

CHILDREN'S MUSEUM OF PITTSBURGH
Pittsburgh, Pennsylvania

Consolidated Financial Statements
and
Supplementary Information
for the years ended June 30, 2020 and 2019
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

To the 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, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses 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 audits 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statements on Pages 28-31 are presented for 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 financial statements as a whole.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 13, 2020

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | June 30 | |
|---------------------------------------|---------------|---------------|
| | 2020 | 2019 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | | |
| Unrestricted | \$ 3,620,999 | \$ 3,599,151 |
| Restricted | 3,031,183 | 2,450,817 |
| | 6,652,182 | 6,049,968 |
| Pledges receivable | 3,518,371 | 3,709,358 |
| Accounts receivable | 26,738 | 132,507 |
| Other current assets | 268,179 | 345,737 |
| | 10,465,470 | 10,237,570 |
| PLEDGES RECEIVABLE, NET | 1,057,165 | 1,704,236 |
| LEVERAGE LOAN RECEIVABLE | 6,035,700 | 6,035,700 |
| INVESTMENTS | 8,132,318 | 9,103,280 |
| PROPERTY, EQUIPMENT AND EXHIBITS, net | 23,146,141 | 23,436,046 |
| OTHER ASSETS | 109,579 | 91,782 |
| | \$ 48,946,373 | \$ 50,608,614 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 378,914 | \$ 955,123 |
| Accrued expenses | 280,381 | 470,356 |
| Deferred revenue | 1,834,518 | 1,607,693 |
| Current portion of long-term debt | 160,248 | - |
| | 2,654,061 | 3,033,172 |
| OTHER LIABILITIES | 109,579 | 91,782 |
| NOTE PAYABLE | 1,951,239 | 2,372,011 |
| PAYCHECK PROTECTION PROGRAM LOAN | 1,045,400 | - |
| NEW MARKET TAX CREDIT LOANS | 9,140,000 | 9,140,000 |
| | 14,900,279 | 14,636,965 |
| NET ASSETS | | |
| Without donor restrictions | | |
| Undesignated | 20,089,403 | 18,513,664 |
| Designated by the Board for endowment | 1,486,159 | 1,208,101 |
| | 21,575,562 | 19,721,765 |
| With donor restrictions | | |
| Time-restricted for future periods | 241,666 | 483,333 |
| Purpose restrictions | 4,399,417 | 6,972,625 |
| Perpetual in nature | 7,829,449 | 8,793,926 |
| | 12,470,532 | 16,249,884 |
| | 34,046,094 | 35,971,649 |
| | \$ 48,946,373 | \$ 50,608,614 |

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | | |
|---------------------------------------|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | |
| Gifts and grants | \$ 2,112,715 | \$ 1,533,578 | \$ 3,646,293 |
| Sponsorships | 63,425 | 146,908 | 210,333 |
| Contributed services and equipment | 617,443 | - | 617,443 |
| Capital campaign revenue | 583,473 | 210,000 | 793,473 |
| Special event | 239,243 | - | 239,243 |
| Total Support | 3,616,299 | 1,890,486 | 5,506,785 |
| Program revenue | 69,994 | - | 69,994 |
| Admissions | 895,861 | - | 895,861 |
| Memberships | 565,491 | - | 565,491 |
| Retail and café sales | 586,598 | - | 586,598 |
| Other income | 607,455 | - | 607,455 |
| Parking | 240,671 | - | 240,671 |
| Net investment return | 174,601 | (77,115) | 97,486 |
| Business development | 1,485,884 | - | 1,485,884 |
| Total Revenue | 4,626,555 | (77,115) | 4,549,440 |
| Net assets released from restrictions | 4,770,135 | (4,770,135) | - |
| Endowment draw | 822,588 | (822,588) | - |
| Total Support And Revenue | 13,835,577 | (3,779,352) | 10,056,225 |
| EXPENSES | | | |
| Program | 9,265,529 | - | 9,265,529 |
| General and administrative | 2,194,322 | - | 2,194,322 |
| Fundraising | 521,929 | - | 521,929 |
| Total Expenses | 11,981,780 | - | 11,981,780 |
| Changes In Net Assets | 1,853,797 | (3,779,352) | (1,925,555) |
| NET ASSETS | | | |
| Beginning of year | 19,721,765 | 16,249,884 | 35,971,649 |
| End of year | <u>\$ 21,575,562</u> | <u>\$ 12,470,532</u> | <u>\$ 34,046,094</u> |

| 2019 | | |
|-------------------------------|----------------------------|----------------------|
| Without Donor Restrictions | With Donor Restrictions | Total |
| \$ 1,371,905 | \$ 1,105,199 | \$ 2,477,104 |
| 275,167 | 88,333 | 363,500 |
| 349,650 | - | 349,650 |
| 1,882,226 | 3,012,592 | 4,894,818 |
| 465,009 | - | 465,009 |
| 4,343,957 | 4,206,124 | 8,550,081 |
| 147,200 | - | 147,200 |
| 1,422,489 | - | 1,422,489 |
| 821,586 | - | 821,586 |
| 771,890 | - | 771,890 |
| 331,172 | - | 331,172 |
| 374,758 | - | 374,758 |
| 227,579 | 474,148 | 701,727 |
| 1,529,668 | - | 1,529,668 |
| 5,626,342 | 474,148 | 6,100,490 |
| 7,343,825 | (7,343,825) | - |
| 433,234 | (433,234) | - |
| 17,747,358 | (3,096,787) | 14,650,571 |
| 8,787,606 | - | 8,787,606 |
| 1,943,710 | - | 1,943,710 |
| 712,652 | - | 712,652 |
| 11,443,968 | - | 11,443,968 |
| 6,303,390 | (3,096,787) | 3,206,603 |
| 13,418,375 | 19,346,671 | 32,765,046 |
| <u>\$ 19,721,765</u> | <u>\$ 16,249,884</u> | <u>\$ 35,971,649</u> |

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

Program Services

| | <u>Education, Learning and Research</u> | <u>Business Development</u> | <u>Museum Experience</u> | <u>Special Projects</u> | <u>Total</u> |
|-----------------------------|---|---------------------------------|------------------------------|-----------------------------|---------------------|
| Personnel costs | \$ 585,042 | \$ 294,257 | \$ 2,512,591 | \$ 69,013 | \$ 3,460,903 |
| Office and administrative | 5,188 | 39,529 | 36,740 | 638 | 82,095 |
| Rent and exhibit rental | 41,054 | 3,862 | 760,224 | - | 805,140 |
| Utilities | 21,101 | 11,079 | 209,687 | 2,440 | 244,307 |
| Supplies | 192,031 | 55,864 | 211,371 | 30,617 | 489,883 |
| Service contracts | 81,778 | 329,426 | 612,037 | 103,030 | 1,126,271 |
| Royalties | 5,000 | 167,761 | 4,068 | - | 176,829 |
| Advertising | 14,426 | 11,520 | 113,186 | - | 139,132 |
| Insurance | 12,028 | 16,744 | 74,356 | 13,518 | 116,646 |
| Cost of goods sold | - | - | 321,522 | - | 321,522 |
| Legal and professional fees | - | 19,000 | 10,000 | - | 29,000 |
| Travel and meetings | 39,048 | 10,384 | 61,003 | 31,506 | 141,941 |
| Depreciation | - | 341,580 | 555,991 | 771,363 | 1,668,934 |
| Miscellaneous | 1,584 | 1,107 | 160,880 | 407 | 163,978 |
| Interest | - | - | 298,948 | - | 298,948 |
| | <u>\$ 998,280</u> | <u>\$ 1,302,113</u> | <u>\$ 5,942,604</u> | <u>\$ 1,022,532</u> | <u>\$ 9,265,529</u> |

| <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total Expenses</u> |
|---------------------------------------|--------------------|---------------------------|
| \$ 1,430,239 | \$ 339,810 | \$ 5,230,952 |
| 9,270 | 17,780 | 109,145 |
| 37,109 | 306 | 842,555 |
| 61,641 | 12,182 | 318,130 |
| 43,541 | 10,002 | 543,426 |
| 169,972 | 88,185 | 1,384,428 |
| - | - | 176,829 |
| 144,151 | 855 | 284,138 |
| 25,686 | 6,216 | 148,548 |
| - | - | 321,522 |
| 153,911 | - | 182,911 |
| 20,046 | 15,874 | 177,861 |
| 71,328 | - | 1,740,262 |
| 25,221 | 30,719 | 219,918 |
| 2,207 | - | 301,155 |
| <u>\$ 2,194,322</u> | <u>\$ 521,929</u> | <u>\$ 11,981,780</u> |

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

Program Services

| | <u>Education, Learning and Research</u> | <u>Business Development</u> | <u>Museum Experience</u> | <u>Special Projects</u> | <u>Total</u> |
|-----------------------------|---|---------------------------------|------------------------------|-----------------------------|---------------------|
| Personnel costs | \$ 697,563 | \$ 223,928 | \$ 2,408,530 | \$ 191,829 | \$ 3,521,850 |
| Office and administrative | 3,492 | 44,550 | 96,622 | 9,174 | 153,838 |
| Rent and exhibit rental | 43,035 | 4,714 | 448,295 | 1,468 | 497,512 |
| Utilities | 24,853 | 828 | 174,218 | - | 199,899 |
| Supplies | 66,328 | 100,767 | 330,344 | 70,938 | 568,377 |
| Service contracts | 112,145 | 243,895 | 627,817 | 182,841 | 1,166,698 |
| Royalties | - | 197,423 | 4,080 | 400 | 201,903 |
| Advertising | 10,880 | 7,168 | 115,467 | - | 133,515 |
| Insurance | 10,225 | 20,602 | 60,535 | 14,820 | 106,182 |
| Cost of goods sold | - | - | 326,270 | - | 326,270 |
| Legal and professional fees | 2,500 | 38,879 | 30,830 | 14,024 | 86,233 |
| Travel and meetings | 35,576 | 20,380 | 50,622 | 30,359 | 136,937 |
| Depreciation | 7,491 | 280,826 | 130,445 | 798,335 | 1,217,097 |
| Miscellaneous | 181 | 1,344 | 253,788 | - | 255,313 |
| Interest | - | - | 215,982 | - | 215,982 |
| | <u>\$ 1,014,269</u> | <u>\$ 1,185,304</u> | <u>\$ 5,273,845</u> | <u>\$ 1,314,188</u> | <u>\$ 8,787,606</u> |

| <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total Expenses</u> |
|---------------------------------------|--------------------|---------------------------|
| \$ 1,381,841 | \$ 393,925 | \$ 5,297,616 |
| 40,210 | 14,349 | 208,397 |
| 36,475 | 39,070 | 573,057 |
| 19,881 | 947 | 220,727 |
| 42,220 | 59,213 | 669,810 |
| 137,724 | 176,520 | 1,480,942 |
| 250 | - | 202,153 |
| 152,645 | 589 | 286,749 |
| 21,563 | 7,128 | 134,873 |
| - | - | 326,270 |
| 58,057 | - | 144,290 |
| 9,200 | 4,492 | 150,629 |
| 22,435 | 4,086 | 1,243,618 |
| 21,209 | 12,333 | 288,855 |
| - | - | 215,982 |
| <u>\$ 1,943,710</u> | <u>\$ 712,652</u> | <u>\$ 11,443,968</u> |

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | 2019 |
|--|----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ (1,925,555) | \$ 3,206,603 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,740,262 | 1,243,618 |
| Realized and unrealized gain on investments | (76,729) | (411,610) |
| Gifts restricted for long-term capital investment | - | (1,673,662) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 105,769 | 123,741 |
| Pledges receivable | 838,058 | (17,726) |
| Other assets | 59,761 | (105,625) |
| Accounts payable | (576,209) | (536,832) |
| Accrued expenses and other liabilities | (172,178) | 205,430 |
| Deferred revenue | 226,825 | 170,577 |
| | 220,004 | 2,204,514 |
| Net Cash Provided By Operating Activities | 220,004 | 2,204,514 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, equipment and exhibits | (1,450,357) | (8,651,152) |
| Purchases of investments | (3,186,253) | (2,669,218) |
| Proceeds from sales of investments | 4,233,944 | 3,101,214 |
| | (402,666) | (8,219,156) |
| Net Cash Used In Investing Activities | (402,666) | (8,219,156) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from delayed draw term note | 1,354,954 | 2,372,011 |
| Payments on delayed draw term note | (1,615,478) | - |
| Proceeds from Paycheck Protection Program Loan | 1,045,400 | - |
| | 784,876 | 2,372,011 |
| Net Cash Provided By Financing Activities | 784,876 | 2,372,011 |
| Net Increase (Decrease) In Cash And Cash Equivalents | 602,214 | (3,642,631) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 6,049,968 | 9,692,599 |
| End of year | \$ 6,652,182 | \$ 6,049,968 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest - operations | \$ 108,355 | \$ 33,232 |
| Cash paid during the year for interest - reserved for New Market Tax Credit loans | \$ 192,800 | \$ 182,750 |

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

As of June 30, 2019, the Museum has accounts payable of approximately \$218,000 related to construction in progress property and equipment.

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 1 - ORGANIZATION

Children's Museum of Pittsburgh (the Museum), comprised of the Children's Museum and Children's MuseumLAB Advancement Initiative (CMAI or MuseumLab), 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 Museum's mission. Each of the Museum's permanent exhibits is 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 is a place for learners of all ages to experience never before seen, one-of-a-kind museum experiences.

For over 35 years, the Museum was a single institution that specialized in providing meaningful, engaging experiences for elementary school aged children and younger, and their families. Its ten core exhibits, artist experiences and art collection continue to delight and inspire children and families. In April 2019, the Museum added MuseumLab to its campus to deliver exceptional museum programming for the region, by creating museum experiences specifically for older kids. MuseumLab builds on the Museum's three decades of community development investments in its North Side neighborhood, helping to prepare the workforce of the future and creating new opportunities to conduct robust learning research.

As a complement to its community development work, the Museum has emerged as a national leader in learning design and research with recognition from the museum and library field and local and national education leaders. The Museum leads the field around the maker movement and has helped to open hundreds of makerspaces around the region and the United States. At the same time, the Museum has become well-known as a leading creator of traveling exhibits for rental and is sought after for design and consulting services nationally. The Museum's reputation as a leading provider of high-quality, research-based experiences for children, families and educators is at an all-time high.

The combination of Children's Museum and MuseumLab programs has created an extensive selection of museum and educational experiences for children of all ages and their families. In addition to its 13 permanent exhibits and art collection, the Museum commissions new interactive art, partners with hundreds of local working artists, and engages in accessibility and inclusion programming for all families. The Museum also 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 and libraries.

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. MuseumLab is the first building in the United States to achieve a Universal Design certificate from the Center for Inclusive Design and Environmental Access (IDeA) at the University of Buffalo for its design that is welcoming to all.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 - ORGANIZATION (Continued)

In 2018, the Museum established CMAI as a nonprofit organization to hold the MuseumLab'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 MuseumLab. Note 11 provides further information on this transaction and new facility. The Museum is the sole voting member of CMAI and uses the MuseumLab for its exclusive benefit and use. Therefore, CMAI is consolidated into the financial statements of the Museum.

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 consolidated financial statements 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:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Directors (Board) has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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. Restricted cash consists of donor-restricted funds that are to be used for specific projects. The Museum maintains, at various financial institutions, cash and cash equivalents that may exceed federally insured amounts at times.

Receivables - Pledges receivable include promises to give with payments due in future periods. There is no allowance for doubtful accounts recorded as of June 30, 2020 and 2019. 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.

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.)

Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

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 statements of financial position.

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, 2020 and 2019.

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, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program, Admissions, Memberships and Special Events - 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 in-house programs and shows that are received in advance of the activities are deferred and recognized in the year the activities occur. The Museum recognizes revenue for special events when the event is held. When deposits are received in advance, the Museum defers the revenue until the event is held.

Business Development - Revenues for traveling exhibit rentals are recognized over the period of the rental agreement, and were approximately \$803,000 and \$762,000 in 2020 and 2019, respectively. 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 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. Revenue recognized for exhibit sales and contracted revenue was approximately \$683,000 and \$768,000 in 2020 and 2019, respectively.

Contributions - During the year ended June 30, 2020, the Museum adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08), as management believes the standard improves the usefulness and understandability of the Museum's financial reporting. The amendments in ASU 2018-08 assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. In accordance with the ASU, the Museum has determined that there was no cumulative impact to prior reporting periods or beginning net assets in 2019 as a result of the adoption.

All donor-restricted support is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (i.e., when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Conditional contributions for which the donor-imposed conditions and restrictions are met within the same reporting period are presented as net assets without donor restrictions. As of June 30, 2020 and 2019, the Museum did not have any conditional promises to give outstanding for which the conditions had not yet been met.

Gifts and Grants - Gifts and grants include pledges and volunteer and donated professional services, as well as donated supplies, printing, rent and equipment. 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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include insurance, administration and some facilities costs. The Museum allocates these costs based on each program or supporting service category's percentage of total functional expenses prior to the allocation. All other expenses are charged directly to the program or supporting service benefited.

Advertising Costs - The Museum has a policy of expensing advertising costs in the period incurred.

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 FASB Accounting Standards Codification (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, 2020 and 2019 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 2017.

Recently Issued Accounting Pronouncements - In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which requires disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 also requires disclosure of significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2020-05 further delayed the effective date of ASU 2016-02 to fiscal years beginning after December 15, 2019. Early adoption is permitted. The Museum is assessing the impact that this standard will have on its consolidated financial statements and corresponding disclosures.

In February 2016, the FASB issued ASU No. 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). ASU No. 2020-05 further delayed the effective date of ASU 2016-02 to fiscal years beginning after December 15, 2021. Early adoption is permitted. The Museum is assessing the impact that this standard will have on its consolidated financial statements and corresponding disclosures.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2019, the FASB issued ASU 2019-03 Not-for-Profit Entities (Topic 958): Updating the Definition of Collections (ASU 2019-03) related to the definition of collections. ASU 2019-03 will modify the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care. This guidance will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Museum is currently assessing the impact that this standard will have on its consolidated financial statements and corresponding disclosures.

Subsequent Events - Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through November 13, 2020, the date on which the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Museum's cash flows have seasonal variations during the year attributable to timing of fundraising events, admissions, grants, contributions, programs, and memberships. Expenditures are managed to match the seasonal variation in cash flows.

At June 30, 2020 and 2019, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Cash and cash equivalents - unrestricted | \$ 3,620,999 | \$ 3,599,151 |
| Accounts receivable | 26,738 | 132,507 |
| Pledges receivable for operations | 406,916 | 437,365 |
| Endowment draw | <u>419,813</u> | <u>450,000</u> |
| Total Financial Assets Available Within One Year | \$ <u>4,474,466</u> | \$ <u>4,619,023</u> |

The Museum is supported by contributions with and without donor restrictions. Because a donor's restriction requires resources to be used in a particular manner, or in a future period, the Museum must maintain sufficient resources to meet those responsibilities to its donors. As part of the Museum's liquidity management, it has a policy to segregate restricted cash and equivalents to be available as expenditures and other obligations become due. In addition, included in unrestricted cash and cash equivalents is approximately \$1,486,000 of Board-designated funds, which could be made available to fund general expenditures, if necessary. The Museum also has a revolving line of credit with \$1,000,000 of availability as of June 30, 2020 it could draw on in the event of a liquidity need. As of June 30, 2019, the Museum had a revolving line of credit with \$500,000 of availability.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

The Museum's endowment funds consist of a donor-restricted endowment and funds designated by the Board. Income from the donor-restricted endowment is restricted for specific purposes with the exception of the spending appropriation available for general use. During the fiscal year ended 2019, the Museum's endowment funds were subject to a board-elected spending rate between 2% and 7%. For the fiscal years ending June 30, 2020, 2021 and 2022, the Museum is permitted to take a 10% draw based on PA 2020 Act 71 (Act 71). During the fiscal year ended 2020, the Museum took a 10% draw of endowment funds as permitted by PA 2020 Act 71 (Act 71). This percentage is applied to a 36-month average market value of the investments at the prior year-end as described in Note 5.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT

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

| | 2020 | | 2019 | |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| | Market | Cost | Market | Cost |
| Equity funds | \$ 5,846,725 | \$ 5,040,495 | \$ 6,060,453 | \$ 5,117,107 |
| Fixed-income holdings | 2,073,776 | 1,984,570 | 2,020,008 | 1,984,570 |
| Cash and cash equivalents | 211,817 | 211,817 | 1,022,819 | 1,022,819 |
| | <u>\$ 8,132,318</u> | <u>\$ 7,236,882</u> | <u>\$ 9,103,280</u> | <u>\$ 8,124,496</u> |

The Fair Value Measurement 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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

The fair values of financial assets comprising the Museum's investments at June 30, 2020 and 2019 are shown in the following tables. 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, 2020. As such, the estimated fair values could be materially different, in either a positive or negative manner, at a subsequent date.

| | 2020 | | | |
|---------------------------|---------------------|----------|----------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equity funds | \$ 5,846,725 | - | - | \$ 5,846,725 |
| Fixed-income holdings | 2,073,776 | - | - | 2,073,776 |
| Cash and cash equivalents | 211,817 | - | - | 211,817 |
| | <u>\$ 8,132,318</u> | <u>-</u> | <u>-</u> | <u>\$ 8,132,318</u> |

| | 2019 | | | |
|---------------------------|---------------------|----------|----------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equity funds | \$ 6,060,453 | - | - | \$ 6,060,453 |
| Fixed-income holdings | 2,020,008 | - | - | 2,020,008 |
| Cash and cash equivalents | 1,022,819 | - | - | 1,022,819 |
| | <u>\$ 9,103,280</u> | <u>-</u> | <u>-</u> | <u>\$ 9,103,280</u> |

The fair value of investments categorized as Level 1 includes investments in common stock, U.S. Treasury securities and cash and cash equivalents, 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.

NOTE 5 - ENDOWMENT

The Museum's endowment consists of funds of \$3,500,000 that were endowed by foundations. These funds are to be held in perpetuity, with the Museum using the income from the investments for operations. Additionally, net assets of \$1,000,000 were endowed by an anonymous donor. These funds are also held in perpetuity, with the Museum using the income from the investments for the Growth Capital Fund. (See Note 12.)

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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 5 - ENDOWMENT (Continued)

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 donor restricted investments held in perpetuity 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 donor-restricted net assets held in perpetuity 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.

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.

The following represents the change in endowment funds by net asset type for the years ended June 30:

| | Without Donor Restrictions- Board- Designated | With Donor Restrictions | Total |
|--|--|----------------------------|---------------------|
| Balance, June 30, 2018 | \$ 1,100,424 | \$ 8,805,258 | \$ 9,905,682 |
| Net investment (loss) return | (4,656) | 451,824 | 447,168 |
| Contributions | 150,000 | - | 150,000 |
| Release of Board-designated assets for expenditures | (37,667) | - | (37,667) |
| Appropriation of endowment assets pursuant to spending rate policy | - | (463,156) | (463,156) |
| Balance, June 30, 2019 | 1,208,101 | 8,793,926 | 10,002,027 |
| Net investment loss | (38,463) | (94,664) | (133,127) |
| Contributions | 401,721 | - | 401,721 |
| Release of Board-designated assets for expenditures | (85,200) | - | (85,200) |
| Appropriation of endowment assets pursuant to spending rate policy | - | (869,813) | (869,813) |
| Balance, June 30, 2020 | <u>\$ 1,486,159</u> | <u>\$ 7,829,449</u> | <u>\$ 9,315,608</u> |

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 5 - ENDOWMENT (Continued)

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, 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 net assets without donor restrictions for use in current and future operations. The Museum is permitted to take a 10% draw for fiscal years 2020, 2021 and 2022 based on PA 2020 Act 71. The rate of the draw approximated 10% and 5% for the years ended June 30, 2020 and 2019, 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.

NOTE 6 - PLEDGES RECEIVABLE, NET

The Museum has received unconditional promises to give in 2020 and 2019. The unconditional promises to give are due to be received as follows at June 30:

| | <u>2020</u> | | <u>2019</u> |
|---------------------------|---------------------|----|------------------|
| Due in less than 1 year | \$ 3,518,371 | \$ | 3,709,358 |
| Due in 1-5 years | 1,066,368 | | 1,783,145 |
| Discount to present value | <u>(9,203)</u> | | <u>(78,909)</u> |
| | <u>\$ 4,575,536</u> | \$ | <u>5,413,594</u> |

Discount rates approximated 0.29% and 2% at June 30, 2020 and 2019, respectively. Grants receivable of approximately \$1,655,000 and \$767,000 at June 30, 2020 and 2019, respectively, are restricted for the capital campaign or for a specific purpose.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS, NET

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

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|----------------------|----------------------|
| Building improvements | \$ 31,409,389 | \$ 30,610,473 |
| Exhibits | 6,672,312 | 6,622,665 |
| Building | 520,000 | 520,000 |
| Equipment | 1,658,097 | 1,540,864 |
| Land | 130,000 | 130,000 |
| | <u>40,389,798</u> | <u>39,424,002</u> |
| Less - Accumulated depreciation | <u>17,984,671</u> | <u>16,244,409</u> |
| | 22,405,127 | 23,179,593 |
| Construction in progress | <u>741,014</u> | <u>256,453</u> |
| Property, Equipment and Exhibits, Net | <u>\$ 23,146,141</u> | <u>\$ 23,436,046</u> |

NOTE 8 - LINE OF CREDIT

The Museum entered into a revolving line-of-credit agreement with PNC Bank, National Association (PNC Bank) that provided for borrowings up to \$500,000, and was increased to \$1,000,000 during December 2019. The line of credit bears interest at the London InterBank Offered Rate (LIBOR) (0.081% at June 30, 2020) plus 1.75%. The agreement also provides an alternative interest rate, which is the higher of the Prime Rate and the sum of the Overnight Bank Funding Rate plus 0.50%. The line expires in December 2020. The Museum has not taken a draw on the line of credit during the fiscal years ended June 30, 2020 and 2019. Additionally, no interest has been expensed related to this note.

NOTE 9 - NOTE PAYABLE

On May 1, 2018, the Museum entered into a delayed draw term note (note) with PNC Bank with available borrowings of \$6,250,000 to be used for construction and renovation of the MuseumLab. The Museum could request advances on the delayed draw term note through the conversion date of December 31, 2019. The note bears interest of daily LIBOR (0.081% at June 30, 2020) plus 2.30% and payable in interest-only payments through December 1, 2019. The agreement also provides an alternative interest rate, which is the higher of the Prime Rate and the sum of the Overnight Bank Funding Rate plus 0.50%. Beginning on January 1, 2020, the outstanding balance of the note was approximately \$3,205,000, and is payable in monthly installments of \$13,354, with a balloon payment due in June 2023. Borrowings under the note require the Museum to meet certain nonfinancial and financial covenants, with which the Museum was in compliance as of June 30, 2020. In October 2020, the Museum repaid the balance of the note payable in full.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 10 - PAYCHECK PROTECTION PROGRAM LOAN

On April 16, 2020, the Museum entered into a term note with PNC Bank, with a principal amount of approximately \$1,045,000 pursuant to the Paycheck Protection Program (PPP Loan) under the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). The PPP Loan is evidenced by a promissory note, which bears interest at a fixed annual rate of 1.00%, with the first six months of interest deferred. The PPP Loan may be accelerated upon the occurrence of an event of default. The PPP Loan is unsecured and guaranteed by the United States Small Business Administration. The Museum intends to apply for full forgiveness of the PPP Loan, with the amount that may be forgiven equal to the sum of payroll costs, covered rent obligations and other operating costs, and covered utility payments incurred by the Museum during the 24-week period beginning upon receipt of PPP Loan funds, calculated in accordance with the terms of the CARES Act. The Museum has recorded this loan as debt on the accompanying statements of financial position until paid in full or forgiven.

NOTE 11 - 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 MuseumLab. 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 receive 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 MuseumLab. 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 MuseumLab 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, which commenced June 5, 2018 and approximated \$193,000 and \$183,000 for the years ended June 30, 2020 and 2019, respectively, at the following interest rates:

| | <u>Principal Amounts</u> | <u>Interest Rates</u> | |
|-----------------------------------|------------------------------|---------------------------|---|
| PNC | \$ 1,300,000 | 2.00 | % |
| PUI | <u>7,840,000</u> | 2.00 | |
| Total New Market Tax Credit Loans | \$ <u>9,140,000</u> | | |

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - NEW MARKET TAX CREDIT LOANS AND LEVERAGED LOAN RECEIVABLE (Continued)

The Museum began receiving quarterly interest payments of 3.02% on the leveraged loans from the Investment Fund on June 15, 2018, which will continue 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, which approximated \$193,000 and \$183,000 for the years ended June 30, 2020 and 2019, respectively, 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 12 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available at June 30 for the following purposes:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Subject to expenditure for specified purpose: | | |
| Capital campaign | \$ 826,119 | \$ 4,429,240 |
| Exhibits/programs | 2,081,468 | 969,753 |
| Growth Capital Fund | <u>1,491,830</u> | <u>1,573,632</u> |
| | 4,399,417 | 6,972,625 |
| Subject to the passage of time: | <u>241,666</u> | <u>483,333</u> |
| | 4,641,083 | 7,455,958 |
| Perpetual in nature: | | |
| Subject to spending policy and appropriation: | | |
| Park maintenance | 124,216 | 139,548 |
| Museum operations | 6,716,902 | 7,598,194 |
| Growth Capital Fund | <u>988,331</u> | <u>1,056,184</u> |
| | <u>7,829,449</u> | <u>8,793,926</u> |
| | <u>\$ 12,470,532</u> | <u>\$ 16,249,884</u> |

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets released from donor restrictions by incurring expenses, purchasing fixed assets satisfying the restricted purposes, by occurrence of events specified by the donors, or the passage of time at June 30 as follows:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|---------------------|---------------------|
| Expiration of time restrictions | \$ 241,667 | \$ 187,500 |
| Satisfaction of purpose restrictions: | | |
| Capital campaign: | | |
| MuseumLab | 3,801,087 | 5,734,543 |
| Growth Capital Fund | 150,000 | 226,692 |
| Operations: | | |
| Exhibits/programs | <u>577,381</u> | <u>1,195,090</u> |
| | <u>\$ 4,770,135</u> | <u>\$ 7,343,825</u> |

NOTE 13 - 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 2020 and 2019.

In September 2004, the Museum executed a land lease agreement with Allegheny Center Associates. During fiscal 2014, this property was sold to a new owner 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 MuseumLab. The initial lease term is for 29 years for \$1 per year. The Museum has recorded \$360,000 and \$45,000 as in-kind rent for the value of this lease for the fiscal years ended 2020 and 2019, respectively.

The Museum leases certain equipment under long-term lease agreements. The following is a schedule, by year, of approximate 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, 2020:

| Fiscal Year Ending June 30 | Amount |
|-------------------------------|-------------------|
| 2021 | \$ 175,000 |
| 2022 | 173,000 |
| 2023 | 173,000 |
| 2024 | <u>87,000</u> |
| | <u>\$ 608,000</u> |

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13 - LEASED PROPERTY (Continued)

In addition, the Museum leases certain exhibits and storage space under short-term or cancelable leases.

The Museum's total rental expense for fiscal years 2020 and 2019 approximated \$843,000 and \$573,000, respectively.

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 \$531,000 and \$500,000 for the years ended June 30, 2020 and 2019, respectively. During the fiscal 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, included in other assets in the accompanying statements of financial position, are approximately \$110,000 and \$92,000 as of June 30, 2020 and 2019, respectively.

NOTE 15 - CAPITAL CAMPAIGN

In August 2011, the Museum entered into a Project, Maintenance and License Agreement (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 MuseumLab Capital Campaign. The endeavor is 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 MuseumLab, 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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 15 - CAPITAL CAMPAIGN (Continued)

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

In April 2019, the Museum opened MuseumLab to the public, and capital improvements were substantially complete. The Museum exceeded its initial Capital Campaign goal receiving a total of approximately \$19,000,000 in pledges as of June 30, 2019. Of these Capital Campaign pledges made, approximately \$3,800,000 remains outstanding. Payment on these pledges received over time will help to service the note payable as well as continue to enhance the beautification of overall Museum campus, preserving and protecting the historic building and improving its accessibility to visitors. This project work includes entryway accessibility enhancements, necessary restoration repairs and improvements to the lobbies of MuseumLab and of the Children's Museum.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The Museum is, from time to time, subject to claims and suits arising in the ordinary course of its business. Such claims are generally covered by insurance, although any expenditures associated with claims and suits are presented gross of any insurance proceeds that the Museum may receive. Management believes the resolution of legal matters, if any, will not have a material effect on the Museum's financial condition, results of operations or cash flows, although no assurance can be given with respect to the ultimate outcome of any such actions. Furthermore, there can be no assurance that the Museum's insurance will be adequate to cover all liabilities that may arise out of claims brought against the Museum.

NOTE 17 - COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the United States and the world. The Museum is closely monitoring the impact of the COVID-19 pandemic on all aspects of its operations. At the onset of the COVID-19 outbreak, the Museum began focusing on mitigating the adverse impacts of the outbreak by closing its doors to the public since March 14, 2020 and for the remainder of the calendar year. The Museum plans to reopen in January 2021. In the meantime, the Museum has taken measures to reduce its costs and to maintain adequate liquidity. Additionally, the Museum has been engaging its members and the public through virtual offerings, including workshops, educational videos, outdoor performances and after-school programs.

The COVID-19 pandemic remains a rapidly evolving situation, and the extent of the impact of the pandemic on the Museum's business and financial results will depend on future developments. Governmental and regulatory responses to the pandemic may include quarantines, shutdowns or other governmental or regulatory actions, including closures or other restrictions that limit or close cultural institutions. Outcomes are highly uncertain and cannot be predicted, including, but not limited to, the duration, spread, severity and impact of the outbreak on the Museum's donors, customers, suppliers and vendors and to what extent normal economic operating conditions can resume.

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SUPPLEMENTARY INFORMATION

CHILDREN'S MUSEUM OF PITTSBURGH
 CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
 AS OF JUNE 30, 2020 AND 2019

| | | 2020 | | | |
|--|--|---|--|------------------------|----------------------|
| ASSETS | | The Children's Museum of Pittsburgh | Children's MuseumLAB Advancement Initiative | Eliminations | Total |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents: | | | | | |
| Unrestricted | | \$ 3,620,999 | - | - | \$ 3,620,999 |
| Restricted | | 2,901,193 | \$ 129,990 | - | 3,031,183 |
| | | <u>6,522,192</u> | <u>129,990</u> | <u>-</u> | <u>6,652,182</u> |
| Pledges receivable | | 3,518,371 | - | - | 3,518,371 |
| Accounts receivable | | 26,738 | - | - | 26,738 |
| Other current assets | | 268,179 | - | - | 268,179 |
| | | <u>10,335,480</u> | <u>129,990</u> | <u>-</u> | <u>10,465,470</u> |
| PLEDGES RECEIVABLE, NET | | 1,057,165 | - | - | 1,057,165 |
| LEVERAGE LOAN RECEIVABLE | | 6,035,700 | - | - | 6,035,700 |
| INVESTMENTS | | 8,132,318 | - | - | 8,132,318 |
| PROPERTY, EQUIPMENT AND EXHIBITS, net | | 10,139,616 | 13,006,525 | - | 23,146,141 |
| DUE FROM RELATED PARTY | | - | 10,616,271 | \$ (10,616,271) | - |
| OTHER ASSETS | | 109,579 | - | - | 109,579 |
| | | <u>\$ 35,809,858</u> | <u>\$ 23,752,786</u> | <u>\$ (10,616,271)</u> | <u>\$ 48,946,373</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | | \$ 378,914 | - | - | \$ 378,914 |
| Accrued expenses | | 280,381 | - | - | 280,381 |
| Deferred revenue | | 1,834,518 | - | - | 1,834,518 |
| Current portion of long-term debt | | 160,248 | - | - | 160,248 |
| | | <u>2,654,061</u> | <u>-</u> | <u>-</u> | <u>2,654,061</u> |
| OTHER LIABILITIES | | 109,579 | - | - | 109,579 |
| DUE TO RELATED PARTY | | 10,616,271 | - | \$ (10,616,271) | - |
| NOTE PAYABLE | | 1,951,239 | - | - | 1,951,239 |
| PAYCHECK PROTECTION PROGRAM LOAN | | 1,045,400 | - | - | 1,045,400 |
| NEW MARKET TAX CREDIT LOANS | | - | \$ 9,140,000 | - | 9,140,000 |
| | | <u>16,376,550</u> | <u>9,140,000</u> | <u>(10,616,271)</u> | <u>14,900,279</u> |
| NET ASSETS | | | | | |
| Without donor restrictions | | | | | |
| Undesignated | | 5,476,617 | 14,612,786 | - | 20,089,403 |
| Designated by the Board for endowment | | 1,486,159 | - | - | 1,486,159 |
| | | <u>6,962,776</u> | <u>14,612,786</u> | <u>-</u> | <u>21,575,562</u> |
| With donor restrictions | | | | | |
| Time-restricted for future periods | | 241,666 | - | - | 241,666 |
| Purpose restrictions | | 4,399,417 | - | - | 4,399,417 |
| Perpetual in nature | | 7,829,449 | - | - | 7,829,449 |
| | | <u>12,470,532</u> | <u>-</u> | <u>-</u> | <u>12,470,532</u> |
| | | <u>19,433,308</u> | <u>14,612,786</u> | <u>-</u> | <u>34,046,094</u> |
| Total Liabilities And Net Assets | | <u>\$ 35,809,858</u> | <u>\$ 23,752,786</u> | <u>\$ (10,616,271)</u> | <u>\$ 48,946,373</u> |

2019

| The Children's Museum of Pittsburgh | Children's MuseumLAB Advancement Initiative | Eliminations | Total |
|---|--|------------------------|----------------------|
| \$ 3,599,151 | - | - | \$ 3,599,151 |
| 2,318,998 | \$ 131,819 | - | 2,450,817 |
| <u>5,918,149</u> | <u>131,819</u> | <u>-</u> | <u>6,049,968</u> |
| 3,709,358 | - | - | 3,709,358 |
| 132,507 | - | - | 132,507 |
| 342,303 | 3,434 | - | 345,737 |
| <u>10,102,317</u> | <u>135,253</u> | <u>-</u> | <u>10,237,570</u> |
| 1,704,236 | - | - | 1,704,236 |
| 6,035,700 | - | - | 6,035,700 |
| 9,103,280 | - | - | 9,103,280 |
| 10,749,779 | 12,686,267 | - | 23,436,046 |
| - | 11,691,948 | \$ (11,691,948) | - |
| 91,782 | - | - | 91,782 |
| <u>\$ 37,787,094</u> | <u>\$ 24,513,468</u> | <u>\$ (11,691,948)</u> | <u>\$ 50,608,614</u> |
| | | | |
| \$ 736,361 | \$ 218,762 | - | \$ 955,123 |
| 470,356 | - | - | 470,356 |
| 1,607,693 | - | - | 1,607,693 |
| - | - | - | - |
| <u>2,814,410</u> | <u>218,762</u> | <u>-</u> | <u>3,033,172</u> |
| 91,782 | - | - | 91,782 |
| 11,691,948 | - | \$ (11,691,948) | - |
| 2,372,011 | - | - | 2,372,011 |
| - | - | - | - |
| - | 9,140,000 | - | 9,140,000 |
| <u>16,970,151</u> | <u>9,358,762</u> | <u>(11,691,948)</u> | <u>14,636,965</u> |
| | | | |
| 5,881,172 | 12,632,492 | - | 18,513,664 |
| 1,208,101 | - | - | 1,208,101 |
| <u>7,089,273</u> | <u>12,632,492</u> | <u>-</u> | <u>19,721,765</u> |
| 483,333 | - | - | 483,333 |
| 4,450,411 | 2,522,214 | - | 6,972,625 |
| 8,793,926 | - | - | 8,793,926 |
| <u>13,727,670</u> | <u>2,522,214</u> | <u>-</u> | <u>16,249,884</u> |
| 20,816,943 | 15,154,706 | - | 35,971,649 |
| <u>\$ 37,787,094</u> | <u>\$ 24,513,468</u> | <u>\$ (11,691,948)</u> | <u>\$ 50,608,614</u> |

The independent auditors' report should be read with these consolidating financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | | | |
|------------------------------------|---|--|------------------|----------------------|
| | The Children's Museum of Pittsburgh | Children's MuseumLAB Advancement Initiative | Eliminations | Total |
| SUPPORT AND REVENUE | | | | |
| Gifts and grants | \$ 3,646,293 | - | - | \$ 3,646,293 |
| Sponsorships | 210,333 | - | - | 210,333 |
| Contributed services and equipment | 617,443 | - | - | 617,443 |
| Capital campaign revenue | 793,473 | - | - | 793,473 |
| Special event | 239,243 | - | - | 239,243 |
| Total Support | 5,506,785 | - | - | 5,506,785 |
| Program revenue | 69,994 | - | - | 69,994 |
| Admissions | 895,861 | - | - | 895,861 |
| Memberships | 565,491 | - | - | 565,491 |
| Retail and café sales | 586,598 | - | - | 586,598 |
| Other income | 607,455 | \$ 240,000 | \$ (240,000) | 607,455 |
| Parking | 240,671 | - | - | 240,671 |
| Net investment return | 97,335 | 151 | - | 97,486 |
| Business development | 1,485,884 | - | - | 1,485,884 |
| Total Revenue | 4,549,289 | 240,151 | (240,000) | 4,549,440 |
| Total Support And Revenue | 10,056,074 | 240,151 | (240,000) | 10,056,225 |
| EXPENSES | | | | |
| Program | 8,723,458 | 782,071 | (240,000) | 9,265,529 |
| General and administrative | 2,194,322 | - | - | 2,194,322 |
| Fundraising | 521,929 | - | - | 521,929 |
| Total Expenses | 11,439,709 | 782,071 | (240,000) | 11,981,780 |
| Changes In Net Assets | (1,383,635) | (541,920) | - | (1,925,555) |
| NET ASSETS | | | | |
| Beginning of year | 20,816,943 | 15,154,706 | - | 35,971,649 |
| Transfer of net assets | - | - | - | - |
| End of year | \$ 19,433,308 | \$ 14,612,786 | - | \$ 34,046,094 |

2019

| The Children's Museum of Pittsburgh | Children's MuseumLAB Advancement Initiative | Eliminations | Total |
|---|--|--------------|----------------------|
| \$ 2,477,104 | - | - | \$ 2,477,104 |
| 363,500 | - | - | 363,500 |
| 349,650 | - | - | 349,650 |
| 4,894,818 | - | - | 4,894,818 |
| 465,009 | - | - | 465,009 |
| 8,550,081 | - | - | 8,550,081 |
| 147,200 | - | - | 147,200 |
| 1,422,489 | - | - | 1,422,489 |
| 821,586 | - | - | 821,586 |
| 771,890 | - | - | 771,890 |
| 331,172 | \$ 60,000 | \$ (60,000) | 331,172 |
| 374,758 | - | - | 374,758 |
| 701,224 | 503 | - | 701,727 |
| 1,529,668 | - | - | 1,529,668 |
| 6,099,987 | 60,503 | (60,000) | 6,100,490 |
| 14,650,068 | 60,503 | (60,000) | 14,650,571 |
| 8,208,327 | 639,279 | (60,000) | 8,787,606 |
| 1,943,710 | - | - | 1,943,710 |
| 712,652 | - | - | 712,652 |
| 10,864,689 | 639,279 | (60,000) | 11,443,968 |
| 3,785,379 | (578,776) | - | 3,206,603 |
| 29,682,996 | 3,082,050 | - | 32,765,046 |
| (12,651,432) | 12,651,432 | - | - |
| <u>\$ 20,816,943</u> | <u>\$ 15,154,706</u> | <u>-</u> | <u>\$ 35,971,649</u> |

The independent auditors' report should be read with these consolidating financial statements.

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