24,023	15,916
1,804	35,197	5,690	3,805	7,107	16,602	51,799	101,979
15,970	55,440	3,101	655	4,907	8,663	64,103	51,331
4,244	433,309	35,860	2,326	2,589	40,775	474,084	508,677
-	45,000	-	-	-	-	45,000	44,250
-	165,347	17,028	1,608	887	19,523	184,870	206,535
-	2,026	8,820	588	363	9,771	11,797	13,520
38,207	373,937	37,520	6,398	40,421	84,339	458,276	485,133
13	94,159	8,162	912	396	9,470	103,629	69,431
550,761	1,922,755	126,912	9,231	183,813	319,956	2,242,711	1,526,929
-	138,332	-	-	-	-	138,332	91,174
-	41,927	1,336	170,505	230	172,071	213,998	296,352
20,912	134,157	15,449	5,973	6,707	28,129	162,286	141,808
-	344,405	-	-	-	-	344,405	368,678
-	310,323	108,060	-	-	108,060	418,383	66,452
41,044	106,342	9,637	99	1,092	10,828	117,170	150,348
953,717	1,112,682	14,886	4,039	4,039	22,964	1,135,646	1,046,521
-	248,097	7,788	-	28,882	36,670	284,767	276,119
4,463	11,214	6,322	86	1,260	7,668	18,882	17,307
9,371	53,486	11,784	2	7,752	19,538	73,024	49,944
-	30,753	-	-	-	-	30,753	-
<u>\$ 1,832,477</u>	<u>\$ 9,079,196</u>	<u>\$ 1,276,992</u>	<u>\$ 529,107</u>	<u>\$ 592,704</u>	<u>\$ 2,398,803</u>	<u>\$ 11,477,999</u>	<u>\$ 10,108,536</u>

The independent auditors' report on supplementary information should be read with this schedule.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2018

ASSETS	<u>The Children's Museum of Pittsburgh</u>	<u>Children's MuseumLAB Advancement Initiative</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents:				
Unrestricted	\$ 3,318,952	-	-	\$ 3,318,952
Restricted	2,785,087	\$ 3,588,560	-	6,373,647
Pledges receivable	1,889,430	-	-	1,889,430
Accounts receivable, net	189,250	-	-	189,250
Inventory	76,911	-	-	76,911
Prepaid and other expenses	170,293	-	-	170,293
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Assets	8,429,923	3,588,560	-	12,018,483
PLEDGES RECEIVABLE	1,198,915	-	-	1,198,915
LEVERAGE LOAN RECEIVABLE	6,035,700	-	-	6,035,700
INVESTMENTS	9,123,666	-	-	9,123,666
PROPERTY, EQUIPMENT AND EXHIBITS, net	11,372,783	5,138,826	-	16,511,609
DUE FROM RELATED PARTY	-	4,366,150	\$ (4,366,150)	-
OTHER ASSETS	84,690	-	-	84,690
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 36,245,677</u>	<u>\$ 13,093,536</u>	<u>\$ (4,366,150)</u>	<u>\$ 44,973,063</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 402,707	\$ 871,486	-	\$ 1,274,193
Accrued expenses	297,048	-	-	297,048
Deferred revenue	1,412,086	-	-	1,412,086
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Liabilities	2,111,841	871,486	-	2,983,327
OTHER LIABILITIES	84,690	-	-	84,690
DUE TO RELATED PARTY	4,366,150	-	\$ (4,366,150)	-
NEW MARKET TAX CREDIT LOANS	-	9,140,000	-	9,140,000
NET ASSETS				
Unrestricted	13,418,375	-	-	13,418,375
Temporarily restricted	7,459,363	3,082,050	-	10,541,413
Permanently restricted	8,805,258	-	-	8,805,258
	<hr/>	<hr/>	<hr/>	<hr/>
Total Net Assets	29,682,996	3,082,050	-	32,765,046
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities And Net Assets	<u>\$ 36,245,677</u>	<u>\$ 13,093,536</u>	<u>\$ (4,366,150)</u>	<u>\$ 44,973,063</u>

The independent auditors' report on supplementary information should be read with this schedule.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

	The Children's Museum of Pittsburgh	Children's MuseumLAB Advancement Initiative	Eliminations	Total
SUPPORT AND REVENUE				
Grants	\$ 1,903,872	-	-	\$ 1,903,872
Contributions	747,829	-	-	747,829
Sponsorships	277,150	-	-	277,150
Contributed services and equipment	316,977	-	-	316,977
Capital campaign revenue	7,040,524	-	-	7,040,524
Special event	420,048	-	-	420,048
Total Support	<u>10,706,400</u>	<u>-</u>	<u>-</u>	<u>10,706,400</u>
Program revenue	123,657	-	-	123,657
Admissions	1,425,222	-	-	1,425,222
Memberships	769,096	-	-	769,096
Retail sales	218,695	-	-	218,695
Other income	380,245	-	-	380,245
Café	560,170	-	-	560,170
Parking	364,683	-	-	364,683
Investment income	243,837	\$ 400	-	244,237
Exhibit rentals	539,447	-	-	539,447
Exhibit sales and contracted revenues	750,721	-	-	750,721
Total Revenue	<u>5,375,773</u>	<u>400</u>	<u>-</u>	<u>5,376,173</u>
Net realized and unrealized gain (loss) on investments	90,345	-	-	90,345
Gain on disposal of property, equipment and exhibits	300	-	-	300
Total Support And Revenue	<u>16,172,818</u>	<u>400</u>	<u>-</u>	<u>16,173,218</u>
EXPENSES				
Program	7,779,251	1,299,945	-	9,079,196
General and administrative	1,276,861	131	-	1,276,992
Development and fundraising	1,108,251	13,560	-	1,121,811
Cost of direct benefits to donors	37,138	-	-	37,138
Total Expenses	<u>10,201,501</u>	<u>1,313,636</u>	<u>-</u>	<u>11,515,137</u>
Changes In Net Assets	5,971,317	(1,313,236)	-	4,658,081
NET ASSETS				
Beginning of year	28,106,965	-	-	28,106,965
Transfer of net assets	<u>(4,395,286)</u>	<u>4,395,286</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 29,682,996</u>	<u>\$ 3,082,050</u>	<u>-</u>	<u>\$ 32,765,046</u>

The independent auditors' report on supplementary information should be read with this schedule.

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