

CHILDREN'S MUSEUM OF PITTSBURGH  
Pittsburgh, Pennsylvania

Financial Statements  
and  
Supplementary Financial Information  
for the years ended June 30, 2013 and 2012  
  
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 financial statements of the Children's Museum of Pittsburgh (Museum), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2013 and 2012, 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.

### ***Emphasis of Matter***

As discussed in Note 3 to the financial statements, in 2013, the Museum changed its accounting for memberships. Our opinion is not modified with respect to this matter.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
December 2, 2013

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CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2013	2012
		(Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents:		
Unrestricted	\$ 1,151,739	\$ 2,081,203
Restricted	729,480	589,759
Receivables:		
Pledges receivable	1,141,364	1,725,085
Accounts receivable	56,494	44,073
Inventory	67,916	64,095
Prepaid and other expenses	110,094	124,318
	3,257,087	4,628,533
<b>PLEDGES RECEIVABLE</b>	348,731	771,359
<b>BOARD-DESIGNATED</b>		
Cash and cash equivalents - unrestricted	977,996	546,515
<b>ENDOWMENT ASSETS</b>		
Cash and cash equivalents	942,902	751,708
Investments	6,184,350	5,342,056
<b>PROPERTY, EQUIPMENT AND EXHIBITS, net</b>	12,988,600	13,457,589
<b>Total Assets</b>	\$24,699,666	\$25,497,760
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 344,189	\$ 1,071,962
Accrued expenses:		
Other	254,954	367,019
Deferred revenue	514,125	385,224
	1,113,268	1,824,205
<b>NET ASSETS</b>		
Unrestricted	13,294,715	14,309,196
Unrestricted - board-designated	977,996	546,515
Temporarily restricted	2,186,274	2,723,839
Permanently restricted	7,127,413	6,094,005
	23,586,398	23,673,555
<b>Total Liabilities And Net Assets</b>	\$24,699,666	\$25,497,760

See notes to financial statements.

**CHILDREN'S MUSEUM OF PITTSBURGH**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Grants	\$ 887,987	\$ 338,138	-	\$ 1,226,125
Contributions	376,091	108,911	-	485,002
Sponsorships	108,500	1,123	-	109,623
Contributed services and equipment	593,234	-	-	593,234
Capital campaign revenue	475,450	295,318	\$ 100,481	871,249
Special event	274,388	-	-	274,388
Total Support	<u>2,715,650</u>	<u>743,490</u>	<u>100,481</u>	<u>3,559,621</u>
Program revenue	106,976	-	-	106,976
Admissions	1,202,225	-	-	1,202,225
Memberships	509,562	-	-	509,562
Retail sales	161,039	-	-	161,039
Other income	212,691	-	-	212,691
Café	458,098	-	-	458,098
Parking	161,683	-	-	161,683
Investment income	9,930	-	133,119	143,049
Exhibit rental income	128,094	-	-	128,094
"Stuffee" product sales	3,650	-	-	3,650
Total Revenue	<u>2,953,948</u>	<u>-</u>	<u>133,119</u>	<u>3,087,067</u>
Net realized and unrealized gain (loss) on investments	-	-	1,131,716	1,131,716
Gain on insurance proceeds	-	-	-	-
Loss on disposal of property, equipment and exhibits	(73,402)	-	-	(73,402)
Net assets released from restrictions/transferred:				
For operations	510,311	(510,311)	-	-
For Making Community Places	770,744	(770,744)	-	-
Endowment draw	331,908	-	(331,908)	-
	<u>1,539,561</u>	<u>(1,281,055)</u>	<u>799,808</u>	<u>1,058,314</u>
Total Support And Revenue	7,209,159	(537,565)	1,033,408	7,705,002
<b>EXPENSES</b>				
Program services:				
Direct:				
Museum Experiences	2,525,862	-	-	2,525,862
Learning and Research	587,178	-	-	587,178
Indirect:				
Visitor services	1,631,852	-	-	1,631,852
Making Community Places	292,822	-	-	292,822
Special projects	488,113	-	-	488,113
Total Program Services	<u>5,525,827</u>	<u>-</u>	<u>-</u>	<u>5,525,827</u>
Support services:				
Administration	1,121,209	-	-	1,121,209
Marketing	651,846	-	-	651,846
Development	406,326	-	-	406,326
Total Support Services	<u>2,179,381</u>	<u>-</u>	<u>-</u>	<u>2,179,381</u>
Costs of direct benefits to donors	86,951	-	-	86,951
Total Expenses	<u>7,792,159</u>	<u>-</u>	<u>-</u>	<u>7,792,159</u>
Changes in Net Assets	(583,000)	(537,565)	1,033,408	(87,157)
<b>NET ASSETS</b>				
Beginning of year	<u>14,855,711</u>	<u>2,723,839</u>	<u>6,094,005</u>	<u>23,673,555</u>
End of year	<u>\$14,272,711</u>	<u>\$2,186,274</u>	<u>\$7,127,413</u>	<u>\$23,586,398</u>

## 2012 (Restated)

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,113,798	\$ 799,776	-	\$ 1,913,574
294,098	1,380	-	295,478
182,500	185,723	-	368,223
387,591	-	-	387,591
3,500,595	1,638,684	-	5,139,279
255,996	-	-	255,996
<u>5,734,578</u>	<u>2,625,563</u>	-	<u>8,360,141</u>
208,376	-	-	208,376
1,094,217	-	-	1,094,217
447,976	-	-	447,976
158,359	-	-	158,359
194,896	-	-	194,896
431,847	-	-	431,847
152,806	-	-	152,806
12,143	-	\$ 126,916	139,059
95,950	-	-	95,950
-	-	-	-
<u>2,796,570</u>	-	<u>126,916</u>	<u>2,923,486</u>
-	-	(349,654)	(349,654)
146,210	-	-	146,210
(16,987)	-	-	(16,987)
499,267	(499,267)	-	-
326,846	(326,846)	-	-
314,914	-	(314,914)	-
<u>1,270,250</u>	<u>(826,113)</u>	<u>(664,568)</u>	<u>(220,431)</u>
9,801,398	1,799,450	(537,652)	11,063,196
1,635,700	-	-	1,635,700
1,138,863	-	-	1,138,863
1,698,140	-	-	1,698,140
3,443,458	-	-	3,443,458
647,666	-	-	647,666
<u>8,563,827</u>	-	-	<u>8,563,827</u>
823,793	-	-	823,793
360,882	-	-	360,882
421,835	-	-	421,835
<u>1,606,510</u>	-	-	<u>1,606,510</u>
35,496	-	-	35,496
<u>10,205,833</u>	-	-	<u>10,205,833</u>
(404,435)	1,799,450	(537,652)	857,363
<u>15,260,146</u>	<u>924,389</u>	<u>6,631,657</u>	<u>22,816,192</u>
<u>\$14,855,711</u>	<u>\$2,723,839</u>	<u>\$6,094,005</u>	<u>\$23,673,555</u>

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (87,157)	\$ 857,363
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,054,245	1,044,772
Realized and unrealized (gain) loss on investments	(1,131,716)	349,654
Loss on disposal of equipment	73,402	16,987
Contributions restricted for endowment	(100,481)	-
Permanently restricted investment income	(133,119)	(126,916)
Changes in assets and liabilities:		
Operating receivables	(150,824)	(616,840)
Capital campaign receivables	1,144,752	(1,485,138)
Inventory	(3,821)	(6,201)
Prepaid expenses and other assets	14,224	(19,679)
Accounts payable	(727,773)	877,376
Accrued expenses	(112,065)	136,782
Deferred revenue	128,901	17,543
Net Cash (Used In) Provided By Operating Activities	(31,432)	1,045,703
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, equipment and exhibits	(658,658)	(514,944)
Purchases of investments	(1,259,144)	(1,577,345)
Proceeds from sale of investments	1,548,566	1,727,464
(Decrease) increase in restricted cash and cash equivalents	(762,396)	293,047
Net Cash Used In Investing Activities	(1,131,632)	(71,778)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for:		
Investment in endowment	100,481	-
Permanently restricted investment income	133,119	126,916
Net Cash Provided By Financing Activities	233,600	126,916
Net (Decrease) Increase In Cash And Cash Equivalents	(929,464)	1,100,841
<b>CASH AND CASH EQUIVALENTS</b>		
Operating cash beginning of year	2,081,203	980,362
Operating cash end of year	\$1,151,739	\$2,081,203

See notes to financial statements.



CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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. The Museum provides innovative museum experiences that inspire joy, creativity and curiosity. The Museum provides the highest-quality exhibits and programs for learning and play. The Museum is a partner and a resource for people who work with or on behalf of children.

The Museum provides educational and cultural exhibits that exemplify design excellence, innovation and that reflect the mission to inspire joy, creativity and curiosity. Exhibits are both hands-on and artifact-driven, focused primarily in art and science. The Museum is a place where all children can be nurtured in a safe, accessible environment, a museum where children are able to "Play with Real Stuff," the Museum's exhibit philosophy.

The Museum creates and presents educational programs that connect with and engage all types of learners in 21<sup>st</sup> 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates - The preparation of 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 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 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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. An allowance for doubtful accounts has not been recorded, and is based on the Museum's historical collection experience and review of the current status of pledge 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.

Membership - Effective July 1, 2012, the Museum changed its policy for recognizing membership revenue. The Museum records membership revenue on a pro-rata basis over the life of the membership period. Effective with a change in accounting policy, the Museum restated its financial statements for the change in this policy for the prior period presented. (See Note 3.)

Cash and Cash Equivalents - The Museum considers highly liquid debt instruments with a purchased maturity of twelve 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 5.)

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 statements of activities and the 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 5% for both 2013 and 2012.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and Stuffee merchandise.

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 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, 2013 and 2012.

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.

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. Admission and performance fees collected in advance of the events are also 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.

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, 2013 and 2012, approximately \$593,000 and \$388,000, respectively, was 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 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 \$229,000 and \$206,000 for the years ended June 30, 2013 and 2012, respectively.

Income Tax - The Museum is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Museum recognizes and reports income tax liabilities arising from unrelated business activities on Federal Form 990-T. The Museum follows 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 statements of financial position at June 30, 2013 and 2012 do not include any liabilities associated with uncertain tax positions; further, the Museum has no unrecognized tax benefits. The Museum is no longer subject to examinations by tax authorities for fiscal years before 2010.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 December 2, 2013, the date on which the financial statements were available to be issued.

Reclassifications - Certain reclassifications have been made to the accompanying financial statements for the year ended June 30, 2012 to conform to the current year's presentation.

Recently Issued Accounting Pronouncements - The FASB has issued Accounting Standards Update (ASU) No. 2013-03 Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities (ASU 2013-03), which clarifies the scope and applicability of a disclosure exemption that is specific to private companies and not-for-profit organizations that resulted from the issuance of ASU 2011-04. Additionally, ASU 2013-03 clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to private companies and nonpublic not-for-profit organizations for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. ASU 2013-03 was effective upon issuance.

NOTE 3 - RESTATEMENT

Due to a change in accounting policy, the Museum has restated its financials for the year ended June 30, 2012. The restatement is due to a change in recognition of membership revenue. Previously, the Museum recognized membership revenue upon receipt. Currently, the Museum recognizes membership revenue over the life of the membership. The following table shows the previously reported amounts and restated amounts as of and for the year ended June 30, 2012 for those accounts affected by the restatement.

	<u>As Previously Reported</u>	<u>As Restated</u>
Statement of financial position:		
Deferred revenue	\$ 162,448	\$ 385,224
Unrestricted net assets, June 30, 2011	14,531,972	14,309,196
Statement of activities and changes in net assets:		
Memberships	459,366	447,976
Change in unrestricted net assets	(393,045)	(404,435)

NOTE 4 - INVESTMENTS

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

	<u>2013</u>		<u>2012</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Domestic equity funds	\$ 3,696,556	\$ 2,654,307	\$ 3,101,624	\$ 2,870,455
Fixed-income holdings	2,487,794	2,446,993	2,240,432	2,226,424
	<u>\$ 6,184,350</u>	<u>\$ 5,101,300</u>	<u>\$ 5,342,056</u>	<u>\$ 5,096,879</u>

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 4 - INVESTMENTS (Continued)

Net realized gains on the sale of securities were approximately \$320,000 and \$39,000 for 2013 and 2012, respectively. Unrealized gains (losses) were approximately \$812,000 and \$(389,000) for 2013 and 2012, respectively.

NOTE 5 - FAIR VALUE MEASUREMENT

The Fair Value Measurements 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 Museum's financial instruments consist primarily of cash and cash equivalents, receivables, investments, accounts payable and accrued expenses. The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates their fair value due to the short-term nature of such instruments.

The fair value of other financial assets comprising the Museum's investments at June 30, 2013 and 2012 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 financial statements subsequent to June 30, 2013. As such, the estimated fair values could be materially different, in either a positive or negative manner, at a subsequent date.

	2013			
	Level 1	Level 2	Level 3	Total
Domestic equity funds	\$ 3,696,556	-	-	\$ 3,696,556
Fixed-income holdings	2,487,794	-	-	2,487,794
	<u>\$ 6,184,350</u>	<u>-</u>	<u>-</u>	<u>\$ 6,184,350</u>

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 5 - FAIR VALUE MEASUREMENT (Continued)

	2012			
	Level 1	Level 2	Level 3	Total
Domestic equity funds	\$ 3,101,624	-	-	\$ 3,101,624
Fixed-income holdings	2,240,432	-	-	2,240,432
	<u>\$ 5,342,056</u>	<u>-</u>	<u>-</u>	<u>\$ 5,342,056</u>

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 appreciation are included in investment return in excess of (less than) the amount designated for current operations. Unrealized appreciation relates to investments held as of June 30, 2013.

NOTE 6 - 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.

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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 6 - ENDOWMENT (Continued)

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, 2013				
Donor-restricted endowment funds	-	-	\$ 7,127,413	\$ 7,127,413
Board-designated endowment funds	\$ 977,996	-	-	977,996
 Total Funds	 \$ 977,996	 -	 \$ 7,127,413	 \$ 8,105,409
June 30, 2012				
Donor-restricted endowment funds	-	-	\$ 6,094,005	\$ 6,094,005
Board-designated endowment funds	\$ 546,515	-	-	546,515
 Total Funds	 \$ 546,515	 -	 \$ 6,094,005	 \$ 6,640,520

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

	<u>2013</u>	<u>2012</u>
Unrestricted:		
Board-designated net assets		
Beginning of year	\$ 546,515	\$ 549,569
Investment return:		
Investment income	5,895	4,376
Additional Board allocation	553,939	405,900
Release of board-designated assets for expenditures	<u>(128,353)</u>	<u>(413,330)</u>
 End of year	 \$ <u>977,996</u>	 \$ <u>546,515</u>
	<u>2013</u>	<u>2012</u>
Permanently restricted:		
Donor-restricted net assets		
Beginning of year	\$ 6,094,005	\$ 6,631,657
Investment return:		
Investment income	133,119	126,916
Net realized gain	319,865	38,614
Net unrealized appreciation (depreciation)	811,851	(388,268)
Additional donor contribution	100,481	-
Appropriation of endowment assets for expenditures	<u>(331,908)</u>	<u>(314,914)</u>
 End of year	 \$ <u>7,127,413</u>	 \$ <u>6,094,005</u>

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 6 - 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 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, 2013 and 2012 were approximately \$332,000 and \$315,000, 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.

The draw for fiscal year ending June 30, 2014 is expected to be approximately \$335,000.

NOTE 7 - PLEDGES RECEIVABLE

The Museum has received unconditional promises to give in 2013 and 2012. The unconditional promises to give are due to be received as follows at June 30:

	<u>2013</u>	<u>2012</u>
Due in less than 1 year	\$ 1,141,364	\$ 1,725,085
Due in 1-5 years	<u>348,731</u>	<u>771,359</u>
	<u>\$ 1,490,095</u>	<u>\$ 2,496,444</u>

The unamortized discount relating to pledges receivable amounted to approximately \$6,000 and \$15,000 at June 30, 2013 and 2012, respectively. Discount rates approximated 1% at June 30, 2013 and 2012. Grants receivable of approximately \$1,014,000 and \$2,133,000 at June 30, 2013 and 2012, respectively, are restricted for the capital campaign or for a specific purpose.

The Museum has received a conditional promise to give of \$250,000 from the Commonwealth of Pennsylvania to support the Making Community Places capital campaign. The gift is restricted to construction of a community park. For the years ended June 30, 2013 and 2012, \$81,000 and \$169,000, respectively, of this grant have been recorded as revenue.

The Museum has received a conditional promise to give of \$2,000,000 from The Heinz Endowments to support the creation of an educational hub in the vacant Carnegie Library building at Allegheny Center. The gift is restricted to expenses related to the development of the property. For the year ended June 30, 2013, \$500,000 of this grant has been recorded as revenue. No revenue was recorded for the year ended June 30, 2012.



CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 8 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2013</u>	<u>2012</u>
Building improvements	\$ 17,091,425	\$ 16,921,774
Exhibits	4,176,177	4,678,489
Building	520,000	520,000
Equipment	704,842	649,080
Land	130,000	130,000
	<u>22,622,443</u>	<u>22,899,343</u>
Less - Accumulated depreciation	9,738,781	9,455,779
	<u>12,883,662</u>	<u>13,443,564</u>
Construction in progress	104,938	14,025
	<u>12,988,600</u>	<u>13,457,589</u>
Property, equipment and exhibits, net	\$ <u>12,988,600</u>	\$ <u>13,457,589</u>

NOTE 9 - LINE OF CREDIT

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 3.25% at June 30, 2013. The line expires in December 2013. The Museum has not taken a draw on the loan during the fiscal years ended June 30, 2013 and 2012. Additionally, no interest has been expensed related to this note.

The Museum has entered into a convertible line-of-credit note agreement with PNC Bank, National Association that provides for borrowings up to \$1,500,000 and will be used to bridge cash flows for the capital campaign. Prior to and after the conversion date, the interest rate will be London InterBank Offered Rate (0.21% at June 30, 2013) plus 220 basis points. Prior to the conversion date, interest only shall be due and payable monthly. From and after the conversion date, principal and interest shall be due and payable in thirty-five equal consecutive monthly installments. Final payment of the remaining outstanding principal balance will be due on December 31, 2017. The line of credit will convert on December 31, 2014 and matures on December 31, 2017. The Museum drew \$150,000 on the line of credit during the year ended June 30, 2013. There was no outstanding balance on the line of credit at June 30, 2013. Approximately \$500 interest was expensed for the year ended June 30, 2013 related to this note.

NOTE 10 - RESTRICTIONS ON ASSETS

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

	<u>2013</u>	<u>2012</u>
Capital campaign	\$ 1,170,586	\$ 1,645,366
Exhibits/programs	1,015,688	1,078,473
	<u>\$ 2,186,274</u>	<u>\$ 2,723,839</u>

Permanently restricted assets consist of donor-restricted funds to be invested in perpetuity, with the income available for use for Museum operations.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 11 - RELEASE OF 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:

	<u>2013</u>	<u>2012</u>
Restrictions accomplished:		
Capital campaign:		
Making Community Places project	\$ 770,744	\$ 326,846
Operations:		
Exhibits/programs	452,563	499,267
Property and equipment	<u>57,748</u>	<u>-</u>
	<u>510,311</u>	<u>499,267</u>
	\$ <u><u>1,281,055</u></u>	\$ <u><u>826,113</u></u>

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 has recorded \$240,000 as in-kind rent for the value of this lease for each of the fiscal years ended 2013 and 2012. 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.

In September 2004, the Museum executed a land lease agreement with Allegheny Center Associates. The lease is for an initial term of 20 years and provides for extension options, which both parties will negotiate at that time. In addition, the lease provides a termination right for the landlord that requires payments of unamortized costs and expenses if the landlord elects to terminate the lease prior to the fifth lease year. Rental payments under the lease agreement are \$72,000 per year, which includes \$36,000 of in-kind rent. Beginning on the fifth anniversary of the rent commencement date, and annually thereafter, base rent shall be adjusted to reflect any increase in the Consumer Price Index. During fiscal 2010, the Museum entered into a supplement to the existing land lease with Allegheny Center Associates for land immediately adjacent to the land covered under the existing lease. In accordance with the lease supplement, there are no additional rental payments required; all amounts are represented by an in-kind donation to the Museum. In April 2013, Allegheny Center exercised the option to terminate the supplement to the land lease. The Museum has recorded \$81,000 and \$96,000 as in-kind rent for the value of this lease for the fiscal years ended 2013 and 2012, respectively. The Museum is responsible for all operating costs and repairs and maintenance, including taxes, utilities and all other government charges and levies.

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, 2013:

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 12 - LEASED PROPERTY (Continued)

Fiscal Year Ending June 30	Amount
2014	\$ 101,736
2015	101,535
2016	100,846
2017	93,273
2018	93,273
Thereafter	<u>513,000</u>
	<u>\$ 1,003,663</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 2013 and 2012 approximated \$519,000 and \$460,000, 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 an annuity. Employees who waive health insurance receive one additional week vacation. Employee benefit expense approximated \$212,000 and \$211,000 for the years ended June 30, 2013 and 2012, respectively.

NOTE 15 - CAPITAL CAMPAIGN

The Museum's Board approved a \$22,500,000 capital campaign at its September 18, 2007 board meeting. The proceeds of the capital campaign will be used to build a community park, increase parking options, redesign and build exhibits and add to the Museum's endowment. In September 2009, the Museum's Board of Directors agreed to raise funds for the capital campaign in phases. In July 2011, the Museum entered into a contract for construction of the community park for approximately \$3,300,000. Construction on the park began August 1, 2011 and was completed in October 2012. As of June 30, 2013, the Museum received total pledges toward this campaign of approximately \$8,190,000. As of June 30, 2013, the Museum has spent approximately \$7,275,000 on the project, of which \$3,401,000 related to construction of the community park.

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.

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SUPPLEMENTARY FINANCIAL INFORMATION





INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTARY FINANCIAL INFORMATION

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

We have audited the financial statements of the Children's Museum of Pittsburgh as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated December 2, 2013, which contained an unqualified 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 on Pages 20-21 is presented for purposes of additional analysis and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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  
December 2, 2013

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CHILDREN'S MUSEUM OF PITTSBURGH

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

(With Comparative Totals for 2012)

Program Services

	<u>Museum</u>	<u>Learning and</u>	<u>Visitor</u>	<u>Making</u>	<u>Special</u>	<u>Total</u>
	<u>Experiences</u>	<u>Research</u>	<u>Services</u>	<u>Community</u>	<u>Projects</u>	
				<u>Places</u>		
Salaries and wages	\$ 966,390	\$250,288	\$ 497,877	\$ 506	\$ 32,018	\$1,747,079
Payroll taxes	93,081	22,011	50,744	62	3,797	169,695
Other employee benefits	57,892	21,217	27,169	-	-	106,278
Staff training	2,917	3,601	972	-	150	7,640
Professional memberships	35	219	575	-	-	829
Printing and publications	11,468	954	12,571	1,477	3,434	29,904
Postage and shipping	6,254	1,582	6,074	2,674	1,168	17,752
Rent	137,284	41,789	199,197	-	2,873	381,143
Exhibit rental	76,505	-	-	-	-	76,505
Utilities	83,751	24,810	63,480	-	-	172,041
Telephone	2,464	1,836	1,417	104	26	5,847
Supplies	171,219	21,891	55,231	19,517	47,156	315,014
Repairs and maintenance	33,289	7,911	22,915	-	-	64,115
Service contracts	168,594	53,781	74,271	251,502	341,282	889,430
Advertising	16,775	1,714	90	8,363	46,380	73,322
Insurance	39,948	11,915	22,170	133	35	74,201
Cost of goods sold	-	-	316,877	-	-	316,877
Legal and accounting fees	1,135	81	208	-	-	1,424
Travel	18,685	8,472	1,380	7,281	5,565	41,383
Depreciation	628,296	111,470	217,922	-	-	957,688
Miscellaneous	9,011	1,366	60,354	606	3,864	75,201
Meeting expense	417	104	-	57	365	943
General and administrative	452	166	358	-	-	976
Interest	-	-	-	540	-	540
	<u>\$2,525,862</u>	<u>\$587,178</u>	<u>\$1,631,852</u>	<u>\$292,822</u>	<u>\$488,113</u>	<u>\$5,525,827</u>



Support Services

Administration	Marketing	Development	Total	Total	
				2013	2012
\$ 512,664	\$218,294	\$262,766	\$ 993,724	\$ 2,740,803	\$ 2,416,825
29,592	18,013	19,991	67,596	237,291	218,113
58,652	27,896	19,668	106,216	212,494	210,941
3,194	1,134	791	5,119	12,759	13,331
10,990	710	1,637	13,337	14,166	74,033
6,129	5,542	11,570	23,241	53,145	41,280
3,266	1,501	5,087	9,854	27,606	25,265
58,652	429	2,356	61,437	442,580	432,751
-	-	-	-	76,505	27,000
17,706	1,589	980	20,275	192,316	194,604
3,854	1,500	926	6,280	12,127	10,138
35,069	4,460	11,327	50,856	365,870	370,658
5,630	505	462	6,597	70,712	81,922
58,272	210,417	37,972	306,661	1,196,091	4,133,729
138	147,785	7,860	155,783	229,105	206,186
11,230	1,999	1,550	14,779	88,980	85,082
-	-	-	-	316,877	320,835
43,892	5	653	44,550	45,974	39,032
19,481	1,365	1,042	21,888	63,271	67,831
81,800	8,552	6,205	96,557	1,054,245	1,044,772
13,706	30	7,230	20,966	96,167	119,085
132,428	111	2,541	135,080	136,023	13,219
14,737	9	3,712	18,458	19,434	23,285
127	-	-	127	667	420
<u>\$1,121,209</u>	<u>\$651,846</u>	<u>\$406,326</u>	<u>\$2,179,381</u>	<u>\$ 7,705,208</u>	<u>\$10,170,337</u>

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

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