

CHILDREN'S MUSEUM OF PITTSBURGH
Pittsburgh, Pennsylvania

Consolidated Financial Statements
and
Supplementary Information
for the years ended June 30, 2019 and 2018
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Children's Museum of Pittsburgh (Museum), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Museum as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the consolidated financial statements, in the year ended June 30, 2019, the Museum adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statements on Pages 28-31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 15, 2019

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 3,599,151	\$ 3,318,952
Restricted	2,450,817	6,373,647
Pledges receivable	3,709,358	1,889,430
Accounts receivable	132,507	189,250
Inventory	72,046	76,911
Prepaid and other expenses	273,691	170,293
Total Current Assets	10,237,570	12,018,483
PLEDGES RECEIVABLE, NET	1,704,236	1,198,915
LEVERAGE LOAN RECEIVABLE	6,035,700	6,035,700
INVESTMENTS	9,103,280	9,123,666
PROPERTY, EQUIPMENT AND EXHIBITS, net	23,436,046	16,511,609
OTHER ASSETS	91,782	84,690
Total Assets	\$ 50,608,614	\$ 44,973,063
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 955,123	\$ 1,274,193
Accrued expenses	470,356	272,018
Deferred revenue	1,607,693	1,437,116
Total Current Liabilities	3,033,172	2,983,327
OTHER LIABILITIES	91,782	84,690
NOTES PAYABLE	2,372,011	-
NEW MARKET TAX CREDIT LOANS	9,140,000	9,140,000
NET ASSETS		
Without donor restrictions		
Undesignated	18,513,664	12,317,951
Designated by the Board for endowment	1,208,101	1,100,424
	19,721,765	13,418,375
With donor restrictions		
Time-restricted for future periods	483,333	187,500
Purpose restrictions	6,972,625	10,353,913
Perpetual in nature	8,793,926	8,805,258
	16,249,884	19,346,671
Total Net Assets	35,971,649	32,765,046
Total Liabilities And Net Assets	\$ 50,608,614	\$ 44,973,063

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE			
Grants	\$ 890,995	\$ 1,105,199	\$ 1,996,194
Contributions	480,910	-	480,910
Sponsorships	275,167	88,333	363,500
Contributed services and equipment	349,650	-	349,650
Capital campaign revenue	1,882,226	3,012,592	4,894,818
Special event	465,009	-	465,009
Total Support	<u>4,343,957</u>	<u>4,206,124</u>	<u>8,550,081</u>
Program revenue	147,200	-	147,200
Admissions	1,422,489	-	1,422,489
Memberships	821,586	-	821,586
Retail sales	231,497	-	231,497
Other income	331,172	-	331,172
Café	540,393	-	540,393
Parking	374,758	-	374,758
Net investment return	227,579	474,148	701,727
Exhibit rentals	761,586	-	761,586
Exhibit sales and contracted revenues	768,082	-	768,082
Total Revenue	<u>5,626,342</u>	<u>474,148</u>	<u>6,100,490</u>
Gain on disposal of property, equipment and exhibits	-	-	-
Net assets released from restrictions	7,343,825	(7,343,825)	-
Endowment draw	433,234	(433,234)	-
Total Support And Revenue	17,747,358	(3,096,787)	14,650,571
EXPENSES			
Program	8,787,606	-	8,787,606
General and administrative	1,447,738	-	1,447,738
Marketing and development	1,208,624	-	1,208,624
Total Expenses	<u>11,443,968</u>	<u>-</u>	<u>11,443,968</u>
Changes In Net Assets	6,303,390	(3,096,787)	3,206,603
NET ASSETS			
Beginning of year	<u>13,418,375</u>	<u>19,346,671</u>	<u>32,765,046</u>
End of year	<u>\$ 19,721,765</u>	<u>\$ 16,249,884</u>	<u>\$ 35,971,649</u>

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 920,815	\$ 997,975	\$ 1,918,790
534,110	213,719	747,829
252,150	25,000	277,150
316,977	-	316,977
360,000	6,665,606	7,025,606
420,048	-	420,048
<u>2,804,100</u>	<u>7,902,300</u>	<u>10,706,400</u>
123,657	-	123,657
1,425,222	-	1,425,222
769,096	-	769,096
218,695	-	218,695
380,245	-	380,245
560,170	-	560,170
364,683	-	364,683
64,472	270,110	334,582
474,243	65,204	539,447
750,721	-	750,721
<u>5,131,204</u>	<u>335,314</u>	<u>5,466,518</u>
300	-	300
2,272,162	(2,272,162)	-
<u>610,866</u>	<u>(610,866)</u>	<u>-</u>
10,818,632	5,354,586	16,173,218
9,079,196	-	9,079,196
1,276,992	-	1,276,992
<u>1,158,949</u>	<u>-</u>	<u>1,158,949</u>
<u>11,515,137</u>	<u>-</u>	<u>11,515,137</u>
(696,505)	5,354,586	4,658,081
<u>14,114,880</u>	<u>13,992,085</u>	<u>28,106,965</u>
<u>\$ 13,418,375</u>	<u>\$ 19,346,671</u>	<u>\$ 32,765,046</u>

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

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

	Program Services					
	<u>Museum Experience</u>	<u>Education</u>	<u>Learning and Research</u>	<u>Business Development</u>	<u>Visitor Services</u>	<u>MuseumLab</u>
Salaries and wages	\$ 814,357	\$ 437,802	\$ 141,783	\$ 185,080	\$ 1,042,360	\$ 147,651
Payroll taxes	67,348	34,598	10,950	13,835	68,266	9,966
Other employee benefits	94,080	53,133	15,017	22,689	139,881	17,228
Staff training	2,607	2,597	1,401	2,322	2,404	300
Professional memberships	210	36	246	2	1,872	-
Printing and publications	630	1,712	-	13,110	19,407	30,609
Postage and shipping	14,700	666	60	29,030	6,796	2,008
Rent	132,289	40,365	2,670	4,714	210,396	53,610
Exhibit rental	52,000	-	-	-	-	-
Utilities	79,093	17,752	7,101	828	64,180	30,945
Telephone	1,018	40	616	512	522	440
Supplies	137,696	60,545	5,783	100,767	87,700	104,948
Repairs and maintenance	29,349	6,030	2,412	20,398	32,412	2,593
Service contracts	92,283	95,907	7,796	223,497	159,789	311,391
Royalties	3,604	-	-	197,423	476	-
Advertising	798	10,853	27	7,168	14,912	99,757
Insurance	23,979	8,165	2,060	20,602	31,334	5,222
Cost of goods sold	-	-	-	-	326,270	-
Legal and professional fees	-	-	2,500	38,879	-	30,830
Travel	22,498	22,673	9,678	20,299	5,893	19,733
Depreciation	22,332	6,129	1,362	280,826	27,922	80,191
Miscellaneous	433	181	-	1,344	248,864	4,491
Meeting expense	610	2,082	1,143	81	-	1,888
General and administrative	783	376	22	1,898	566	19,143
Interest	-	-	-	-	-	215,982
	<u>\$ 1,592,697</u>	<u>\$ 801,642</u>	<u>\$ 212,627</u>	<u>\$ 1,185,304</u>	<u>\$ 2,492,222</u>	<u>\$ 1,188,926</u>

Program Services		Support Services				Total
Special Projects	Total	General and Administrative	Marketing	Development	Total	Expenses
\$ 159,934	\$ 2,928,967	\$ 862,251	\$ 263,912	\$ 326,285	\$ 1,452,448	\$ 4,381,415
11,951	216,914	71,473	19,685	23,613	114,771	331,685
19,496	361,524	108,258	32,111	39,420	179,789	541,313
448	12,079	3,924	-	3,176	7,100	19,179
-	2,366	19,374	853	1,431	21,658	24,024
5,077	70,545	13,403	5,716	7,579	26,698	97,243
2,329	55,589	645	1,911	3,150	5,706	61,295
1,468	445,512	36,075	400	39,070	75,545	521,057
-	52,000	-	-	-	-	52,000
-	199,899	18,165	1,716	947	20,828	220,727
-	3,148	9,629	682	362	10,673	13,821
70,938	568,377	38,318	3,902	59,213	101,433	669,810
-	93,194	6,733	583	322	7,638	100,832
182,841	1,073,504	124,005	6,403	176,198	306,606	1,380,110
400	201,903	-	250	-	250	202,153
-	133,515	4,474	148,171	589	153,234	286,749
14,820	106,182	16,092	5,471	7,128	28,691	134,873
-	326,270	-	-	-	-	326,270
14,024	86,233	58,057	-	-	58,057	144,290
29,633	130,407	7,197	89	2,496	9,782	140,189
798,335	1,217,097	18,530	3,905	4,086	26,521	1,243,618
-	255,313	21,209	-	12,333	33,542	288,855
726	6,530	1,707	207	1,996	3,910	10,440
1,768	24,556	8,219	5	3,258	11,482	36,038
-	215,982	-	-	-	-	215,982
<u>\$ 1,314,188</u>	<u>\$ 8,787,606</u>	<u>\$ 1,447,738</u>	<u>\$ 495,972</u>	<u>\$ 712,652</u>	<u>\$ 2,656,362</u>	<u>\$ 11,443,968</u>

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

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

Program Services		Support Services				Total
Special Projects	Total	General and Administrative	Marketing	Development	Total	Expenses
\$ 159,570	\$ 2,853,218	\$ 674,903	\$ 270,528	\$ 250,712	\$ 1,196,143	\$ 4,049,361
12,783	216,496	53,685	20,294	19,813	93,792	310,288
19,004	339,472	99,194	30,403	30,339	159,936	499,408
614	9,480	9,989	830	705	11,524	21,004
-	1,642	20,866	825	690	22,381	24,023
1,804	35,197	5,690	3,805	7,107	16,602	51,799
15,970	55,440	3,101	655	4,907	8,663	64,103
4,244	433,309	35,860	2,326	2,589	40,775	474,084
-	45,000	-	-	-	-	45,000
-	165,347	17,028	1,608	887	19,523	184,870
-	2,026	8,820	588	363	9,771	11,797
38,207	373,937	37,520	6,398	40,421	84,339	458,276
13	94,159	8,162	912	396	9,470	103,629
550,761	1,922,755	126,912	9,231	220,951	357,094	2,279,849
-	138,332	-	-	-	-	138,332
-	41,927	1,336	170,505	230	172,071	213,998
20,912	134,157	15,449	5,973	6,707	28,129	162,286
-	344,405	-	-	-	-	344,405
-	310,323	108,060	-	-	108,060	418,383
41,044	106,342	9,637	99	1,092	10,828	117,170
953,717	1,112,682	14,886	4,039	4,039	22,964	1,135,646
-	248,097	7,788	-	28,882	36,670	284,767
4,463	11,214	6,322	86	1,260	7,668	18,882
9,371	53,486	11,784	2	7,752	19,538	73,024
-	30,753	-	-	-	-	30,753
<u>\$ 1,832,477</u>	<u>\$ 9,079,196</u>	<u>\$ 1,276,992</u>	<u>\$ 529,107</u>	<u>\$ 629,842</u>	<u>\$ 2,435,941</u>	<u>\$ 11,515,137</u>

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,206,603	\$ 4,658,081
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,243,618	1,135,647
Realized and unrealized (gain)/loss on investments	(411,610)	274,761
Gifts restricted for long-term capital investment	(1,673,662)	(4,147,559)
Changes in assets and liabilities:		
Operating receivables	123,741	(446,597)
Capital campaign receivables	(17,726)	302,935
Inventory	4,865	8,488
Prepaid expenses and other assets	(110,490)	(26,830)
Accounts payable	(536,832)	843,140
Accrued expenses and other liabilities	205,430	1,115
Deferred revenue	170,577	247,594
Net Cash Provided By Operating Activities	2,204,514	2,850,775
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and exhibits	(8,651,152)	(5,453,233)
Purchases of investments	(2,669,218)	(6,301,339)
Proceeds from sale of investments	3,101,214	5,348,390
Gifts restricted for long-term capital investment	-	2,102,064
Net Cash Used In Investing Activities	(8,219,156)	(4,304,118)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts restricted for long-term capital investment	-	1,000,000
Issuance of leveraged loans	-	(6,035,700)
Proceeds from new market tax credit loans	-	9,140,000
Delayed draw term note, net	2,372,011	-
Net Cash Provided By Investing Activities	2,372,011	4,104,300
Net (Decrease) Increase In Cash And Cash Equivalents	(3,642,631)	2,650,957
CASH AND CASH EQUIVALENTS		
Beginning of year	9,692,599	7,041,642
End of year	\$ 6,049,968	\$ 9,692,599
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest - operations	\$ 33,232	\$ 30,753
Cash paid during the year for interest - reserved for New Market Tax Credit loans	\$ 182,750	-

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

As of June 30, 2019 and June 30, 2018, the Museum has accounts payable of approximately \$218,000 and \$871,000, respectively, related to construction in progress property and equipment.

See notes to consolidated financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION

Children's Museum of Pittsburgh (the Museum), comprised of the Children's Museum and Children's MuseumLAB Advancement Initiative (CMAI or MuseumLab), is a nonprofit organization established in 1980 and opened in 1983 to serve children in the tri-state area. At the heart of the Museum is its mission to provide innovative museum experiences that inspire joy, creativity and curiosity. The Museum is a partner and a resource for people who work with or on behalf of children, youth and families.

Interactive museum experiences are at the core of the Museum's mission. Each of the Museum's permanent exhibits are grounded in its longstanding Play with Real Stuff philosophy, which asserts that children need a solid foundation of developmentally appropriate learning activities that are concrete, real and relevant to their lives. The Museum is a place for learners of all ages to experience never before seen, one-of-a-kind museum experiences.

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

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

The combination of Children's Museum and MuseumLab programs has created an extensive selection of museum and educational experiences for children of all ages and their families. In addition to its thirteen permanent exhibits and art collection, the Museum commissions new interactive art, partners with hundreds of local working artists, and engages in accessibility and inclusion programming for all families. The Museum also creates and presents educational programs that connect with and engage all types of learners in 21st century skills. Teacher education, youth programs and classes on the Museum's floor provide opportunities for learning and play. Visiting a children's museum focused on real stuff, children and adults alike have opportunities to try new things, explore creative outlets and take a fresh, new look at the world around them. Children are encouraged to find their own answers through hands-on exploration. Outreach programs provide services to the general public outside the Museum, primarily in schools and libraries.

The Museum is a catalyst for positive change and works to use its resources to improve the quality of its immediate neighborhood with the goal of creating a safe, family-friendly destination. The physical structure of the Museum provides inspiration in its unique architecture incorporating three centuries and the latest in "green" technologies. MuseumLab is the first building in the United States to achieve a Universal Design certificate from the Center for Inclusive Design and Environmental Access (IDeA) at the University of Buffalo for its design that is welcoming to all.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION (Continued)

In 2018, the Museum established CMAI as a nonprofit organization to hold the MuseumLab's fixed assets and Qualified Low-Income Community Investment (QLICI) loans. This transaction took place to facilitate the new market tax credit structure in conjunction with the creation of the MuseumLab. Note 10 provides further information on this transaction and new facility. The Museum is the sole voting member of CMAI and uses the MuseumLab for its exclusive benefit and use. Therefore, CMAI is consolidated into the financial statements of the Museum.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation - The consolidated financial statements as of and for the years ended June 30, 2019 and 2018 include accounts of the Children's Museum of Pittsburgh and CMAI. The consolidated organizations are herein referred to as the Museum. All significant intercompany accounts and transactions have been eliminated.

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

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

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

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receipts of unconditional promises to give with payments due in future periods are recorded as pledges receivable and recognized as increases to net assets at the date of promise. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, will be recognized when the conditions on which they depend are substantially met. There is no allowance for doubtful accounts recorded as of June 30, 2019 and 2018. 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. Restricted cash consists of donor-restricted funds that are to be used for specific projects. The Museum maintains, at various financial institutions, cash and cash equivalents that may exceed federally insured amounts at times.

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

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

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

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

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

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

The Museum reviews the carrying value of property, equipment and exhibits for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The Museum identified no events or changes in circumstances that necessitated an evaluation for impairment of property, equipment or exhibits for the fiscal years ended June 30, 2019 and 2018.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Contributions - Contributions include pledges receivable and volunteer and donated professional services, as well as donated supplies, printing, rent and equipment.

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

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax - The Museum and CMAI are exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Museum and CMAI recognize and report income tax liabilities arising from unrelated business activities on Federal Form 990-T. The Museum and CMAI follow the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) topic on income taxes. The topic prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. The Museum's consolidated statements of financial position at June 30, 2019 and 2018 do not include any liabilities associated with uncertain tax positions; further, the Museum and CMAI have no unrecognized tax benefits. The Museum is no longer subject to examinations by tax authorities for fiscal years before 2016.

Recently Adopted Accounting Pronouncements - In August 2016, the 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 (ASU 2016-14), guidance intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of this guidance include presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their natural and functional classification. The Museum adopted the provisions of ASU 2016-14 on its consolidated financial statements in the current year.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14, as of June 30, 2018, is as follows:

	<u>ASU 2016-14 Classifications</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
As previously presented:			
Unrestricted	\$ 13,418,375	-	\$ 13,418,375
Temporarily Restricted	-	\$ 10,541,413	10,541,413
Permanently Restricted	-	8,805,258	8,805,258
Net assets, as reclassified	\$ <u>13,418,375</u>	\$ <u>19,346,671</u>	\$ <u>32,765,046</u>

In July 2015, the FASB issued ASU No. 2015-11 - Inventory - Simplifying the Measurement of Inventory (Topic 330) (ASU 2015-11), which currently requires an entity to measure inventory as the lower of cost or market. Market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. These amendments require entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The amendments in ASU 2015-11 are effective for financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Museum adopted the provisions of ASU 2015-11 on its consolidated financial statements in the current year with no significant impact on its consolidated financial statements or corresponding disclosures.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Subsequent Events - Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through November 15, 2019, the date on which the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY

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

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

Cash and cash equivalents - unrestricted	\$ 3,599,151
Accounts receivable	132,507
Pledges receivable for operations	437,365
Endowment draw	<u>450,000</u>
Total financial assets available within one year	\$ <u><u>4,619,023</u></u>

The Museum is supported by contributions with and without donor restrictions. Because a donor's restriction requires resources to be used in a particular manner, or in a future period, the Museum must maintain sufficient resources to meet those responsibilities to its donors. As part of the Museum's liquidity management, it has a policy to segregate restricted cash and equivalents to be available as expenditures and other obligations become due. In addition, included in unrestricted cash and cash equivalents is approximately \$852,000 of Board-designated funds which could be made available to fund general expenditures if necessary. The Museum has a revolving line of credit with \$500,000 of availability as of June 30, 2019 it could draw on in the event of a liquidity need.

The Museum's endowment funds consist of a donor-restricted endowment and funds designated by the Board. Income from the donor-restricted endowment is restricted for specific purposes with the exception of the spending appropriation available for general use. The Museum's endowment funds are subject to a board-elected spending rate between 2% and 7%. This percentage is applied to a 36-month average market value of the investments at the prior year-end as described in Note 5.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT

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

	2019		2018	
	Market	Cost	Market	Cost
Equity funds	\$ 6,060,453	\$ 5,117,107	\$ 6,188,845	\$ 5,084,624
Fixed-income holdings	2,020,008	1,984,570	1,959,454	1,984,570
Cash and cash equivalents	1,022,819	1,022,819	975,367	975,367
	<u>\$ 9,103,280</u>	<u>\$ 8,124,496</u>	<u>\$ 9,123,666</u>	<u>\$ 8,044,561</u>

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

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

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

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

The fair values of financial assets comprising the Museum's investments at June 30, 2019 and 2018 are shown in the following tables. The estimated fair values have been measured as of year-end and have not been re-evaluated or updated for the purposes of these consolidated financial statements subsequent to June 30, 2019. As such, the estimated fair values could be materially different, in either a positive or negative manner, at a subsequent date.

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

	2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 6,188,845	-	-	\$ 6,188,845
Fixed-income holdings	1,959,454	-	-	1,959,454
Cash and cash equivalents	<u>975,367</u>	<u>-</u>	<u>-</u>	<u>975,367</u>
	<u>\$ 9,123,666</u>	<u>-</u>	<u>-</u>	<u>\$ 9,123,666</u>

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

NOTE 5 - ENDOWMENT

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

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 donor restricted investments held in perpetuity as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. The Museum has elected a policy to allow the corpus of the donor-restricted net assets held in perpetuity to be sustained even if the investment is less than the corpus.

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

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 - ENDOWMENT (Continued)

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

	Without Donor Restrictions- Board- Designated	With Donor Restrictions	Total
Balance, June 30, 2017	\$ 1,113,137	\$ 8,146,014	\$ 9,259,151
Net investment (loss) return	(2,695)	270,110	270,415
Contributions	120,000	1,000,000	1,120,000
Release of Board-designated assets for expenditures	(130,018)	-	(130,018)
Appropriation of endowment assets pursuant to spending rate policy	-	(610,866)	(610,866)
Balance, June 30, 2018	1,100,424	8,805,258	9,905,682
Net investment (loss) return	(4,656)	451,824	447,168
Contributions	150,000	-	150,000
Release of Board-designated assets for expenditures	(37,667)	-	(37,667)
Appropriation of endowment assets pursuant to spending rate policy	-	(463,156)	(463,156)
Balance, June 30, 2019	\$ 1,208,101	\$ 8,793,926	\$ 10,002,027

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 net assets without donor restrictions for use in current and future operations. The rate of the draw approximated 5% and 7% for the years ended June 30, 2019 and 2018, respectively. The Museum believes that this spending policy is consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 6 - PLEDGES RECEIVABLE, NET

The Museum has received unconditional promises to give in 2019 and 2018. The unconditional promises to give are due to be received as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due in less than 1 year	\$ 3,709,358	\$ 1,889,430
Due in 1-5 years	1,783,145	1,298,421
Discount to present value	<u>(78,909)</u>	<u>(99,506)</u>
	<u>\$ 5,413,594</u>	<u>\$ 3,088,345</u>

Discount rates approximated 2% and 3% at June 30, 2019 and 2018, respectively. Grants receivable of approximately \$767,000 and \$839,000 at June 30, 2019 and 2018, respectively, are restricted for the capital campaign or for a specific purpose.

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS, NET

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

	<u>2019</u>	<u>2018</u>
Building improvements	\$ 30,610,473	\$ 18,375,997
Exhibits	6,622,665	5,809,240
Building	520,000	520,000
Equipment	1,540,864	1,312,049
Land	130,000	130,000
	<u>39,424,002</u>	<u>26,147,286</u>
Less - Accumulated depreciation	<u>16,244,409</u>	<u>15,000,791</u>
	23,179,593	11,146,495
Construction in progress	<u>256,453</u>	<u>5,365,114</u>
Property, equipment and exhibits, net	<u>\$ 23,436,046</u>	<u>\$ 16,511,609</u>

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 - NOTES PAYABLE

The Museum has entered into a revolving line-of-credit agreement with PNC Bank, National Association (PNC Bank) that provides for borrowings up to \$500,000 and bears interest at the London InterBank Offered Rate (LIBOR) (2.40% at June 30, 2019) plus 2.20%. The line expires in December 2019. The Museum has not taken a draw on the loan during the fiscal years ended June 30, 2019 and 2018. Additionally, no interest has been expensed related to this note.

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

On May 1, 2018, the Museum entered into a delayed draw term note with PNC Bank with available borrowings of \$6,250,000 to be used for construction and renovation of the MuseumLab. The Museum can request advances on the delayed draw term note through the conversion date of December 1, 2019. The delayed draw term note bears interest of daily LIBOR (2.40% at June 30, 2019) plus 2.30% and payable in interest-only payments through December 1, 2019. Beginning on December 1, 2019, the delayed draw term note is payable in 48 monthly payments of principal and interest on the outstanding balance as of December 1, 2019. At June 30, 2018, there were no outstanding borrowings on the delayed draw term note. The Museum took a draw of \$4,224,000 during the fiscal year ended June 30, 2019. The outstanding balance at June 30, 2019 was \$2,372,000.

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

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

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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

The NMTC loans mature on June 30, 2040, and the principal is payable in quarterly installments, commencing September 5, 2025. Interest is payable quarterly, which commenced June 5, 2018 and approximated \$182,750 for the year ended June 30, 2019, at the following interest rates:

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

The Museum began receiving quarterly interest payments of 3.02% on the leveraged loans from the Investment Fund on June 15, 2018 which will continue through June 15, 2025. The leveraged loans mature on September 30, 2036, and principal is payable in quarterly installments, commencing September 15, 2025. Amounts received from the Investment Fund as payment on the leveraged loans, which approximated \$182,750 for the year ended June 30, 2019, will be used to make interest payments on the NMTC loans.

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

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Subject to expenditure for specified purpose:		
Capital campaign	\$ 4,429,240	\$ 7,231,592
Exhibits/programs	969,753	1,374,273
Growth capital	1,573,632	1,748,048
	6,972,625	10,353,913
Subject to the passage of time:	483,333	187,500
	7,455,958	10,541,413
Perpetual in nature:		
Subject to spending policy and appropriation:		
Park maintenance	139,548	142,738
Museum operations	7,598,194	7,649,520
Growth capital	1,056,184	1,013,000
	8,793,926	8,805,258
	\$ 16,249,884	\$ 19,346,671

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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

	<u>2019</u>	<u>2018</u>
Expiration of time restrictions	\$ 187,500	\$ 10,508
Satisfaction of purpose restrictions:		
Capital campaign:		
MuseumLab	5,734,543	1,033,176
Growth Capital Fund	226,692	249,133
Making Community Places project	-	27,779
Operations:		
Exhibits/programs	<u>1,195,090</u>	<u>886,362</u>
	<u>\$ 7,343,825</u>	<u>\$ 2,206,958</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 is responsible for all operating costs and repairs and maintenance, including taxes, assessments, water and sewer rents and all other governmental charges or levies. The Museum has recorded \$240,000 as in-kind rent for the value of this lease for each of the fiscal years ended 2019 and 2018.

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

In January 2018, the Museum executed a land lease agreement with the City of Pittsburgh. The lease includes the building formally called Carnegie Free Library of Allegheny, which will be used as the Museum's new MuseumLab. The initial lease term is for 29 years for \$1 per year. The Museum has recorded \$45,000 as in-kind rent for the value of this lease for each of the fiscal year ended 2019. The Museum did not recognize any in-kind rent for the value of this lease for the fiscal year 2018.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 - LEASED PROPERTY (Continued)

The Museum leases certain equipment under long-term lease agreements. The following is a schedule, by year, of approximate future minimum rental payments required under these agreements that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2019:

Fiscal Year Ending June 30	Amount
2020	\$ 179,000
2021	175,000
2022	173,000
2023	173,000
2024	87,000
	<hr/>
	\$ 787,000

In addition, the Museum leases certain exhibits and storage space under short-term or cancelable leases. The Museum's rental expense for fiscal years 2019 and 2018 approximated \$573,000 and \$519,000, respectively.

NOTE 12 - EMPLOYEE BENEFITS

The Museum offers its employees health insurance, dental insurance, life insurance, short-term and long-term disability insurance, accidental death and dismemberment insurance and up to a 3% salary match for deposit to a 403(b) defined contribution retirement plan. Employees who waive health insurance receive one additional week of vacation. Employee benefit expense approximated \$500,000 and \$448,000 for the years ended June 30, 2019 and 2018, respectively. During the fiscal year ended 2014, the Museum added a 457(b) savings plan to offer eligible employees the opportunity to accumulate supplemental retirement savings. Amounts payable under this plan, included in accrued expenses in the accompanying statements of financial position, and the related fair value of assets held by the Museum, are approximately \$92,000 and \$84,000 as of June 30, 2019 and 2018, respectively.

NOTE 13 - CAPITAL CAMPAIGN

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 13 - CAPITAL CAMPAIGN (Continued)

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

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

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

In April 2019, the Museum opened MuseumLab to the public, and capital improvements were substantially complete.

As of June 30, 2019, the Museum received total pledges toward this campaign of approximately \$19,000,000, exceeding its initial Capital Campaign goal. As of June 30, 2019, the Museum has spent approximately \$17,780,000 on the project, of which approximately \$12,700,000 relates to tenant improvements, and other assets that were placed in service in April 2019.

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SUPPLEMENTARY INFORMATION

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018

	2019			
ASSETS	The Children's Museum of Pittsburgh	Children's MuseumLAB Advancement Initiative	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents:				
Unrestricted	\$ 3,599,151	-	-	\$ 3,599,151
Restricted	2,318,998	\$ 131,819	-	2,450,817
Pledges receivable	3,709,358	-	-	3,709,358
Accounts receivable	132,507	-	-	132,507
Inventory	72,046	-	-	72,046
Prepaid and other expenses	270,257	3,434	-	273,691
Total Current Assets	10,102,317	135,253	-	10,237,570
PLEDGES RECEIVABLE, NET	1,704,236	-	-	1,704,236
LEVERAGE LOAN RECEIVABLE	6,035,700	-	-	6,035,700
INVESTMENTS	9,103,280	-	-	9,103,280
PROPERTY, EQUIPMENT AND EXHIBITS, net	10,749,779	12,686,267	-	23,436,046
DUE FROM RELATED PARTY	-	11,691,948	\$ (11,691,948)	-
OTHER ASSETS	91,782	-	-	91,782
Total Assets	\$ 37,787,094	\$ 24,513,468	\$ (11,691,948)	\$ 50,608,614
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 736,361	\$ 218,762	-	\$ 955,123
Accrued expenses	470,356	-	-	470,356
Deferred revenue	1,607,693	-	-	1,607,693
Total Current Liabilities	2,814,410	218,762	-	3,033,172
OTHER LIABILITIES	91,782	-	-	91,782
DUE TO RELATED PARTY	11,691,948	-	\$ (11,691,948)	-
NOTES PAYABLE	2,372,011	-	-	2,372,011
NEW MARKET TAX CREDIT LOANS	-	9,140,000	-	9,140,000
NET ASSETS				
Without donor restrictions				
Undesignated	5,881,172	12,632,492	-	18,513,664
Designated by the Board for endowment	1,208,101	-	-	1,208,101
	7,089,273	12,632,492	-	19,721,765
With donor restrictions				
Time-restricted for future periods	483,333	-	-	483,333
Purpose restrictions	4,450,411	2,522,214	-	6,972,625
Perpetual in nature	8,793,926	-	-	8,793,926
	13,727,670	2,522,214	-	16,249,884
Total Net Assets	20,816,943	15,154,706	-	35,971,649
Total Liabilities And Net Assets	\$ 37,787,094	\$ 24,513,468	\$ (11,691,948)	\$ 50,608,614

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

2018

The Children's Museum of Pittsburgh	Children's MuseumLAB Advancement Initiative	Eliminations	Total
\$ 3,318,952	-	-	\$ 3,318,952
2,785,087	\$ 3,588,560	-	6,373,647
1,889,430	-	-	1,889,430
189,250	-	-	189,250
76,911	-	-	76,911
170,293	-	-	170,293
8,429,923	3,588,560	-	12,018,483
1,198,915	-	-	1,198,915
6,035,700	-	-	6,035,700
9,123,666	-	-	9,123,666
11,372,783	5,138,826	-	16,511,609
-	4,366,150	\$ (4,366,150)	-
84,690	-	-	84,690
<u>\$ 36,245,677</u>	<u>\$ 13,093,536</u>	<u>\$ (4,366,150)</u>	<u>\$ 44,973,063</u>
\$ 402,707	\$ 871,486	-	\$ 1,274,193
272,018	-	-	272,018
1,437,116	-	-	1,437,116
2,111,841	871,486	-	2,983,327
84,690	-	-	84,690
4,366,150	-	\$ (4,366,150)	-
-	-	-	-
-	9,140,000	-	9,140,000
12,317,951	-	-	12,317,951
1,100,424	-	-	1,100,424
13,418,375	-	-	13,418,375
187,500	-	-	187,500
7,271,863	3,082,050	-	10,353,913
8,805,258	-	-	8,805,258
16,264,621	3,082,050	-	19,346,671
29,682,996	3,082,050	-	32,765,046
<u>\$ 36,245,677</u>	<u>\$ 13,093,536</u>	<u>\$ (4,366,150)</u>	<u>\$ 44,973,063</u>

CHILDREN'S MUSEUM OF PITTSBURGH

CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			
	The Children's Museum of Pittsburgh	Children's MuseumLAB Advancement Initiative	Eliminations	Total
SUPPORT AND REVENUE				
Grants	\$ 1,996,194	-	-	\$ 1,996,194
Contributions	480,910	-	-	480,910
Sponsorships	363,500	-	-	363,500
Contributed services and equipment	349,650	-	-	349,650
Capital campaign revenue	4,894,818	-	-	4,894,818
Special event	465,009	-	-	465,009
Total Support	8,550,081	-	-	8,550,081
Program revenue	147,200	-	-	147,200
Admissions	1,422,489	-	-	1,422,489
Memberships	821,586	-	-	821,586
Retail sales	231,497	-	-	231,497
Other income	331,172	\$ 60,000	\$ (60,000)	331,172
Café	540,393	-	-	540,393
Parking	374,758	-	-	374,758
Net investment return	701,224	503	-	701,727
Exhibit rentals	761,586	-	-	761,586
Exhibit sales and contracted revenues	768,082	-	-	768,082
Total Revenue	6,099,987	60,503	(60,000)	6,100,490
Total Support And Revenue	14,650,068	60,503	(60,000)	14,650,571
EXPENSES				
Program	8,208,327	639,279	(60,000)	8,787,606
General and administrative	1,447,738	-	-	1,447,738
Development and fundraising	1,208,624	-	-	1,208,624
Total Expenses	10,864,689	639,279	(60,000)	11,443,968
Changes In Net Assets	3,785,379	(578,776)	-	3,206,603
NET ASSETS				
Beginning of year	29,682,996	3,082,050	-	32,765,046
Transfer of net assets	(12,651,432)	12,651,432	-	-
End of year	\$ 20,816,943	\$ 15,154,706	-	\$ 35,971,649

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

2018

The Children's Museum of Pittsburgh	Children's MuseumLAB Advancement Initiative	Eliminations	Total
\$ 1,903,872	-	-	\$ 1,903,872
747,829	-	-	747,829
277,150	-	-	277,150
316,977	-	-	316,977
7,040,524	-	-	7,040,524
420,048	-	-	420,048
<u>10,706,400</u>	<u>-</u>	<u>-</u>	<u>10,706,400</u>
123,657	-	-	123,657
1,425,222	-	-	1,425,222
769,096	-	-	769,096
218,695	-	-	218,695
380,245	-	-	380,245
560,170	-	-	560,170
364,683	-	-	364,683
334,482	\$ 400	-	334,882
539,447	-	-	539,447
750,721	-	-	750,721
<u>5,466,418</u>	<u>400</u>	<u>-</u>	<u>5,466,818</u>
16,172,818	400	-	16,173,218
7,779,251	1,299,945	-	9,079,196
1,276,861	131	-	1,276,992
1,486,389	13,560	-	1,499,949
<u>10,542,501</u>	<u>1,313,636</u>	<u>-</u>	<u>11,856,137</u>
5,630,317	(1,313,236)	-	4,317,081
28,106,965	-	-	28,106,965
(4,395,286)	4,395,286	-	-
<u>\$ 29,341,996</u>	<u>\$ 3,082,050</u>	<u>-</u>	<u>\$ 32,424,046</u>

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