

CHILDREN'S MUSEUM OF PITTSBURGH
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Financial Information
for the years ended June 30, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013, 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.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 25, 2014

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CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

		June 30	
ASSETS		2014	2013
CURRENT ASSETS			
Cash and cash equivalents:			
Unrestricted		\$ 1,234,479	\$ 1,151,739
Restricted		643,489	729,480
Receivables:			
Pledges receivable		819,097	1,141,364
Accounts receivable		81,669	56,494
Inventory		72,426	67,916
Prepaid and other expenses		91,036	110,094
Total Current Assets		2,942,196	3,257,087
PLEDGES RECEIVABLE		229,045	348,731
BOARD-DESIGNATED			
Cash and cash equivalents - unrestricted		261,377	977,996
Investments - unrestricted		258,132	-
ENDOWMENT ASSETS			
Cash and cash equivalents		1,532,973	942,902
Investments		6,254,226	6,184,350
PROPERTY, EQUIPMENT AND EXHIBITS, net		12,933,392	12,988,600
Total Assets		\$ 24,411,341	\$ 24,699,666
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable		\$ 213,243	\$ 344,189
Accrued expenses:			
Other		262,874	254,954
Deferred revenue		580,276	514,125
Total Current Liabilities		1,056,393	1,113,268
NET ASSETS			
Unrestricted		13,886,139	13,294,715
Unrestricted - board-designated for building reserves		198,107	977,996
Unrestricted - board-designated for park maintenance		321,402	-
Total unrestricted		14,405,648	14,272,711
Temporarily restricted		1,162,101	2,186,274
Permanently restricted		7,787,199	7,127,413
Total Net Assets		23,354,948	23,586,398
Total Liabilities And Net Assets		\$ 24,411,341	\$ 24,699,666

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Grants	\$ 1,116,773	\$ 302,222	-	\$ 1,418,995
Contributions	613,343	11,723	-	625,066
Sponsorships	115,070	50,000	-	165,070
Contributed services and equipment	477,425	-	-	477,425
Capital campaign revenue	1,758	3,000	-	4,758
Special event	358,822	-	-	358,822
Total Support	<u>2,683,191</u>	<u>366,945</u>	<u>-</u>	<u>3,050,136</u>
Program revenue	72,773	-	-	72,773
Admissions	1,150,633	-	-	1,150,633
Memberships	609,519	-	-	609,519
Retail sales	120,332	-	-	120,332
Other income	469,387	-	\$ 115	469,502
Café	495,444	-	-	495,444
Parking	162,925	-	-	162,925
Investment income	9,966	-	110,674	120,640
Exhibit rental income	116,946	-	-	116,946
"Stuffee" product sales	28,036	-	-	28,036
Total Revenue	<u>3,235,961</u>	<u>-</u>	<u>110,789</u>	<u>3,346,750</u>
Net realized and unrealized (loss) gain on investments	23,098	-	935,213	958,311
Loss on disposal of property, equipment and exhibits	(6,258)	-	-	(6,258)
Net assets released from restrictions/transferred:				
For operations	887,268	(887,268)	-	-
For Making Community Places	503,850	(503,850)	-	-
Endowment draw	386,216	-	(386,216)	-
	<u>1,794,174</u>	<u>(1,391,118)</u>	<u>548,997</u>	<u>952,053</u>
Total Support And Revenue	<u>7,713,326</u>	<u>(1,024,173)</u>	<u>659,786</u>	<u>7,348,939</u>
EXPENSES				
Program Services:				
Direct:				
Museum Experiences	2,047,103	-	-	2,047,103
Learning and Research	470,785	-	-	470,785
Indirect:				
Visitor services	1,447,271	-	-	1,447,271
Making Community Places	130,082	-	-	130,082
Special projects	1,565,235	-	-	1,565,235
Total Program Services	<u>5,660,476</u>	<u>-</u>	<u>-</u>	<u>5,660,476</u>
Support Services:				
Administration	904,565	-	-	904,565
Marketing	508,015	-	-	508,015
Development	395,246	-	-	395,246
Total Support Services	<u>1,807,826</u>	<u>-</u>	<u>-</u>	<u>1,807,826</u>
Costs of direct benefits to donors	112,087	-	-	112,087
Total Expenses	<u>7,580,389</u>	<u>-</u>	<u>-</u>	<u>7,580,389</u>
Changes in Net Assets	132,937	(1,024,173)	659,786	(231,450)
NET ASSETS				
Beginning of year	<u>14,272,711</u>	<u>2,186,274</u>	<u>7,127,413</u>	<u>23,586,398</u>
End of year	<u>\$ 14,405,648</u>	<u>\$ 1,162,101</u>	<u>\$ 7,787,199</u>	<u>\$ 23,354,948</u>

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 887,987	\$ 338,138	-	\$ 1,226,125
376,091	108,911	-	485,002
108,500	1,123	-	109,623
593,234	-	-	593,234
475,450	295,318	\$ 100,481	871,249
274,388	-	-	274,388
<u>2,715,650</u>	<u>743,490</u>	<u>100,481</u>	<u>3,559,621</u>
106,976	-	-	106,976
1,202,225	-	-	1,202,225
509,562	-	-	509,562
161,039	-	-	161,039
212,691	-	-	212,691
458,098	-	-	458,098
161,683	-	-	161,683
9,930	-	133,119	143,049
128,094	-	-	128,094
3,650	-	-	3,650
<u>2,953,948</u>	<u>-</u>	<u>133,119</u>	<u>3,087,067</u>
-	-	1,131,716	1,131,716
(73,402)	-	-	(73,402)
510,311	(510,311)	-	-
770,744	(770,744)	-	-
331,908	-	(331,908)	-
<u>1,539,561</u>	<u>(1,281,055)</u>	<u>799,808</u>	<u>1,058,314</u>
7,209,159	(537,565)	1,033,408	7,705,002
2,525,862	-	-	2,525,862
587,178	-	-	587,178
1,631,852	-	-	1,631,852
292,822	-	-	292,822
488,113	-	-	488,113
<u>5,525,827</u>	<u>-</u>	<u>-</u>	<u>5,525,827</u>
1,121,209	-	-	1,121,209
651,846	-	-	651,846
406,326	-	-	406,326
<u>2,179,381</u>	<u>-</u>	<u>-</u>	<u>2,179,381</u>
86,951	-	-	86,951
<u>7,792,159</u>	<u>-</u>	<u>-</u>	<u>7,792,159</u>
(583,000)	(537,565)	1,033,408	(87,157)
<u>14,855,711</u>	<u>2,723,839</u>	<u>6,094,005</u>	<u>23,673,555</u>
<u>\$ 14,272,711</u>	<u>\$ 2,186,274</u>	<u>\$ 7,127,413</u>	<u>\$ 23,586,398</u>

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (231,450)	\$ (87,157)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,102,333	1,054,245
Donated assets	7,500	-
Realized and unrealized gain on investments	(958,311)	(1,131,716)
Loss on disposal of equipment	6,258	73,402
Contributions restricted for endowment	-	(100,481)
Permanently restricted investment income	(110,789)	(133,119)
Changes in assets and liabilities:		
Operating receivables	312,480	(150,824)
Capital campaign receivables	104,298	1,144,752
Inventory	(4,510)	(3,821)
Prepaid expenses and other assets	19,058	14,224
Accounts payable	(130,946)	(727,773)
Accrued expenses	7,920	(112,065)
Deferred revenue	66,151	128,901
Net Cash Provided By (Used In) Operating Activities	189,992	(31,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and exhibits	(1,060,883)	(658,658)
Purchases of investments	(739,468)	(1,259,144)
Proceeds from sale of investments	1,369,771	1,548,566
Increase (decrease) in restricted cash and cash equivalents	212,539	(762,396)
Net Cash Used In Investing Activities	(218,041)	(1,131,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment in endowment	-	100,481
Permanently restricted investment income	110,789	133,119
Net Cash Provided By Financing Activities	110,789	233,600
Net Increase (Decrease) In Cash And Cash Equivalents	82,740	(929,464)
CASH AND CASH EQUIVALENTS		
Operating cash beginning of year	1,151,739	2,081,203
Operating cash end of year	\$ 1,234,479	\$ 1,151,739

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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

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

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

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, 2014 AND 2013

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.

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

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

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

Investment securities are exposed to various risks caused by changes in interest rates, general market volatility and credit risk, etc. Due to the level of risk associated with certain investment securities, it is possible that changes in risks in the near term could materially affect account balances and the amounts reported in the 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 5.5% and 5% for 2014 and 2013, respectively.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014 and 2013.

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, 2014 and 2013, approximately \$477,000 and \$593,000, 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 \$182,000 and \$229,000 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 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 2011.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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 November 25, 2014 the date on which the financial statements were available to be issued.

In 2014, the FASB issued ASU No. 2013-06 Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (ASU 2013-06). The revenue recognition guidance for not-for-profit entities requires that contributed services be recognized at fair value, and that those services should only be recognized if they (1) create or enhance nonfinancial assets or (2) require specialized skills by individuals possessing those skills and typically would need to be purchased if not provided by donation. In practice, diversity exists about whether a recipient not-for-profit entity should consider as a contribution services received from personnel of an affiliate and whether that not-for-profit entity should apply the contributed services guidance. ASU 2013-06 requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. If measuring the services received from personnel of an affiliate at cost will significantly overstate or understate the value of the services received, the recipient not-for-profit entity may elect to recognize those services at fair value. The amendments in ASU 2013-06 will reduce diversity in practice and enhance comparability of financial information among not-for-profit organizations. The amendments in ASU 2013-06 are effective prospectively for financial statements issued for fiscal years, and interim periods within those years, beginning after June 15, 2014. The Museum has elected to adopt ASU 2013-06 without material impact to its financial statements.

NOTE 3 - INVESTMENTS

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

	<u>2014</u>		<u>2013</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Domestic equity funds	\$ 3,848,985	\$ 2,446,545	\$ 3,696,556	\$ 2,654,307
Fixed-income holdings	<u>2,663,373</u>	<u>2,443,854</u>	<u>2,487,794</u>	<u>2,446,993</u>
	<u>\$ 6,512,358</u>	<u>\$ 4,890,399</u>	<u>\$ 6,184,350</u>	<u>\$ 5,101,300</u>

Net realized gains on the sale of securities were approximately \$447,000 and \$320,000 for 2014 and 2013, respectively. Unrealized gains were approximately \$511,000 and \$812,000 for 2014 and 2013, respectively.

NOTE 4 - 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:

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

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, 2014 and 2013 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, 2014. As such, the estimated fair values could be materially different, in either a positive or negative manner, at a subsequent date.

		2014			
		Level 1	Level 2	Level 3	Total
Domestic equity funds	\$	3,848,985	-	-	\$ 3,848,985
Fixed-income holdings		2,663,373	-	-	2,663,373
	\$	<u>6,512,358</u>	<u>-</u>	<u>-</u>	\$ <u>6,512,358</u>
		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>

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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

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, 2014.

NOTE 5 - ENDOWMENT

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

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

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

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, 2014 AND 2013

NOTE 5 - 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, 2014				
Donor-restricted endowment funds	-	-	\$ 7,787,199	\$ 7,787,199
Board-designated endowment funds	\$ 519,509	-	-	519,509
 Total Funds	 \$ 519,509	 -	 \$ 7,787,199	 \$ 8,306,708
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

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

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Board-designated net assets		
Beginning of year	\$ 977,996	\$ 546,515
Investment return:		
Investment income	6,586	5,895
Net realized gain	13,770	-
Net unrealized appreciation	9,328	-
Additional Board allocation	388,155	553,939
Release of board-designated assets for expenditures	(876,326)	(128,353)
 End of year	 \$ 519,509	 \$ 977,996
	<u>2014</u>	<u>2013</u>
Permanently restricted:		
Donor-restricted net assets		
Beginning of year	\$ 7,127,413	\$ 6,094,005
Investment return:		
Investment income	110,674	133,119
Net realized gain	433,367	319,865
Net unrealized appreciation	501,846	811,851
Additional donor contribution	115	100,481
Appropriation of endowment assets for expenditures	(386,216)	(331,908)
 End of year	 \$ 7,787,199	 \$ 7,127,413

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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 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, 2014 and 2013 were approximately \$391,000 and \$332,000, 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, 2015 is expected to be approximately \$384,000.

NOTE 6 - PLEDGES RECEIVABLE

The Museum has received unconditional promises to give in 2014 and 2013. The unconditional promises to give are due to be received as follows at June 30:

	<u>2014</u>	<u>2013</u>
Due in less than 1 year	\$ 819,097	\$ 1,141,364
Due in 1-5 years	<u>229,045</u>	<u>348,731</u>
	<u>\$ 1,048,142</u>	<u>\$ 1,490,095</u>

The unamortized discount relating to pledges receivable amounted to approximately \$5,000 and \$6,000 at June 30, 2014 and 2013, respectively. Discount rates approximated 1% at June 30, 2014 and 2013. Grants receivable of approximately \$519,000 and \$1,014,000 at June 30, 2014 and 2013, 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 year ended 2013, \$81,000 of this grant has been recorded as revenue. No revenue was recorded for the year ended June 30, 2014.

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, 2014.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2014</u>	<u>2013</u>
Building improvements	\$ 17,874,917	\$ 17,091,425
Exhibits	4,378,018	4,176,177
Building	520,000	520,000
Equipment	838,232	704,841
Land	130,000	130,000
	<u>23,741,167</u>	<u>22,622,443</u>
Less - Accumulated depreciation	10,826,299	9,738,781
	<u>12,914,868</u>	<u>12,883,662</u>
Construction in progress	18,524	104,938
Property, equipment and exhibits, net	\$ <u><u>12,933,392</u></u>	\$ <u><u>12,998,600</u></u>

NOTE 8 - 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, 2014. The line expires in December 2014. The Museum has not taken a draw on the loan during the fiscal years ended June 30, 2014 and 2013. 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 (0.15% at June 30, 2014) 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 \$0 and \$150,000 on the line of credit during the years ended June 30, 2014 and 2013, respectively. There was no outstanding balance on the line of credit at June 30, 2014 or June 30, 2013. Approximately \$0 and \$500 interest was expensed for the year ended June 30, 2014 and 2013, respectively, related to this note.

NOTE 9 - RESTRICTIONS ON ASSETS

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

	<u>2014</u>	<u>2013</u>
Capital campaign	\$ 669,665	\$ 1,170,586
Exhibits/programs	492,436	1,015,688
	\$ <u><u>1,162,101</u></u>	\$ <u><u>2,186,274</u></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, 2014 AND 2013

NOTE 10 - 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>2014</u>	<u>2013</u>
Restrictions accomplished:		
Capital campaign:		
Making Community Places project	\$ 503,850	\$ 770,744
Operations:		
Exhibits/programs	445,016	452,563
Property and equipment	<u>442,252</u>	<u>57,748</u>
	<u>887,268</u>	<u>510,311</u>
	\$ <u>1,391,118</u>	\$ <u>1,281,055</u>

NOTE 11 - 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 2014 and 2013. 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 Associates exercised the option to terminate the supplement to the land lease. During fiscal 2014, the property covered under the land lease was sold by Allegheny Center Associates. The new owners have terminated the in-kind rental portion of the agreement. The Museum has recorded \$31,000 and \$81,000 as in-kind rent for the value of this lease for the fiscal years ended 2014 and 2013, 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, 2014:

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 11 - LEASED PROPERTY (Continued)

Fiscal Year Ending June 30	Amount
2015	\$ 173,535
2016	172,846
2017	165,273
2018	165,273
2019	165,273
Thereafter	<u>743,727</u>
	\$ <u>1,585,927</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 2014 and 2013 approximated \$462,000 and \$519,000, respectively.

NOTE 12 - 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 13 - 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 \$220,000 and \$212,000 for the years ended June 30, 2014 and 2013, respectively. In fiscal 2014, the museum added a 457(b) savings plan to offer eligible employees the opportunity to accumulate supplemental retirement savings.

NOTE 14 - 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, 2014, the Museum received total pledges toward this campaign of approximately \$8,194,000. As of June 30, 2014, the Museum has spent approximately \$7,684,000 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, 2014 and 2013, and have issued our report thereon dated November 25, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The schedule of functional expenses is presented for the 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
November 25, 2014

CHILDREN'S MUSEUM OF PITTSBURGH

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

(With Comparative Totals for 2013)

	Program Services				
	<u>Museum Experience</u>	<u>Learning and Research</u>	<u>Visitor Services</u>	<u>Making Community Places</u>	<u>Special Projects</u>
Salaries and wages	\$ 1,050,131	\$ 216,504	\$ 512,635	\$ 491	\$ 66,686
Payroll taxes	98,746	18,766	49,269	56	7,421
Other employee benefits	57,821	21,713	26,378	15	59
Staff training	4,738	1,882	3,907	415	15,965
Professional memberships	-	364	550	-	1,545
Printing and publications	9,504	910	3,948	1,151	3,376
Postage and shipping	8,030	96	5,152	317	2,178
Rent	151,525	41,775	163,391	-	1,561
Exhibit rental	26,495	-	-	-	-
Utilities	82,974	23,495	61,295	-	-
Telephone	2,444	1,987	1,533	-	-
Supplies	182,360	27,644	61,828	5,619	103,141
Repairs and maintenance	25,965	5,816	18,078	-	98
Service contracts	223,373	80,610	131,096	113,265	247,218
Advertising	18,691	4,420	77	2,385	500
Insurance	43,121	12,748	23,948	-	3,053
Cost of goods sold	-	-	300,791	-	-
Legal and accounting fees	143	46	121	-	-
Travel	26,714	7,294	3,660	5,094	48,467
Depreciation	21,290	3,006	7,341	-	1,062,063
Miscellaneous	11,485	1,438	71,634	979	361
Meeting expense	445	22	112	95	130
General and administrative	1,108	249	527	200	1,413
Interest	-	-	-	-	-
	<u>\$ 2,047,103</u>	<u>\$ 470,785</u>	<u>\$ 1,447,271</u>	<u>\$ 130,082</u>	<u>\$ 1,565,235</u>

Support Services

Total	Administration	Marketing	Development	Total	Total	
					2014	2013
\$ 1,846,447	\$ 494,099	\$ 196,072	\$ 263,722	\$ 953,893	\$ 2,800,340	\$ 2,740,803
174,258	31,254	17,206	19,652	68,112	242,370	237,291
105,986	62,949	24,050	26,554	113,553	219,539	212,494
26,907	4,194	503	2,745	7,442	34,349	12,759
2,459	11,852	815	1,120	13,787	16,246	14,166
18,889	7,448	5,020	12,775	25,243	44,132	53,145
15,773	4,923	479	5,838	11,240	27,013	27,606
358,252	75,431	395	1,032	76,858	435,110	442,580
26,495	-	-	-	-	26,495	76,505
167,764	17,169	1,536	947	19,652	187,416	192,316
5,964	4,251	1,228	871	6,350	12,314	12,127
380,592	28,138	4,333	7,353	39,824	420,416	365,870
49,957	4,484	559	331	5,374	55,331	70,712
795,562	44,824	94,939	34,956	174,719	970,281	1,196,091
26,073	1,467	154,046	134	155,647	181,720	229,105
82,870	11,871	1,917	1,567	15,355	98,225	88,980
300,791	-	-	-	-	300,791	316,877
310	37,891	3	677	38,571	38,881	45,974
91,229	14,155	3,055	5,152	22,362	113,591	63,271
1,093,700	5,382	1,146	2,105	8,633	1,102,333	1,054,245
85,897	13,410	-	5,042	18,452	104,349	96,167
804	7,486	144	581	8,211	9,015	136,023
3,497	21,834	569	2,092	24,495	27,992	19,434
-	53	-	-	53	53	667
<u>\$ 5,660,476</u>	<u>\$ 904,565</u>	<u>\$ 508,015</u>	<u>\$ 395,246</u>	<u>\$ 1,807,826</u>	<u>\$ 7,468,302</u>	<u>\$ 7,705,208</u>

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

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