

CHILDREN'S MUSEUM OF PITTSBURGH
Pittsburgh, Pennsylvania

Financial Statements
and
Supplementary Financial Information
for the years ended June 30, 2015 and 2014

and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Children's Museum of Pittsburgh (Museum), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 25, 2015

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CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted	\$ 2,091,413	\$ 1,234,479
Restricted	949,998	643,489
Receivables:		
Pledges receivable	745,178	819,097
Accounts receivable, net	45,719	81,669
Inventory	77,063	72,426
Prepaid and other expenses	128,863	91,036
Total Current Assets	4,038,234	2,942,196
PLEDGES RECEIVABLE	80,545	229,045
BOARD-DESIGNATED		
Cash and cash equivalents - unrestricted	462,906	261,377
Investments - unrestricted	269,722	258,132
ENDOWMENT ASSETS		
Cash and cash equivalents	1,546,550	1,532,973
Investments	6,139,738	6,254,226
PROPERTY, EQUIPMENT AND EXHIBITS, net	12,515,509	12,933,392
Total Assets	<u>\$ 25,053,204</u>	<u>\$ 24,411,341</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 309,398	\$ 213,243
Accrued expenses	350,825	262,874
Deferred revenue	951,105	580,276
Total Current Liabilities	1,611,328	1,056,393
NET ASSETS		
Unrestricted	13,658,380	13,886,139
Unrestricted - board-designated for building reserves	394,966	198,107
Unrestricted - board-designated for park maintenance	337,662	321,402
Total unrestricted	14,391,008	14,405,648
Temporarily restricted	1,364,580	1,162,101
Permanently restricted	7,686,288	7,787,199
Total Net Assets	23,441,876	23,354,948
Total Liabilities And Net Assets	<u>\$ 25,053,204</u>	<u>\$ 24,411,341</u>

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Grants	\$ 1,795,867	\$ 637,908	-	\$ 2,433,775
Contributions	683,241	86,996	-	770,237
Sponsorships	91,250	-	-	91,250
Contributed services and equipment	368,441	-	-	368,441
Capital campaign revenue	-	101,000	-	101,000
Special event	357,950	-	-	357,950
Total Support	<u>3,296,749</u>	<u>825,904</u>	-	4,122,653
Program revenue	127,979	-	-	127,979
Admissions	1,178,075	-	-	1,178,075
Memberships	655,289	-	-	655,289
Retail sales	139,083	-	-	139,083
Other income	414,951	-	-	414,951
Café	539,653	-	-	539,653
Parking	209,205	-	-	209,205
Investment income	9,190	-	\$ 97,563	106,753
Exhibit rental income	313,829	-	-	313,829
"Stuffee" product sales	173	-	-	173
Total Revenue	<u>3,587,427</u>	-	<u>97,563</u>	<u>3,684,990</u>
Net realized and unrealized (loss) gain on investments	6,961	-	87,697	94,658
Loss on disposal of property, equipment and exhibits	-	-	-	-
Net assets released from restrictions/transferred:				
For operations	367,001	(367,001)	-	-
For Making Community Places	256,424	(256,424)	-	-
Endowment draw	286,171	-	(286,171)	-
	<u>916,557</u>	<u>(623,425)</u>	<u>(198,474)</u>	<u>94,658</u>
Total Support And Revenue	<u>7,800,733</u>	<u>202,479</u>	<u>(100,911)</u>	<u>7,902,301</u>
EXPENSES				
Program Services:				
Direct:				
Museum Experiences	1,929,216	-	-	1,929,216
Learning and Research	522,127	-	-	522,127
Business Development	82,744	-	-	82,744
Indirect:				
Visitor services	1,749,051	-	-	1,749,051
Making Community Places	84,649	-	-	84,649
Special projects	1,374,084	-	-	1,374,084
Total Program Services	<u>5,741,871</u>	-	-	<u>5,741,871</u>
Support Services:				
Administration	1,114,132	-	-	1,114,132
Marketing	502,921	-	-	502,921
Development	399,687	-	-	399,687
Total Support Services	<u>2,016,740</u>	-	-	<u>2,016,740</u>
Costs of direct benefits to donors	56,762	-	-	56,762
Total Expenses	<u>7,815,373</u>	-	-	<u>7,815,373</u>
Changes in Net Assets	(14,640)	202,479	(100,911)	86,928
NET ASSETS				
Beginning of year	<u>14,405,648</u>	<u>1,162,101</u>	<u>7,787,199</u>	<u>23,354,948</u>
End of year	<u>\$ 14,391,008</u>	<u>\$ 1,364,580</u>	<u>\$ 7,686,288</u>	<u>\$ 23,441,876</u>

2014

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,116,773	\$ 302,222	-	\$ 1,418,995
613,343	11,723	-	625,066
115,070	50,000	-	165,070
477,425	-	-	477,425
1,758	3,000	-	4,758
358,822	-	-	358,822
<u>2,683,191</u>	<u>366,945</u>	<u>-</u>	<u>3,050,136</u>
72,773	-	-	72,773
1,150,633	-	-	1,150,633
609,519	-	-	609,519
120,332	-	-	120,332
469,387	-	\$ 115	469,502
495,444	-	-	495,444
162,925	-	-	162,925
9,966	-	110,674	120,640
116,946	-	-	116,946
28,036	-	-	28,036
<u>3,235,961</u>	<u>-</u>	<u>110,789</u>	<u>3,346,750</u>
23,098	-	935,213	958,311
(6,258)	-	-	(6,258)
887,268	(887,268)	-	-
503,850	(503,850)	-	-
386,216	-	(386,216)	-
<u>1,794,174</u>	<u>(1,391,118)</u>	<u>548,997</u>	<u>952,053</u>
7,713,326	(1,024,173)	659,786	7,348,939
2,047,103	-	-	2,047,103
470,785	-	-	470,785
-	-	-	-
1,447,271	-	-	1,447,271
130,082	-	-	130,082
1,565,235	-	-	1,565,235
<u>5,660,476</u>	<u>-</u>	<u>-</u>	<u>5,660,476</u>
904,565	-	-	904,565
508,015	-	-	508,015
395,246	-	-	395,246
<u>1,807,826</u>	<u>-</u>	<u>-</u>	<u>1,807,826</u>
112,087	-	-	112,087
<u>7,580,389</u>	<u>-</u>	<u>-</u>	<u>7,580,389</u>
132,937	(1,024,173)	659,786	(231,450)
<u>14,272,711</u>	<u>2,186,274</u>	<u>7,127,413</u>	<u>23,586,398</u>
<u>\$ 14,405,648</u>	<u>\$ 1,162,101</u>	<u>\$ 7,787,199</u>	<u>\$ 23,354,948</u>

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 86,928	\$ (231,450)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,010,640	1,102,333
Donated assets	-	7,500
Realized and unrealized gain on investments	(94,658)	(958,311)
Loss on disposal of equipment	-	6,258
Permanently restricted investment income	(97,563)	(110,789)
Changes in assets and liabilities:		
Operating receivables	(118,845)	312,480
Capital campaign receivables	377,214	104,298
Inventory	(4,637)	(4,510)
Prepaid expenses and other assets	(37,827)	19,058
Accounts payable	96,155	(130,946)
Accrued expenses	87,951	7,920
Deferred revenue	370,829	66,151
Net Cash Provided By Operating Activities	1,676,187	189,992
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and exhibits	(592,757)	(1,060,883)
Purchases of investments	(1,625,153)	(739,468)
Proceeds from sale of investments	1,822,709	1,369,771
(Decrease) increase in restricted cash and cash equivalents	(521,615)	212,539
Net Cash Used In Investing Activities	(916,816)	(218,041)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Permanently restricted investment income	97,563	110,789
Net Cash Provided By Financing Activities	97,563	110,789
Net Increase In Cash And Cash Equivalents	856,934	82,740
CASH AND CASH EQUIVALENTS		
Operating cash beginning of year	1,234,479	1,151,739
Operating cash end of year	\$ 2,091,413	\$ 1,234,479

See notes to financial statements.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 AND 2014

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 year ended June 30, 2015. For the year-ended June 30, 2014 an allowance was not been recorded. 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 3.7% and 5.5% for 2015 and 2014, 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 and Stuffee merchandise.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014.

Inexhaustible Collections - In conformity with the practice followed by many museums, inexhaustible collections are not included because their values are not readily determinable. Items held by the Museum include paintings, models, dolls and puppets.

Deferred Revenue - Revenues for in-house programs and shows that are received in advance of the activities are deferred and recognized in the year the activities occur. Admission and performance fees collected in advance of the events are also included in deferred revenue and recognized as revenue in the year such events occur. Membership revenues are recognized over the life of the membership; the portion of membership revenues that extend beyond June 30 are included in deferred revenue.

Contributions - Contributions include pledges receivable and volunteer and donated professional services, as well as donated supplies, printing, rent and equipment. During the years ended June 30, 2015 and 2014, approximately \$368,000 and \$477,000, 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 \$213,000 and \$182,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 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 2012.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through November 25, 2015, the date on which the financial statements were available to be issued.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In May 2015, the FASB issued ASU 2015-07 Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This ASU is effective for nonpublic entities for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. A reporting entity should apply amendments retrospectively to all periods presented. Early application is permitted. The Museum is currently evaluating the impact this ASU will have on its financial statements.

NOTE 3 - INVESTMENTS

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

	2015		2014	
	Market	Cost	Market	Cost
Domestic equity funds	\$ 3,990,213	\$ 2,897,200	\$ 3,848,985	\$ 2,446,545
Fixed-income holdings	2,419,247	2,332,169	2,663,373	2,443,854
	<u>\$ 6,409,460</u>	<u>\$ 5,229,369</u>	<u>\$ 6,512,358</u>	<u>\$ 4,890,399</u>

Net realized gains on the sale of securities were approximately \$563,000 and \$447,000 for 2015 and 2014, respectively. Unrealized gains (losses) were approximately \$(470,000) and \$511,000 for 2015 and 2014, respectively.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014 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, 2015. As such, the estimated fair values could be materially different, in either a positive or negative manner, at a subsequent date.

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

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

The Museum has no investments that require the use of Level 3 inputs.

Realized gains and unrealized appreciation are included in investment return in excess of (less than) the amount designated for current operations. Unrealized appreciation relates to investments held as of June 30, 2015.

NOTE 5 - ENDOWMENT

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

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

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

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

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 5 - ENDOWMENT (Continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 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
June 30, 2014				
Donor-restricted endowment funds	-	-	\$ 7,787,199	\$ 7,787,199
Board-designated endowment funds	\$ 519,509	-	-	519,509
 Total Funds	 \$ 519,509	 -	 \$ 7,787,199	 \$ 8,306,708

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

	<u>2015</u>	<u>2014</u>
Unrestricted:		
Board-designated net assets		
Beginning of year	\$ 519,509	\$ 977,996
Investment return:		
Investment income	7,909	6,586
Net realized gain	31,776	13,770
Net unrealized (depreciation) appreciation	(24,738)	9,328
Additional Board allocation	257,123	388,155
Release of board-designated assets for expenditures	(58,951)	(876,326)
 End of year	 \$ 732,628	 \$ 519,509
Permanently restricted:		
Donor-restricted net assets		
Beginning of year	\$ 7,787,199	\$ 7,127,413
Investment return:		
Investment income	94,868	110,674
Net realized gain	507,523	433,367
Net unrealized (depreciation) appreciation	(417,131)	501,846
Additional donor contribution	-	115
Appropriation of endowment assets for expenditures	(286,171)	(386,216)
 End of year	 \$ 7,686,288	 \$ 7,787,199

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 5 - ENDOWMENT (Continued)

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

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

Spending Policy and Investment Objectives Related to Spending Policy - The Museum annually transfers between 2% and 7% of the previous 36-month market value average of the donor-restricted endowment fund to unrestricted net assets for use in current and future operations. The draw for the years ended June 30, 2015 and 2014 were approximately \$286,000 and \$391,000, 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 2014 and 2013. The unconditional promises to give are due to be received as follows at June 30:

	<u>2015</u>		<u>2014</u>
Due in less than 1 year	\$ 745,178	\$	819,097
Due in 1-5 years	<u>80,545</u>		<u>229,045</u>
	\$ <u>825,723</u>	\$	1,048,142

The unamortized discount relating to pledges receivable amounted to approximately \$5,000 at June 30, 2015 and 2014, respectively. Discount rates approximated 1% at June 30, 2015 and 2014. Grants receivable of approximately \$448,000 and \$519,000 at June 30, 2015 and 2014, 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, 2015 and 2014.

The Museum has received a conditional promise to give of \$2,000,000 from The Heinz Endowments to support the creation of an educational hub in the vacant Carnegie Library building at Allegheny Center. The gift is restricted to expenses related to the development of the property. No revenue was recorded for either of the years ended June 30, 2015 and 2014.

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 7 - PROPERTY, EQUIPMENT AND EXHIBITS

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

	<u>2015</u>	<u>2014</u>
Building improvements	\$ 17,960,200	\$ 17,874,917
Exhibits	4,768,830	4,378,018
Building	520,000	520,000
Equipment	964,214	838,232
Land	130,000	130,000
	<u>24,343,244</u>	<u>23,741,167</u>
Less - Accumulated depreciation	11,836,938	10,826,299
	<u>12,506,306</u>	<u>12,914,868</u>
Construction in progress	9,203	18,524
Property, equipment and exhibits, net	\$ <u><u>12,515,509</u></u>	\$ <u><u>12,933,392</u></u>

NOTE 8 - LINE OF CREDIT

The Museum has entered into a revolving line-of-credit agreement with PNC Bank, National Association that provides for borrowings up to \$500,000. The interest rate approximated 3.25% at June 30, 2015. The line expires in December 2015. The Museum has not taken a draw on the loan during the fiscal years ended June 30, 2015 and 2014. Additionally, no interest has been expensed related to this note.

The Museum entered into a convertible line-of-credit note agreement with PNC Bank, National Association that provided for borrowings up to \$1,500,000 and that was to be used to bridge cash flows for the capital campaign. Prior to and after the conversion date, the interest rate will be London InterBank Offered Rate (0.15% at December 31, 2014) plus 220 basis points. The Museum did not draw on the loan during the year ended June 30, 2014 or before the conversion date of December 31, 2014 and as a result the agreement was terminated in December 2014.

NOTE 9 - RESTRICTIONS ON ASSETS

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

	<u>2015</u>	<u>2014</u>
Capital campaign	\$ 513,012	\$ 669,665
Exhibits/programs	<u>851,568</u>	<u>492,436</u>
	\$ <u><u>1,364,580</u></u>	\$ <u><u>1,162,101</u></u>

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

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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>2015</u>	<u>2014</u>
Restrictions accomplished:		
Capital campaign:		
Making Community Places project	\$ 256,424	\$ 503,850
Operations:		
Exhibits/programs	367,001	445,016
Property and equipment	<u>-</u>	<u>442,252</u>
	<u>367,001</u>	<u>887,268</u>
	<u>\$ 623,425</u>	<u>\$ 1,391,118</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 2015 and 2014. The Museum is responsible for all operating costs and repairs and maintenance, including taxes, assessments, water and sewer rents and all other governmental charges or levies.

In September 2004, the Museum executed a land lease agreement with Allegheny Center Associates. The lease is for an initial term of 20 years and provides for extension options, which both parties will negotiate at that time. In addition, the lease provides a termination right for the landlord that requires payments of unamortized costs and expenses if the landlord elects to terminate the lease prior to the fifth lease year. Rental payments under the lease agreement are \$72,000 per year, which includes \$36,000 of in-kind rent. Beginning on the fifth anniversary of the rent commencement date, and annually thereafter, base rent shall be adjusted to reflect any increase in the Consumer Price Index. During fiscal 2010, the Museum entered into a supplement to the existing land lease with Allegheny Center Associates for land immediately adjacent to the land covered under the existing lease. In accordance with the lease supplement, there are no additional rental payments required; all amounts are represented by an in-kind donation to the Museum. In April 2013, Allegheny Center Associates exercised the option to terminate the supplement to the land lease. During fiscal 2014, the property covered under the land lease was sold by Allegheny Center Associates. The new owners have terminated the in-kind rental portion of the agreement. The Museum has recorded \$83,000 as in-kind rent and \$31,000 as in-kind rent for the value of this lease for the fiscal years ended 2015 and 2014, respectively. The Museum is responsible for all operating costs and repairs and maintenance, including taxes, utilities and all other government charges and levies.

The Museum leases certain equipment under long-term lease agreements. The following is a schedule, by year, of future minimum rental payments required under these agreements that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015:

CHILDREN'S MUSEUM OF PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 11 - LEASED PROPERTY (Continued)

Fiscal Year Ending June 30	Amount
2016	\$ 172,846
2017	165,273
2018	165,273
2019	165,273
2020	165,273
Thereafter	<u>578,454</u>
	\$ <u>1,412,392</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 2015 and 2014 approximated \$492,000 and \$462,000, respectively.

NOTE 12 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on an analysis of personnel time on the related activities.

NOTE 13 - EMPLOYEE BENEFITS

The Museum offers its employees health insurance, dental insurance, life insurance, short-term and long-term disability insurance, accidental death and dismemberment insurance and up to a 3% salary match for deposit to an annuity. Employees who waive health insurance receive one additional week of vacation. Employee benefit expense approximated \$289,000 and \$220,000 for the years ended June 30, 2015 and 2014, respectively. In fiscal 2014, the museum added a 457(b) savings plan to offer eligible employees the opportunity to accumulate supplemental retirement savings.

NOTE 14 - CAPITAL CAMPAIGN

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

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SUPPLEMENTARY FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY FINANCIAL INFORMATION

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

We have audited the financial statements of the Children's Museum of Pittsburgh as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon dated November 25, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

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

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 25, 2015

CHILDREN'S MUSEUM OF PITTSBURGH

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

(With Comparative Totals for 2014)

	Program Services				
	Museum Experience	Learning and Research	Business Development	Visitor Services	Making Community Places
Salaries and wages	\$ 1,018,200	\$ 271,136	\$ 46,468	\$ 640,866	\$ 73
Payroll taxes	94,466	24,361	4,020	62,092	5
Other employee benefits	78,396	25,552	4,844	43,055	-
Staff training	1,608	2,731	-	178	-
Professional memberships	320	460	-	400	-
Printing and publications	11,064	2,084	748	12,328	161
Postage and shipping	5,223	45	81	6,923	42
Rent	169,547	52,280	2,760	178,644	250
Exhibit rental	-	-	-	-	-
Utilities	79,439	24,948	828	71,948	-
Telephone	2,471	1,615	132	1,410	-
Supplies	179,605	30,076	1,326	89,690	283
Repairs and maintenance	15,437	3,291	109	12,380	-
Service contracts	186,867	54,995	14,568	117,469	32,882
Advertising	1,788	4,702	85	10,240	-
Insurance	29,480	7,088	1,316	33,399	-
Cost of goods sold	-	-	-	309,767	-
Legal and accounting fees	-	403	2,923	-	-
Travel	22,280	9,580	2,408	4,977	2,996
Depreciation	21,931	3,884	127	12,577	47,482
Miscellaneous	8,145	2,212	1	140,288	309
Meeting expense	55	184	-	56	166
General and administrative	2,894	500	-	364	-
Interest	-	-	-	-	-
	<u>\$ 1,929,216</u>	<u>\$ 522,127</u>	<u>\$ 82,744</u>	<u>\$ 1,749,051</u>	<u>\$ 84,649</u>

Program Services		Support Services				Total	
Special Projects	Total	Administration	Marketing	Development	Total	2015	2014
\$ 94,695	\$ 2,071,438	\$ 626,442	\$ 209,803	\$ 185,019	\$ 1,021,264	\$ 3,092,702	\$ 2,800,340
8,439	193,383	28,796	17,503	16,498	62,797	256,180	242,370
9,247	161,094	87,752	21,280	18,386	127,418	288,512	219,539
1,413	5,930	4,306	736	4,462	9,504	15,434	34,349
-	1,180	12,089	835	1,175	14,099	15,279	16,246
1,860	28,245	5,491	6,043	8,220	19,754	47,999	44,132
1,376	13,690	6,158	1,321	2,690	10,169	23,859	27,013
1,000	404,481	39,771	7,667	40,192	87,630	492,111	435,110
-	-	-	-	-	-	-	26,495
-	177,163	18,234	1,718	956	20,908	198,071	187,416
65	5,693	4,049	1,031	804	5,884	11,577	12,314
43,783	344,763	27,701	11,778	59,065	98,544	443,307	420,416
168	31,385	3,255	621	1,369	5,245	36,630	55,331
221,846	628,627	121,332	19,683	36,848	177,863	806,490	970,281
2,245	19,060	502	193,073	487	194,062	213,122	181,720
-	71,283	17,746	8,203	7,482	33,431	104,714	98,225
-	309,767	-	-	-	-	309,767	300,791
-	3,326	42,051	-	-	42,051	45,377	38,881
80,970	123,211	14,579	536	198	15,313	138,524	113,591
903,756	989,757	18,471	658	1,754	20,883	1,010,640	1,102,333
50	151,005	10,511	129	7,914	18,554	169,559	104,349
2,955	3,416	5,708	302	4,475	10,485	13,901	9,015
216	3,974	19,083	1	1,693	20,777	24,751	27,992
-	-	105	-	-	105	105	53
<u>\$ 1,374,084</u>	<u>\$ 5,741,871</u>	<u>\$ 1,114,132</u>	<u>\$ 502,921</u>	<u>\$ 399,687</u>	<u>\$ 2,016,740</u>	<u>\$ 7,758,611</u>	<u>\$ 7,468,302</u>

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

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