

CHILDREN'S MUSEUM OF PITTSBURGH
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Financial Information
for the years ended June 30, 2016 and 2015

and Independent Auditors' Report Thereon



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CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position, June 30, 2016 and 2015	3
Statements for the years ended June 30, 2016 and 2015:	
Activities and Changes in Net Assets	4
Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY FINANCIAL INFORMATION	
Independent Auditors' Report on Supplementary Financial Information	19
Schedule of Functional Expenses for the year ended June 30, 2016 (With Comparative Totals for 2015)	20



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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, 2016 and 2015, 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, 2016 and 2015, 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 22, 2016

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CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted	\$ 2,446,102	\$ 2,091,413
Restricted	790,765	949,998
Receivables:		
Pledges receivable	1,479,067	745,178
Accounts receivable, net	59,496	45,719
Inventory	80,245	77,063
Prepaid and other expenses	138,855	128,863
Total Current Assets	4,994,530	4,038,234
PLEDGES RECEIVABLE	55,045	80,545
BOARD-DESIGNATED		
Cash and cash equivalents - unrestricted	617,743	462,906
Investments - unrestricted	265,138	269,722
ENDOWMENT ASSETS		
Cash and cash equivalents	1,374,913	1,546,550
Investments	5,919,675	6,139,738
PROPERTY, EQUIPMENT AND EXHIBITS, net	12,156,946	12,515,509
OTHER ASSETS	48,190	-
Total Assets	\$ 25,432,180	\$ 25,053,204
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 418,550	\$ 309,398
Accrued expenses	436,747	350,825
Deferred revenue	1,251,954	951,105
Total Current Liabilities	2,107,251	1,611,328
NET ASSETS		
Unrestricted	13,548,437	13,658,380
Unrestricted - board-designated for building reserves	555,792	394,966
Unrestricted - board-designated for park maintenance	327,089	337,662
Total unrestricted	14,431,318	14,391,008
Temporarily restricted	1,599,023	1,364,580
Permanently restricted	7,294,588	7,686,288
Total Net Assets	23,324,929	23,441,876
Total Liabilities And Net Assets	\$ 25,432,180	\$ 25,053,204

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Grants	\$ 1,600,371	\$ 948,409	-	\$ 2,548,780
Contributions	434,194	9,695	-	443,889
Sponsorships	481,350	-	-	481,350
Contributed services and equipment	308,132	-	-	308,132
Capital campaign revenue	-	75,000	-	75,000
Special event	416,222	-	-	416,222
Total Support	<u>3,240,269</u>	<u>1,033,104</u>	-	4,273,373
Program revenue	135,296	-	-	135,296
Admissions	1,371,358	-	-	1,371,358
Memberships	726,378	-	-	726,378
Retail sales	194,135	-	-	194,135
Other income	536,095	-	-	536,095
Café	599,768	-	-	599,768
Parking	355,351	-	-	355,351
Investment income	8,093	-	\$ 120,617	128,710
Exhibit rental income	910,637	-	-	910,637
"Stuffee" product sales	-	-	-	-
Total Revenue	<u>4,837,111</u>	<u>-</u>	<u>120,617</u>	4,957,728
Net realized and unrealized (loss) gain on investments	-	-	(110,546)	(110,546)
Net assets released from restrictions/transferred:				
For operations	673,748	(673,748)	-	-
For Making Community Places	124,913	(124,913)	-	-
Endowment draw	401,771	-	(401,771)	-
	<u>1,200,432</u>	<u>(798,661)</u>	<u>(512,317)</u>	<u>(110,546)</u>
Total Support And Revenue	9,277,812	234,443	(391,700)	9,120,555
EXPENSES				
Program Services:				
Direct:				
Museum Experiences	1,311,382	-	-	1,311,382
Learning, Education and Research	1,145,829	-	-	1,145,829
Business Development	257,365	-	-	257,365
Indirect:				
Visitor services	2,594,943	-	-	2,594,943
Making Community Places	50,752	-	-	50,752
Special projects	1,538,541	-	-	1,538,541
Total Program Services	<u>6,898,812</u>	<u>-</u>	<u>-</u>	6,898,812
Support Services:				
Administration	1,296,959	-	-	1,296,959
Marketing	556,505	-	-	556,505
Development	425,558	-	-	425,558
Total Support Services	<u>2,279,022</u>	<u>-</u>	<u>-</u>	2,279,022
Costs of direct benefits to donors	59,668	-	-	59,668
Total Expenses	<u>9,237,502</u>	<u>-</u>	<u>-</u>	9,237,502
Changes In Net Assets	40,310	234,443	(391,700)	(116,947)
NET ASSETS				
Beginning of year	<u>14,391,008</u>	<u>1,364,580</u>	<u>7,686,288</u>	<u>23,441,876</u>
End of year	<u>\$ 14,431,318</u>	<u>\$ 1,599,023</u>	<u>\$ 7,294,588</u>	<u>\$ 23,324,929</u>

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,795,867	\$ 637,908	-	\$ 2,433,775
683,241	86,996	-	770,237
91,250	-	-	91,250
368,441	-	-	368,441
-	101,000	-	101,000
357,950	-	-	357,950
<u>3,296,749</u>	<u>825,904</u>	<u>-</u>	<u>4,122,653</u>
127,979	-	-	127,979
1,178,075	-	-	1,178,075
655,289	-	-	655,289
139,083	-	-	139,083
414,951	-	-	414,951
539,653	-	-	539,653
209,205	-	-	209,205
9,190	-	\$ 97,563	106,753
313,829	-	-	313,829
173	-	-	173
<u>3,587,427</u>	<u>-</u>	<u>97,563</u>	<u>3,684,990</u>
6,961	-	87,697	94,658
367,001	(367,001)	-	-
256,424	(256,424)	-	-
286,171	-	(286,171)	-
<u>916,557</u>	<u>(623,425)</u>	<u>(198,474)</u>	<u>94,658</u>
7,800,733	202,479	(100,911)	7,902,301
1,929,216	-	-	1,929,216
522,127	-	-	522,127
82,744	-	-	82,744
1,749,051	-	-	1,749,051
84,649	-	-	84,649
1,374,084	-	-	1,374,084
<u>5,741,871</u>	<u>-</u>	<u>-</u>	<u>5,741,871</u>
1,114,132	-	-	1,114,132
502,921	-	-	502,921
399,687	-	-	399,687
<u>2,016,740</u>	<u>-</u>	<u>-</u>	<u>2,016,740</u>
56,762	-	-	56,762
<u>7,815,373</u>	<u>-</u>	<u>-</u>	<u>7,815,373</u>
(14,640)	202,479	(100,911)	86,928
<u>14,405,648</u>	<u>1,162,101</u>	<u>7,787,199</u>	<u>23,354,948</u>
<u>\$ 14,391,008</u>	<u>\$ 1,364,580</u>	<u>\$ 7,686,288</u>	<u>\$ 23,441,876</u>

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (116,947)	\$ 86,928
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	989,048	1,010,640
Realized and unrealized loss/(gain) on investments	110,546	(94,658)
Permanently restricted investment income	(120,617)	(97,563)
Changes in assets and liabilities:		
Operating receivables	(778,166)	(118,845)
Capital campaign receivables	56,000	377,214
Inventory	(3,182)	(4,637)
Prepaid expenses and other assets	(58,182)	(37,827)
Accounts payable	109,152	96,155
Accrued expenses	85,922	87,951
Deferred revenue	300,849	370,829
Net Cash Provided By Operating Activities	<u>574,423</u>	<u>1,676,187</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and exhibits	(630,485)	(592,757)
Purchases of investments	(3,576,380)	(1,625,153)
Proceeds from sale of investments	3,690,481	1,822,709
Increase (decrease) in restricted cash and cash equivalents	176,033	(521,615)
Net Cash Used In Investing Activities	<u>(340,351)</u>	<u>(916,816)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Permanently restricted investment income	120,617	97,563
Net Cash Provided By Financing Activities	<u>120,617</u>	<u>97,563</u>
Net Increase In Cash And Cash Equivalents	354,689	856,934
CASH AND CASH EQUIVALENTS		
Operating cash beginning of year	<u>2,091,413</u>	<u>1,234,479</u>
Operating cash end of year	<u><u>\$ 2,446,102</u></u>	<u><u>\$ 2,091,413</u></u>

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 AND 2015

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 was approximately \$13,300 for the years ended June 30, 2016 and 2015. The allowance is based on the Museum's historical collection experience and review of the current status of receivables and judgment. Decisions to charge-off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. It is reasonably possible that the Museum's estimate of the allowance for doubtful accounts will change.

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% and 3.7% for 2016 and 2015, respectively.

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016 and 2015.

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.

Revenue Recognition and Deferred Revenue - Revenues for exhibit sales are recognized when title and risk of loss have transferred from the Museum to the buyer. Revenues for traveling exhibit rentals are recognized over the period of the rental agreement. Revenues for exhibit sales and traveling exhibit rentals that are received in advance of performance under the contract are deferred and recognized in the year revenue recognition criteria is met. Revenues for in-house programs and shows that are received in advance of the activities are deferred and recognized in the year the activities occur. 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, 2016 and 2015, approximately \$308,000 and \$368,000, 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 \$250,000 and \$213,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 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 2013.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 22, 2016, the date on which the financial statements were available to be issued.

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

Specifically, the new guidance:

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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>2016</u>		<u>2015</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Domestic equity funds	\$ 3,632,099	\$ 2,760,325	\$ 3,990,213	\$ 2,897,200
Fixed-income holdings	<u>2,552,714</u>	<u>2,628,508</u>	<u>2,419,247</u>	<u>2,332,169</u>
	<u>\$ 6,184,813</u>	<u>\$ 5,388,833</u>	<u>\$ 6,409,460</u>	<u>\$ 5,229,369</u>

Net realized gains on the sale of securities were approximately \$155,000 and \$563,000 for 2016 and 2015, respectively. Unrealized losses were approximately \$266,000 and \$470,000 for 2016 and 2015, respectively.

NOTE 4 - FAIR VALUE MEASUREMENT

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

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

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

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

The 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, 2016 and 2015 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, 2016. As such, the estimated fair values could be materially different, in either a positive or negative manner, at a subsequent date.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

		2016			
		Level 1	Level 2	Level 3	Total
Domestic equity funds	\$	3,632,099	-	-	\$ 3,632,099
Fixed-income holdings		2,552,714	-	-	2,552,714
	\$	<u>6,184,813</u>	<u>-</u>	<u>-</u>	\$ <u>6,184,813</u>
		2015			
		Level 1	Level 2	Level 3	Total
Domestic equity funds	\$	3,990,213	-	-	\$ 3,990,213
Fixed-income holdings		2,419,247	-	-	2,419,247
	\$	<u>6,409,460</u>	<u>-</u>	<u>-</u>	\$ <u>6,409,460</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 depreciation 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, 2016.

NOTE 5 - ENDOWMENT

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

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 5 - ENDOWMENT (Continued)

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2016				
Donor-restricted endowment funds	-	-	\$ 7,294,588	\$ 7,294,588
Board-designated endowment funds	\$ 882,881	-	-	882,881
Total Funds	\$ 882,881	-	\$ 7,294,588	\$ 8,177,469
June 30, 2015				
Donor-restricted endowment funds	-	-	\$ 7,686,288	\$ 7,686,288
Board-designated endowment funds	\$ 732,628	-	-	732,628
Total Funds	\$ 732,628	-	\$ 7,686,288	\$ 8,418,916

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

	2016	2015
Unrestricted:		
Board-designated net assets		
Beginning of year	\$ 732,628	\$ 519,509
Investment return:		
Investment income	9,098	7,909
Net realized gain	8,849	31,776
Net unrealized depreciation	(24,364)	(24,738)
Additional Board allocation	261,540	257,123
Release of board-designated assets for expenditures	(104,870)	(58,951)
End of year	\$ 882,881	\$ 732,628

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 5 - ENDOWMENT (Continued)

	<u>2016</u>	<u>2015</u>
Permanently restricted:		
Donor-restricted net assets		
Beginning of year	\$ 7,686,288	\$ 7,787,199
Investment return:		
Investment income	118,317	94,868
Net realized gain	120,334	507,523
Net unrealized depreciation	(228,580)	(417,131)
Appropriation of endowment assets for expenditures	<u>(401,771)</u>	<u>(286,171)</u>
End of year	\$ <u>7,294,588</u>	\$ <u>7,686,288</u>

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

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Finance Committee, are given guidelines to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - The Museum annually transfers between 2% and 7% of the previous 36-month market value average of the donor-restricted endowment fund to unrestricted net assets for use in current and future operations. The draw for the years ended June 30, 2016 and 2015 was approximately \$402,000 and \$286,000, 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.

NOTE 6 - PLEDGES RECEIVABLE

The Museum has received unconditional promises to give in 2016 and 2015. The unconditional promises to give are due to be received as follows at June 30:

	<u>2016</u>	<u>2015</u>
Due in less than 1 year	\$ 1,479,067	\$ 745,178
Due in 1-5 years	<u>55,045</u>	<u>80,545</u>
	\$ <u>1,534,112</u>	\$ <u>825,723</u>

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 6 - PLEDGES RECEIVABLE (Continued)

The unamortized discount relating to pledges receivable amounted to approximately \$5,000 at June 30, 2016 and 2015, respectively. Discount rates approximated 1% at June 30, 2016 and 2015. Grants receivable of approximately \$420,000 and \$448,000 at June 30, 2016 and 2015, 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. No revenue was recorded for either of the years ended June 30, 2016 and 2015.

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. No revenue was recorded for either of the years ended June 30, 2016 and 2015.

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2016</u>	<u>2015</u>
Building improvements	\$ 18,130,983	\$ 17,960,200
Exhibits	5,111,404	4,768,830
Building	520,000	520,000
Equipment	1,086,230	964,214
Land	<u>130,000</u>	<u>130,000</u>
	24,978,617	24,343,244
Less - Accumulated depreciation	<u>12,825,983</u>	<u>11,836,938</u>
	12,152,634	12,506,306
Construction in progress	<u>4,312</u>	<u>9,203</u>
Property, equipment and exhibits, net	\$ <u>12,156,946</u>	\$ <u>12,515,509</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, 2016. The line expires in December 2016. The Museum has not taken a draw on the loan during the fiscal years ended June 30, 2016 and 2015. Additionally, no interest has been expensed related to this note.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 9 - RESTRICTIONS ON ASSETS

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

	<u>2016</u>	<u>2015</u>
Capital campaign	\$ 421,126	\$ 513,012
Exhibits/programs	<u>1,177,897</u>	<u>851,568</u>
	\$ <u>1,599,023</u>	\$ <u>1,364,580</u>

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

	<u>2016</u>	<u>2015</u>
Park Maintenance	\$ 130,387	\$ 134,602
Museum Operations	<u>7,164,201</u>	<u>7,551,686</u>
	\$ <u>7,294,588</u>	\$ <u>7,686,288</u>

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>2016</u>	<u>2015</u>
Restrictions accomplished:		
Capital campaign:		
Making Community Places project	\$ 124,913	\$ 256,424
Operations:		
Exhibits/programs	<u>673,748</u>	<u>367,001</u>
	\$ <u>798,661</u>	\$ <u>623,425</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 2016 and 2015. 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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 11 - LEASED PROPERTY (Continued)

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 recorded \$83,000 as in-kind rent for the value of this lease for the fiscal year ended 2015. 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, 2016:

Fiscal Year Ending June 30	Amount
2017	\$ 169,213
2018	169,213
2019	169,213
2020	169,213
2021	166,586
Thereafter	<u>413,183</u>
	\$ <u><u>1,256,621</u></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 2016 and 2015 approximated \$513,000 and \$492,000, 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.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 of vacation. Employee benefit expense approximated \$345,000 and \$289,000 for the years ended June 30, 2016 and 2015, respectively. During the year ended 2014, the Museum added a 457(b) savings plan to offer eligible employees the opportunity to accumulate supplemental retirement savings. Amounts payable under this plan, included in accrued expenses in the accompanying statements of financial position, and the related fair value of assets held by the Museum are approximately \$48,000 and \$30,000 as of June 30, 2016 and 2015, respectively.

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, 2015, the Museum received total pledges toward this campaign of approximately \$8,295,000. As of June 30, 2015, the Museum has spent approximately \$7,940,000 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.

The Children's Museum of Pittsburgh is in the planning stage for the development of a capital campaign to meet a variety of goals, including the creation of The Museum Lab, a national center for excellence in design for learning within the historic Carnegie Library Allegheny; the creation of innovative new permanent exhibits, and securing the financial vitality of the Children's Museum through the creation of new funds, including the new Growth Capital Fund. This project will create the largest cultural campus for children in the United States. At the same time, it launches the Children's Museum into its next phase of reinvention.

SUPPLEMENTARY FINANCIAL INFORMATION



Big Thinking. Personal Focus.

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, 2016 and 2015, and have issued our report thereon dated November 22, 2016, 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 22, 2016

CHILDREN'S MUSEUM OF PITTSBURGH

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

(With Comparative Totals for 2015)

	Program Services				
	Museum Experience	Learning and Research	Business Development	Visitor Services	Making Community Places
Salaries and wages	\$ 588,297	\$ 632,075	\$ 110,802	\$ 769,250	\$ 5,945
Payroll taxes	55,611	41,950	1,984	62,455	468
Other employee benefits	67,332	47,179	2,107	73,542	433
Staff training	1,503	4,620	-	2,921	-
Professional memberships	-	298	-	591	-
Printing and publications	1,602	8,398	641	20,700	407
Postage and shipping	337	485	6,508	11,935	7
Rent	138,752	120,536	19	179,423	-
Exhibit rental	2,460	-	-	-	-
Utilities	71,996	22,611	751	65,208	-
Telephone	1,084	252	2	567	-
Supplies	136,636	44,795	27,009	184,685	411
Repairs and maintenance	53,865	19,512	1,462	58,653	-
Service contracts	136,862	142,561	12,709	459,630	36,000
Advertising	997	225	6	10,261	-
Insurance	17,000	19,102	2,729	50,703	-
Cost of goods sold	-	-	-	347,301	-
Legal and accounting fees	-	-	-	-	-
Travel	11,514	23,021	17,034	19,635	3,452
Depreciation	13,461	11,619	2,610	26,313	515
Miscellaneous	1,632	587	70,849	244,179	-
Meeting expense	289	836	33	245	3,099
General and administrative	10,152	5,167	110	6,746	15
Interest	-	-	-	-	-
	<u>\$ 1,311,382</u>	<u>\$ 1,145,829</u>	<u>\$ 257,365</u>	<u>\$ 2,594,943</u>	<u>\$ 50,752</u>

Program Services		Support Services				Total	
Special Projects	Total	Administration	Marketing	Development	Total	2016	2015
\$ 123,154	\$ 2,229,523	\$ 725,020	\$ 264,229	\$ 221,981	\$ 1,211,230	\$ 3,440,753	\$ 3,092,702
10,457	172,925	60,113	20,314	17,100	97,527	270,452	256,180
12,188	202,781	97,431	24,084	20,557	142,072	344,853	288,512
2,612	11,656	1,437	1,653	6,215	9,305	20,961	15,434
180	1,069	16,601	775	450	17,826	18,895	15,279
1,571	33,319	8,640	6,896	10,412	25,948	59,267	47,999
216	19,488	4,298	364	1,038	5,700	25,188	23,859
2,978	441,708	34,441	1,813	35,502	71,756	513,464	492,111
-	2,460	-	-	-	-	2,460	-
-	160,566	16,525	1,557	867	18,949	179,515	198,071
-	1,905	9,273	1,051	390	10,714	12,619	11,577
116,529	510,065	34,683	7,965	23,448	66,096	576,161	443,307
-	133,492	17,945	1,329	925	20,199	153,691	36,630
227,299	1,015,061	123,787	26,185	47,478	197,450	1,212,511	806,490
55,000	66,489	543	181,006	2,437	183,986	250,475	213,122
-	89,534	21,399	9,087	7,963	38,449	127,983	104,714
-	347,301	-	-	-	-	347,301	309,767
-	-	51,146	-	-	51,146	51,146	45,377
59,851	134,507	20,955	2,189	7,690	30,834	165,341	138,524
-	-	-	-	-	-	-	-
910,039	964,557	13,928	5,643	4,920	24,491	989,048	1,010,640
52	317,299	9,435	-	7,354	16,789	334,088	169,559
6,888	11,390	2,652	239	4,516	7,407	18,797	13,901
9,527	31,717	26,707	126	4,315	31,148	62,865	24,751
-	-	-	-	-	-	-	105
<u>\$ 1,538,541</u>	<u>\$ 6,898,812</u>	<u>\$1,296,959</u>	<u>\$ 556,505</u>	<u>\$ 425,558</u>	<u>\$ 2,279,022</u>	<u>\$ 9,177,834</u>	<u>\$ 7,758,611</u>

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

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