

The Science Museum of Minnesota

Financial Statements

June 30, 2024 and 2023

The Science Museum of Minnesota

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Independent Auditors' Report

To the Board of Trustees of
The Science Museum of Minnesota

Opinion

We have audited the financial statements of The Science Museum of Minnesota (the Museum), which comprise the statement of financial position as of June 30, 2024 and 2023, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2024 and 2023, 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Minneapolis, Minnesota
November 21, 2024

The Science Museum of Minnesota

Statements of Financial Position

June 30, 2024 and 2023

	2024	2023
Assets		
Cash and cash equivalents	\$ 1,246,625	\$ 5,055,075
Restricted cash	113,367	430,284
Accounts and grants receivable, less allowance for credit losses of \$5,000 in 2024 and 2023	3,210,974	2,166,654
Contributions receivable, net	267,447	595,155
Inventories	249,195	221,561
Other assets	486,977	631,899
Investments	43,930,542	38,855,835
Right of use assets	325,892	620,612
Property and equipment, net	67,365,988	70,865,823
Total assets	\$ 117,197,007	\$ 119,442,898
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,156,234	\$ 1,801,124
Accrued payroll and other expenses	1,275,701	1,078,550
Deferred revenue	2,068,056	962,843
Annuity obligations	85,907	71,539
Interest rate swaps liabilities	280,576	373,332
Line of credit payable	2,000,000	2,000,000
Lease liabilities	325,892	620,612
Bonds payable	5,509,412	8,596,315
Total liabilities	13,701,778	15,504,315
Net Assets		
Without donor restrictions	67,914,129	69,101,606
With donor restrictions	35,581,100	34,836,977
Total net assets	103,495,229	103,938,583
Total liabilities and net assets	\$ 117,197,007	\$ 119,442,898

See notes to financial statements

The Science Museum of Minnesota

Statement of Activities

Year Ended June 30, 2024 (with comparative totals for June 30, 2023)

	Without Donor Restrictions				With Donor Restrictions	Total	June 30, 2023 Total
	Undesignated Operating	Designated	Property and Equipment	Total			
Revenues, Gains and Other Support							
Contributions and grants	\$ 2,939,523	\$ 178,539	\$ -	\$ 3,118,062	\$ 1,326,277	\$ 4,444,339	\$ 14,396,219
Government grants	8,771,594	-	5,100,000	13,871,594	47,235	13,918,829	6,324,106
Change in beneficial interest in trusts	-	-	-	-	28,921	28,921	52,559
Admissions and fees	6,750,015	12,412	53,668	6,816,095	798	6,816,893	5,976,604
Memberships	1,816,011	-	-	1,816,011	-	1,816,011	1,868,957
Museum shops, sales	894,233	-	-	894,233	-	894,233	1,240,135
Parking ramp	1,367,248	-	-	1,367,248	-	1,367,248	1,228,429
Film and exhibit fees	6,747,890	-	-	6,747,890	-	6,747,890	4,126,983
Investment income	64,493	-	212	64,705	-	64,705	67,516
Gain (loss) on interest rate swaps	-	92,756	-	92,756	-	92,756	(266,495)
Gain on investments	-	1,396,929	-	1,396,929	3,547,697	4,944,626	3,293,155
	29,351,007	1,680,636	5,153,880	36,185,523	4,950,928	41,136,451	38,308,168
Appropriation of endowment assets for expenditure	3,656,608	(1,896,100)	-	1,760,508	(1,760,508)	-	-
Net assets released from restrictions	3,585,259	(1,169,296)	30,334	2,446,297	(2,446,297)	-	-
Total revenues, gains and other support	36,592,874	(1,384,760)	5,184,214	40,392,328	744,123	41,136,451	38,308,168
Expenses and Transfers of Net Assets							
Program	28,446,719	-	5,089,113	33,535,832	-	33,535,832	32,595,123
Management and general	4,792,785	-	44,768	4,837,553	-	4,837,553	4,972,436
Fundraising and development	3,170,605	-	35,815	3,206,420	-	3,206,420	2,848,416
Total expenses	36,410,109	-	5,169,696	41,579,805	-	41,579,805	40,415,975
Change in net assets	182,765	(1,384,760)	14,518	(1,187,477)	744,123	(443,354)	(2,107,807)
Net Assets, Beginning	1,561,963	15,428,263	52,111,380	69,101,606	34,836,977	103,938,583	106,046,390
Net Assets, Ending	\$ 1,744,728	\$ 14,043,503	\$ 52,125,898	\$ 67,914,129	\$ 35,581,100	\$ 103,495,229	\$ 103,938,583

See notes to financial statements

The Science Museum of Minnesota

Statement of Activities

Year Ended June 30, 2023

	Without Donor Restrictions				With Donor Restrictions	Total
	Undesignated Operating	Designated	Property and Equipment	Total		
Revenues, Gains and Other Support						
Contributions and grants	\$ 3,413,994	\$ 7,677,946	\$ -	\$ 11,091,940	\$ 3,304,279	\$ 14,396,219
Government grants	6,324,106	-	-	6,324,106	-	6,324,106
Change in beneficial interest in trusts	-	-	-	-	52,559	52,559
Admissions and fees	5,876,432	10,005	89,392	5,975,829	775	5,976,604
Memberships	1,868,957	-	-	1,868,957	-	1,868,957
Museum shops, sales	1,240,135	-	-	1,240,135	-	1,240,135
Parking ramp	1,228,429	-	-	1,228,429	-	1,228,429
Film and exhibit fees	4,126,983	-	-	4,126,983	-	4,126,983
Investment income	69,492	(2,007)	31	67,516	-	67,516
Loss on interest rate swaps	-	(266,495)	-	(266,495)	-	(266,495)
Gain on investments	-	938,686	-	938,686	2,354,469	3,293,155
	24,148,528	8,358,135	89,423	32,596,086	5,712,082	38,308,168
Appropriation of endowment assets for expenditure	5,731,073	(4,015,108)	-	1,715,965	(1,715,965)	-
Net assets released from restrictions	4,816,647	(4,087,800)	2,040,923	2,769,770	(2,769,770)	-
Total revenues, gains and other support	34,696,248	255,227	2,130,346	37,081,821	1,226,347	38,308,168
Expenses and Transfers of Net Assets						
Program	26,897,926	-	5,697,197	32,595,123	-	32,595,123
Management and general	4,922,282	-	50,154	4,972,436	-	4,972,436
Fundraising and development	2,808,292	-	40,124	2,848,416	-	2,848,416
Total expenses	34,628,500	-	5,787,475	40,415,975	-	40,415,975
Transfers of net assets	-	212,962	(212,962)	-	-	-
Total expenses and transfers of net assets	34,628,500	212,962	5,574,513	40,415,975	-	40,415,975
Change in net assets	67,748	42,265	(3,444,167)	(3,334,154)	1,226,347	(2,107,807)
Net Assets, Beginning	1,494,215	15,385,998	55,555,547	72,435,760	33,610,630	106,046,390
Net Assets, Ending	\$ 1,561,963	\$ 15,428,263	\$ 52,111,380	\$ 69,101,606	\$ 34,836,977	\$ 103,938,583

See notes to financial statements

The Science Museum of Minnesota

Statements of Cash Flows

Years Ended June 30, 2024 and June 30, 2023

	2024	2023
Cash Flows From Operating Activities		
Change in net assets	\$ (443,354)	\$ (2,107,807)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	5,169,696	5,787,475
Amortization of bond issuance costs	13,097	13,097
(Gain) loss on investments	(5,009,331)	(3,360,671)
Loss (gain) on interest rate swaps	(92,756)	266,495
Change in beneficial interest in trusts	(28,921)	(52,559)
Contributions received for long-term investment	(190,539)	-
Contributions received for debt relief	(5,100,000)	-
Change in operating assets and liabilities:		
Accounts receivable, net	(1,044,320)	219,890
Contributions receivable, net, operations	(101,244)	(89,894)
Inventories	(27,634)	(36,899)
Other assets	144,922	137,073
Accounts payable	355,110	76,657
Accrued payroll and other expenses	197,151	(475,857)
Deferred revenue	1,105,213	(675,991)
Annuity obligations	14,368	(13,067)
Net cash flows from operating activities	(5,038,542)	(312,058)
Cash Flows From Investing Activities		
Sales of investments	12,405,718	6,277,720
Purchases of investments	(12,442,173)	(570,749)
Additions to property and equipment	(1,488,344)	(1,106,902)
Net cash flows from investing activities	(1,524,799)	4,600,069
Cash Flows From Financing Activities		
Payments on financing leases payable	(181,517)	(170,178)
Contributions received for long-term investment	619,491	-
Contributions received for debt relief	5,100,000	-
Net proceeds from (payments on) line of credit payable	-	2,000,000
Payments on bonds payable	(3,100,000)	(1,400,000)
Net cash flows from financing activities	2,437,974	429,822
Net change in cash and cash equivalents	(4,125,367)	4,717,833
Cash and Cash Equivalents and Restricted Cash, Beginning	5,485,359	767,526
Cash and Cash Equivalents and Restricted Cash, Ending	<u>\$ 1,359,992</u>	<u>\$ 5,485,359</u>
Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalent so Statement of Financial Position		
Cash and cash equivalents	\$ 1,246,625	\$ 5,055,075
Restricted Cash	113,367	430,284
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 1,359,992</u>	<u>\$ 5,485,359</u>

See notes to financial statements

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

1. Significant Accounting Policies

The Science Museum of Minnesota (the Museum) is a Minnesota nonprofit corporation founded in 1916. It is one of America's most admired and imitated science museums. Located in downtown Saint Paul, its mission is to "Turn on the Science: Inspire learning. Inform policy. Improve lives" with a vision for "a world where everyone has the power to use science to make lives better."

The Museum hosts active and ongoing scientific research in four key areas: anthropology, biology, paleontology, and climate change. Original research takes place both onsite in Saint Paul and on the St. Croix River, and is supported by collections and collaborations throughout Minnesota and internationally.

The Museum ensures the future of science leadership through a deep, institutional commitment to inspire the next generation of STEM contributors. Through professional development for educators, after-school and summer enrichment opportunities for youth, mentorship programs, and internships, the museum provides in-depth science opportunities for learners of all ages, including people from every Minnesota county and worldwide.

The Museum is the largest in-museum exhibit developer in the country. Leveraging its galleries as a real-time innovation lab, it creates meaningful, accessible science content for more than three-quarters of a million visitors each year. Our traveling exhibits and permanent installations have reached more than 45 million visitors around the globe.

The Museum is at the forefront of STEM equity initiatives, embodied by our award-winning exhibition *Race: Are We So Different?* For more than 20 years, it has engaged those most often excluded from science – women and people of color. This commitment is exemplified by the Kitty Anderson Youth Science Center, which helps diverse youth ages 12 – 24 explore and pursue STEM careers.

The more significant accounting policies are summarized below:

Net Asset Classifications

For the purposes of financial reporting, the Museum classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the Museum are classified in the accompanying financial statements in the categories that follow:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the Museum and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained by the Museum. Generally, the donors of these assets permit the Museum to use all, or part of the income earned on related investments for general or specific purposes.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. The Museum generates revenue from operations through admissions and fees, memberships, Museum shop sales, the parking ramp and film and exhibit fees. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for their intended purpose.

The Science Museum of Minnesota

Notes to Financial Statements

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Net assets without donor restrictions include the current operating, management designated, unrestricted long-term investment and property accounts. Net assets without donor restrictions include net assets that have been designated by the Board of Trustees or Museum administration for programs and the changes in net assets related thereto. Unrestricted long-term investment accounts are assets that have been designated by the Board of Trustees to function as endowments and the related changes in net assets.

In the absence of donor stipulations or law to the contrary, gains and losses on investments of a donor-restricted endowment fund change net assets with donor restrictions. Gains and losses on investments of endowment funds created by a board designation of funds without donor restrictions are classified as changes in net assets without donor restrictions.

Contributions and Grants

Unconditional contributions, including promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time-period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

The Museum provides services for state and federal agencies and other pass through entities connected to various governmental grants. Under the terms of the grants, the Museum is reimbursed for services performed and revenue is recognized in the fiscal year in which the services are performed. The Museum records the revenue related to reimbursable grants as without donor restriction, utilizing the simultaneous release practical expedient. All performance obligations under the various contracts are satisfied in conjunction with the recognition of the associated revenues. During 2024, the Museum received a one-time state appropriation in the amount of \$7,000,000 for debt relief, rehiring and retaining employees, supporting employee contracts, and diversity and inclusion training and outreach. The Museum used the proceeds for the following purposes: \$5,100,000 for debt relief with the remaining spent on operations including rehiring and retaining employees, supporting employee contracts, and diversity and inclusion training and outreach. As the grants funds were spent on their intended purpose all within the same year, the revenue is reported as without donor restriction on the statement of activities.

The Museum had \$2,594,873 and \$5,058,833 of conditional promises to give relating to government grants at June 30, 2024 and 2023, respectively.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Cash and Cash Equivalents

The Museum considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents on the statement of cash flows includes restricted cash (see below).

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

Restricted Cash

In fiscal 2020, the Museum received \$2,000,000 in debt proceeds that is to be used to finance certain capital equipment, improvements, and upgrades to the Museum. The Museum spent \$316,917 and \$294,536 of the restricted funds in fiscal years ended June 30, 2024, and 2023, respectively.

Accounts Receivables, Net

Accounts receivables are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Recoveries of receivables previously written-off are recorded when received. Receivables are generally unsecured. The Museum does not charge interest or late fees on delinquent balances.

The Museum provides for an allowance for credit losses accounts receivables to represent the net amount expected to be collected as of the date of the statements of financial position. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on our expectation as of the statement of financial position date. Receivables are written off when the Museum determined that such receivables are deemed uncollectible. The Museum pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Museum measures those receivables individually. The Museum also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The Museum utilizes the loss rate method in determining its lifetime expected credit losses on its receivables. In determining its loss rates, the Museum evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, the customer creditworthiness, changes in the terms of receivables, and legal and regulatory requirements on the level of estimated credit losses in the existing receivables. For receivables that are not expected to be collected within the normal business cycle, the Museum considers the current and forecasted direction of the economic and business environment. Such forecasted information includes unemployment rates and interest rates amongst others.

Contributions Receivable, Net

The Museum records as revenue the following types of contributions, when they are received unconditionally, at their fair value promises to give, and gifts of long-lived and other assets. Contributions receivables are recorded net of estimated uncollectible amounts and net present value. Contributions due in more than one year are discounted using a risk-free rate of return appropriate for the expected term of the promise to give.

Inventories

Gift shop inventories are stated at the lower of cost (first-in, first-out) or market.

Investment in Affiliated Organization

The investment in the organization is recorded under the equity method of accounting and is included in other assets on the statement of financial position. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize the Museum's share of earnings and losses of the entity, net of any additional investments or distributions. The investment in affiliate balance for the years ended June 30, 2024, and 2023 was \$35,771 and \$194,979, respectively.

The Science Museum of Minnesota

Notes to Financial Statements

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Investments

The fair values of marketable securities are generally determined based on quoted prices. The fair values of nonmarketable securities are determined utilizing the most current information provided by the general partners or external investment managers. The amounts the Museum will ultimately realize could differ materially and significant fluctuations in fair values could occur from year to year.

Property and Equipment, Net

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives as follows: buildings 25 to 40 years; equipment 3 to 15 years. The cost of major exhibits (more than \$25,000) are capitalized when the exhibit is placed into service and depreciated over the time period the exhibit is active on the straight-line method. Omnitheater film costs are depreciated over a five-year period on a declining balance method. The Museum capitalizes equipment additions more than \$5,000. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment.

Impairment of Long-Lived Assets

The Museum reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Collections

The Museum's collections are not recognized as assets on the statement of financial position. Purchases of collections are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions if a donor makes a contribution intended to fund the subsequent purchase of collections. Contributions of collections are not reflected in the financial statements.

Revenue Recognition

The Museum recognizes revenue for admissions and fees, memberships, film and exhibit fees, and other services based on the satisfaction of performance obligations. Performance obligations are determined based on the service provided by the Museum. The following explains the performance obligations related to each revenue stream and how those are recognized.

Admissions and fees - The Museum receives admission revenue from visitors, which is recognized when redeemed by visitors for entrance to the Museum. The Museum receives fee revenue from third parties to provide professional development and educational programs, lab services, and other program services. The Museum recognizes revenue for these activities during the year in which the related services are provided or programs are held.

Memberships - Revenue from members is part contribution without donor restriction and part exchange transaction. The contribution element is recorded in the period received. The exchange element is recognized as membership revenue when performance obligations are met through ticket redemption or ratably over the duration of the membership period.

Film and exhibit fees - The Museum receives revenue under agreements to design and build exhibits for other organizations. Revenue is allocated to the deliverables defined in the agreement and recognized as each deliverable is completed. The Museum recognizes revenue from traveling exhibitions over the term of the exhibition agreements when performance obligations are met.

The Science Museum of Minnesota

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Other - The Museum receives other revenue from visitors for services, including parking, and museum shop sales. The Museum recognizes this revenue on the date the service is provided, or goods are transferred to the customer.

Payments received in advance of the Museum satisfying its performance obligations are recorded within deferred revenue in the accompanying statements of financial position.

Deferred Revenue

Deferred revenue represents payments received in advance of the performance obligation.

	<u>Balance on June 30, 2023</u>	<u>Revenue Recognized</u>	<u>Cash Received in Advance of Performance</u>	<u>Balance on June 30, 2024</u>
Revenue:				
Gift Cards	\$ 353,216	\$ (263,051)	\$ 200,314	\$ 290,479
Other	<u>609,627</u>	<u>(1,493,989)</u>	<u>2,661,939</u>	<u>1,777,577</u>
Total	<u>\$ 962,843</u>	<u>\$ (1,757,040)</u>	<u>\$ 2,862,253</u>	<u>\$ 2,068,056</u>
	<u>Balance on June 30, 2022</u>	<u>Revenue Recognized</u>	<u>Cash Received in Advance of Performance</u>	<u>Balance on June 30, 2023</u>
Revenue:				
Gift Cards	\$ 412,392	\$ (173,053)	\$ 113,877	\$ 353,216
Other	<u>1,226,443</u>	<u>(1,226,443)</u>	<u>609,627</u>	<u>609,627</u>
Total	<u>\$ 1,638,835</u>	<u>\$ (1,399,496)</u>	<u>\$ 723,504</u>	<u>\$ 962,843</u>

The balance of deferred revenue less any refunds will be recognized as revenue as services are rendered. Deferred revenue related to outstanding balances on gift cards will be recognized as the gift cards are presented by customers for use. The Museum applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Annuity Obligations

Some contributions received, such as interests in charitable gift annuity contracts, have donor-imposed obligations to make payments to the donor or other beneficiaries. Annuity obligations arising from such gifts are established at the time of the contribution using life expectancy actuarial tables and are revalued annually.

Donated Services

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteer services donated by individuals, corporations, foundations, and governmental organizations for the Museum's various programs have been received as donations throughout the year. However, these services do not meet the above criteria, and therefore have not been recorded.

The Science Museum of Minnesota

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Retirement Plan

The Museum has a defined contribution retirement plan managed by Mutual of America. The plan covers substantially all full-time employees. The Museum is committed to matching a portion of employee contributions up to a specified portion of their salary. Retirement plan expenses for the years ended June 30, 2024, and 2023 were \$403,532 and \$401,982, respectively.

Advertising Expenses

Advertising expenses of approximately \$1,580,899 and \$1,803,104 for the years ended June 30, 2024, and 2023, respectively. Advertising costs are expensed when incurred.

Income Taxes

The Museum has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provision of State law. Accordingly, the Museum is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). For the years ended June 30, 2024, and 2023, the Museum recorded tax payables of \$160,078 and \$103,114, respectively. During the years ended June 30, 2024, and 2023, the Museum incurred unrelated business income relating to their alternative investments. As a result, the Museum has recorded income tax expenses of \$144,930 and \$44,042 for the years ended June 30, 2024, and 2023 respectively, which has been netted against investment income in the accompanying statement of activities.

The Museum follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Museum for uncertain tax positions as of June 30, 2024, and 2023. The Museum's tax returns are subject to review and examination by federal and state authorities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in Note 13. The Museum classifies expenses directly to the categories the expense is supporting. In some instances, expenses may be attributable to more than one function. Accordingly, certain expenses, such as interest and depreciation, have been allocated among the programs and supporting services benefited based on square footage estimates.

Financial Awards from Grantors

Financial awards from federal, state and local governments in the form of grants are subject to agency audits. Such audits could result in claims against the Museum for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 could differ from those estimates.

The Science Museum of Minnesota

Notes to Financial Statements

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Reclassifications

Certain amounts in prior year comparative totals have been reclassified to conform with the presentation in the current year financial statements. These changes had no impact on net assets or changes in net assets as previously reported.

New Pronouncement Adopted in Current Year

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The Museum adopted ASU No. 2016-13 (as amended) as of July 1, 2023. The adoption of this standard did not have a material impact on the Museum's financial statements as of and for the year ended June 30, 2024.

2. Liquidity and Availability

The Museum regularly monitors liquidity required to meet its operational needs. The Museum forecasts its future cash flows and budgets annual revenue to cover general expenditures and capital expenditures. The Museum considers all expenditures related to its programs, management and fundraising to be general expenditures.

As of June 30, 2024, and 2023, the following financial assets could readily be made available within one year to meet general expenditures:

	2024	2023
Cash and cash equivalents	\$ 519,060	\$ 290,388
Accounts and grants receivable, net	3,210,974	2,166,654
Contributions receivable for general expenditures due in one year or less	267,447	570,155
Approved endowment distribution in next 12 months	3,637,000	2,656,622
Financials assets available in next 12 months	<u>\$ 7,634,481</u>	<u>\$ 5,683,819</u>

As of June 30, 2024, amounts not available include \$727,565 of cash and cash equivalents held in the endowment, \$20,987,937 of investments held in perpetuity, and \$19,305,605 of investments held until approved for spending distribution by the Board. As of June 30, 2023, amounts not available include: \$4,473,999 of cash and cash equivalents held in the endowment, \$20,947,016 of investments held in perpetuity, and \$17,556,709 of investments held until approved for spending distribution by the Board. The Museum has a line of credit to meet short-term needs (see Note 7), which was fully utilized as of June 30, 2024 and 2023.

3. Fair Value Measurements and Investments

Fair Value Hierarchy

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Mutual funds - The fair value of mutual funds are classified as Level 1 since quoted prices are readily available.

Beneficial interest in trusts - The Museum's beneficial interest in irrevocable split interest agreements held or controlled by a third party are classified as Level 3 since quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions the Museum expects to receive over the term of the agreements based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

Interest rate swaps liability - Interest rate swaps are classified as Level 2 since quoted prices are not readily available. The fair values are estimated using an income approach which takes into account the present value of the estimated future cash flows and credit valuation adjustments of which are based on observable inputs to a valuation model (interest rates, credit spreads, etc.).

There have been no changes in the techniques and inputs used as of June 30, 2024, and 2023.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

The following table presents information about the Museum's assets and liabilities measured at fair value on a recurring basis as of June 30, 2024:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments:				
Mutual funds, U.S. equities	\$ 10,055,620	\$ 10,055,620	\$ -	\$ -
Mutual funds, U.S. bonds	11,909,608	11,909,608	-	-
Beneficial interest in trusts	<u>1,391,274</u>	<u>-</u>	<u>-</u>	<u>1,391,274</u>
Total assets in the fair value hierarchy	23,356,502	<u>\$ 21,965,228</u>	<u>\$ -</u>	<u>\$ 1,391,274</u>
Alternative investments measured using NAV	<u>20,574,040</u>			
Total assets at fair value	<u>\$ 43,930,542</u>			
Liabilities				
Interest rate swap liability	<u>\$ 280,576</u>	<u>\$ -</u>	<u>\$ 280,576</u>	<u>\$ -</u>

The following table presents information about the Museum's assets and liabilities measured at fair value on a recurring basis as of June 30, 2023:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments:				
Mutual funds, U.S. equities	\$ 8,736,196	\$ 8,736,196	\$ -	\$ -
Mutual funds, U.S. bonds	6,489,684	6,489,684	-	-
Money market funds	616	616	-	-
Beneficial interest in trusts	<u>1,362,354</u>	<u>-</u>	<u>-</u>	<u>1,362,354</u>
Total assets in the fair value hierarchy	16,588,850	<u>\$ 15,226,496</u>	<u>\$ -</u>	<u>\$ 1,362,354</u>
Alternative investments measured using NAV	<u>22,266,985</u>			
Total assets at fair value	<u>\$ 38,855,835</u>			
Liabilities				
Interest rate swap liability	<u>\$ 373,332</u>	<u>\$ -</u>	<u>\$ 373,332</u>	<u>\$ -</u>

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

There were no purchases, sales or transfers of Level 3 assets during the years ended June 30, 2024, and 2023.

The Museum uses the net asset value (NAV) as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) are in investment companies or similar entities that report their investment assets at fair values, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the Museum's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the Museum sold all or a portion of its alternative investment, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of June 30, 2024:

	<u>Fair Value June 30, 2024</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>	<u>Remaining Life (Years)</u>
Asset Class					
Commingled fund	\$ 15,808,616	\$ -	Monthly/ Quarterly	7-60 days	N/A
Hedge funds:					
Pointer	2,155,739	-	Annually	107 days	N/A
BlackRock Tempus	<u>1,072</u>	<u>-</u>	Illiquid	N/A	N/A
Total hedge funds	2,156,811	-			
Private equity funds	<u>2,608,613</u>	<u>657,771</u>	2-10 years	N/A	N/A
Total	<u>\$ 20,574,040</u>	<u>\$ 657,771</u>			

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of June 30, 2023:

	<u>Fair Value June 30, 2023</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>	<u>Remaining Life (Years)</u>
Asset Class					
Commingled fund	\$ 14,655,845	\$ -	Quarterly	60 days	N/A
Hedge funds:					
Pointer	3,799,070	-	Annually	Notice by 3/15 & 9/15	N/A
BlackRock Tempus	<u>44,107</u>	<u>-</u>	Illiquid	N/A	N/A
Total hedge funds	3,843,177	-			
Private equity funds	<u>3,767,963</u>	<u>1,392,537</u>	2-10 years	N/A	N/A
Total	<u>\$ 22,266,985</u>	<u>\$ 1,392,537</u>			

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

The following is a description of the asset classes as listed in the table above:

- **Commingled fund** - This category includes an investment that invests in domestic stocks. The management of the commingled fund has the ability to shift investments from small to large capitalization stocks, and from a net long position to a net short position. This investment has quarterly redemptions with a 60-day notice.
- **Hedge funds** - This category includes investments in hedge funds that invest in long and short equity funds and multi-strategy funds. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.
- **Private equity funds** - This category includes several private equity funds that invest in U.S. and European buyouts, venture capital, distressed securities, direct co-investments and secondary markets. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 10 to 12 years.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Through the Museum's investments in alternative investments, the Museum is indirectly involved in investment activities such as securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure or enhance returns. While these instruments may contain varying degrees of risk, the Museum's risk with respect to such transactions is limited to its capital balance in each investment.

4. Contributions Receivable

Contributions receivables consist of unconditional promises to give as follows as of June 30:

	2024	2023
Operations	\$ 180,268	\$ 75,623
With donor restrictions	105,079	534,032
Gross unconditional promises to give	285,347	609,655
Less allowances	(12,500)	(11,200)
Less unamortized discount	(5,400)	(3,300)
Net unconditional promises to give	<u>\$ 267,447</u>	<u>\$ 595,155</u>
	2024	
Amounts due in:		
Less than one year	\$ 273,347	
One to five years	12,000	
Total	<u>\$ 285,347</u>	

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Notes to Financial Statements

June 30, 2024 and 2023

Promises due in one to five years were discounted using a rate of 4.71% and 4.87% at June 30, 2024 and 2023, respectively. Promises due in less than one year were not discounted. For the years ended June 30, 2024, and 2023, the Museum received total contributions from Board members and officers of \$53,464 and \$99,190, respectively. For the year ended June 30, 2024 and 2023, the Museum had \$18,967 and \$7,000, respectively, in contributions receivable from its board members.

5. Property and Equipment, Net

Property and equipment, net consist of the following at June 30:

	2024	2023
Land	\$ 2,429,155	\$ 2,429,155
Buildings	124,706,732	124,125,806
Equipment	11,004,138	9,954,330
Exhibits	58,692,074	58,692,074
Films	14,082,961	14,082,961
	210,915,060	209,284,325
Less accumulated depreciation	(143,549,072)	(138,418,503)
	<u>\$ 67,365,988</u>	<u>\$ 70,865,823</u>

6. Facilities and Loan Payable

The City of Saint Paul is the owner of the land on which the Museum is constructed, and as required by the public financing, title to the property is held by the City of Saint Paul as well. To satisfy this legal requirement, the Museum entered into long-term lease agreements with the City of Saint Paul for nominal consideration for the Science Museum building and parking ramp which require that the facility be operated as a science museum. The Museum is responsible for all operating costs associated with the Science Museum facility.

7. Bonds Payable and Line of Credit Payable

In April 2020, the Museum issued Revenue Note, Series 2020 issued by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota and held by US Bank National Association, providing financing of \$13,900,000 to refund the Series 2015 Revenue Note balance of \$11,900,000 and provide an additional \$2,000,000 of proceeds to finance certain capital equipment, improvements, and upgrades to the Museum. In February 2021 the continuing covenant agreement was amended to add additional reporting requirements. The note agreement between the Museum and US Bank National Association requires the Museum to comply with certain financial and other covenants which require the Museum to provide weekly and monthly reports, meet a liquidity ratio as of June 30 and December 31 each year and a fixed charge coverage ratio as of June 30 each year. Principal is payable in annual installments with the remaining payable at maturity, June 1, 2031, or upon earlier option or mandatory pre-payment.

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

Debt consisted of the following at June 30:

	<u>2024</u>	<u>2023</u>
Revenue note, Series 2020	\$ 5,600,000	\$ 8,700,000
Less deferred financing fees, net of accumulated amortization	<u>(90,588)</u>	<u>(103,685)</u>
Total debt	<u>\$ 5,509,412</u>	<u>\$ 8,596,315</u>

At June 30, 2024 and 2023, the interest rate on the revenue notes were 5.65% and 5.44%, respectively.

To minimize the effect of changes in the interest rate, the Museum has entered into interest rate swap contracts. The interest rate swap contracts are disclosed in Note 8.

The principal maturities on the note payable for each of the five years subsequent and thereafter to June 30, 2024, approximate:

Years ending June 30:	
2025	\$ -
2026	1,700,000
2027	1,900,000
2028	500,000
Thereafter	<u>1,500,000</u>
Total	<u>\$ 5,600,000</u>

The Museum has a \$2,000,000 line of credit with US Bank. The line of credit agreement requires collateral of 110% of the outstanding balance, has an interest rate of prime rate less applicable margin of 1.25% per annum, and a maturity date of April 1, 2025. The balance outstanding at June 30, 2024 and 2023 was \$2,000,000.

8. Derivative Instruments

The Museum uses interest rate swaps as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate swap is at fair value. Interest rate swaps are often held for the life of the strategy but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

Interest rate swaps between the Museum and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that the contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the Museum's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. In April 2020, related to the refunding of its revenue note payable the Museum entered a new interest rate swap transaction with US Bank National Association which replaced the previous agreement.

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Notes to Financial Statements

June 30, 2024 and 2023

In fiscal 2024 and 2023, the Museum paid \$124,583 and \$70,766, respectively, more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statements of activities.

The following is a summary of the outstanding positions under these interest rate swaps as of June 30, 2024:

Instrument Type	Effective Date	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	April 1, 2020	\$ 5,600,000	April 1, 2029	4.37 %	82% of USD-SOFR

The following is a summary of the outstanding positions under these interest rate swaps as of June 30, 2023:

Instrument Type	Effective Date	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	April 1, 2020	\$ 8,700,000	April 1, 2029	4.146 %	82% of USD-SOFR

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2024, and 2023 as follows:

Derivatives not Designated as Hedging Instruments	Statements of Financial Position Location	Liabilities Derivative	
		Fair Value	
		2024	2023
Interest rate swap	Interest rate swaps liability	\$ 280,576	\$ 373,332

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives not Designated as Hedging Instruments	Location of Loss on Derivative Recognized in the Statements of Activities and Changes in Net Assets	Amount of Loss on Derivatives Recognized in the Statements of Activities and Changes in Net Assets	
		2024	2023
Interest rate swap	Gain (loss) on interest rate swaps	\$ 92,756	\$ (266,495)

9. Net Assets

Net assets without donor restrictions are available for the following purposes at June 30:

	2024	2023
Undesignated	\$ 1,744,728	\$ 1,561,963
Board designated endowment	10,491,876	10,956,785
Designated	3,551,627	4,471,478
Property and equipment	52,125,898	52,111,380
	<u>\$ 67,914,129</u>	<u>\$ 69,101,606</u>

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

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

	2024	2023
Restricted in perpetuity	\$ 20,987,937	\$ 20,947,016
Time restricted – endowment	11,862,446	10,075,257
Time restricted – other	205,126	227,940
Purpose restricted	<u>2,525,591</u>	<u>3,586,764</u>
	<u>\$ 35,581,100</u>	<u>\$ 34,836,977</u>

Net assets restricted in perpetuity include assets whose use by the Museum is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Museum. Purpose restricted net assets include assets with donor-imposed purpose restrictions. Time restricted net assets include pledges and long-term investments with donor-imposed restrictions awaiting appropriation. Net assets released from restriction include amounts released for time and purpose restrictions.

10. Endowment

The Museum's endowment consists of 23 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions

Interpretation of Relevant Law

The Museum's governing board has interpreted the Minnesota enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Museum to appropriate for expenditure or accumulate so much of an endowment fund as the Museum determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the governing board. See Note 1 for further information on net asset classification.

The remaining portion of the donor-restricted endowment fund that is not classified as restricted in perpetuity is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Museum and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Museum
7. The investment policies of the Museum

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

Endowment net asset composition by type of fund consists of the following as of June 30, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 32,850,383	\$ 32,850,383
Designated endowment funds	10,491,876	-	10,491,876
Total endowment net assets	\$ 10,491,876	\$ 32,850,383	\$ 43,342,259

Endowment net asset composition by type of fund consists of the following as of June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 31,022,273	\$ 31,022,273
Designated endowment funds	10,956,785	-	10,956,785
Total endowment net assets	\$ 10,956,785	\$ 31,022,273	\$ 41,979,058

Changes in endowment net assets for the year ended June 30, 2024, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2023	\$ 10,956,785	\$ 31,022,273	\$ 41,979,058
Investment return:			
Net depreciation, realized and unrealized	1,252,652	3,547,697	4,800,349
Contributions	178,539	12,000	190,539
Appropriation of endowment assets for expenditure, spending policy	(896,100)	(1,760,508)	(2,656,608)
Other approved endowment draws	(1,000,000)	-	(1,000,000)
Other changes:			
Change in beneficial interest in trusts	-	28,921	28,921
Endowment net assets, June 30, 2024	\$ 10,491,876	\$ 32,850,383	\$ 43,342,259

Changes in endowment net assets for the year ended June 30, 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2022	\$ 11,154,383	\$ 30,088,294	\$ 41,242,677
Investment return:			
Net depreciation, realized and unrealized	917,811	2,354,469	3,272,280
Contributions	3,112,661	242,916	3,355,577
Appropriation of endowment assets for expenditure, spending policy	(959,989)	(1,715,965)	(2,675,954)
Other approved endowment draws	(3,055,119)	-	(3,055,119)
Other changes:			
Other transfers	(212,962)	-	(212,962)
Change in beneficial interest in trusts	-	52,559	52,559
Endowment net assets, June 30, 2023	\$ 10,956,785	\$ 31,022,273	\$ 41,979,058

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. Deficiencies result from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the governing board. Management has deemed it prudent to spend from funds with deficiencies with the expectation that future earnings will offset these deficiencies. No deficiencies of this nature were reported as of June 30, 2024, and 2023.

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to increase the real purchasing power of the endowment assets over time. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s) as well as designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the guideline of spending plus the Consumer Price Index over the long-term to support the mission of the Museum in perpetuity. Actual returns in any year may vary from this amount.

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 that places a greater emphasis on equity-based investments and fund of hedge funds to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum has a policy of appropriating for distribution each year 4% to 6% of its endowment fund's average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow at an average of 2% to 4% annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. For the years ended June 30, 2024, and 2023, the Museum drew approximately \$1,000,000 and \$3,055,000, respectively, from the board designated endowment in addition to the spending policy allocation that was made. Coming out of the pandemic, the Museum's Visitor Related Revenue and grants were significantly below that of pre-pandemic levels as visitors had not returned to in-person activities. The additional endowment spending has allowed the Museum to cover on-going operating costs.

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2024 and 2023

11. Concentrations of Credit Risk

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the Museum's cash and cash equivalents are deposited with a single bank. Investments are diversified to limit credit risk. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. In addition, the Museum receives a substantial amount of grants either direct or passed through other organizations from the federal government. These programs are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the Museum's programs and activities.

12. Leases

The Museum leases a warehouse space under a noncancelable operating lease expiring in 2026. As of June 30, 2024, the weighted average remaining lease term is 2.4 years and the weighted average discount rate used was 2.88% for the operating lease. The museum entered into a lease for certain equipment, designated as a financing lease. The weighted average remaining lease term as of June 30, 2024, is 1.2 years for the finance lease.

The lease cost and other required information for the year ended June 30:

	<u>2024</u>	<u>2023</u>
Lease cost:		
Amortization on finance leases	\$ 181,517	\$ 170,178
Interest on finance lease liabilities	6,248	12,262
Operating lease cost	123,375	119,700
Short-term lease expense and other	<u>146,842</u>	<u>114,903</u>
Total lease cost	<u>\$ 457,982</u>	<u>\$ 417,043</u>

Future minimum lease payments are as follows:

	<u>Operating</u>	<u>Finance</u>
Years ending June 30:		
2025	\$ 126,000	\$ 21,300
2026	129,675	3,447
2027	<u>55,125</u>	<u>-</u>
Total lease payments	310,800	24,747
Less amounts representing interest	<u>(9,655)</u>	<u>-</u>
Lease liabilities	<u>\$ 301,145</u>	<u>\$ 24,747</u>

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13. Functional Expenses

The Museum's expenses for the year ended June 30, 2024, are classified functionally as follows:

	Program	Management and General	Fundraising and Development	Total
Salaries and benefits	\$ 16,494,456	\$ 3,327,534	\$ 2,222,933	\$ 22,044,923
Utilities, maintenance, print and supplies	2,750,031	386,245	93,760	3,230,036
Marketing and advertising	1,669,370	-	-	1,669,370
Travel, professional development, and meetings	783,042	53,638	28,883	865,563
Professional services	2,476,120	1,013,900	737,710	4,227,730
Fabrication and exhibits	2,693,274	-	-	2,693,274
Depreciation and amortization	5,089,113	44,768	35,815	5,169,696
Interest	198,117	2,533	2,027	202,677
Cost of goods sold	531,677	-	-	531,677
Other	850,632	8,935	85,292	944,859
Total	\$ 33,535,832	\$ 4,837,553	\$ 3,206,420	\$ 41,579,805

The Museum's expenses for the year ended June 30, 2023, are classified functionally as follows:

	Program	Management and General	Fundraising and Development	Total
Salaries and benefits	\$ 15,637,612	\$ 2,645,378	\$ 1,897,211	\$ 20,180,201
Utilities, maintenance, print and supplies	2,688,039	361,853	57,267	3,107,159
Marketing and advertising	1,927,638	-	-	1,927,638
Travel, professional development, and meetings	529,618	58,840	13,915	602,373
Professional services	1,700,474	1,834,333	753,310	4,288,117
Fabrication and exhibits	2,707,401	-	-	2,707,401
Depreciation and amortization	5,697,197	50,154	40,124	5,787,475
Interest	459,748	5,879	4,703	470,330
Cost of goods sold	519,109	-	-	519,109
Other	728,287	15,999	81,886	826,172
Total	\$ 32,595,123	\$ 4,972,436	\$ 2,848,416	\$ 40,415,975

14. Contingencies

The Museum is subject to the usual contingencies in the normal course of operations relating to the performance of its task under its various services it offers. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the consolidated financial position of the Museum.

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15. Supplemental Disclosure of Cash Flow Information

		<u>2024</u>	<u>2023</u>
Interest paid	\$	202,677	\$ 470,330
Income taxes paid		149,352	20,000
Noncash investing and financing activities:			
Additions to property and equipment included in accounts payable		-	124,155
Right-of-use assets recorded in exchange for operating lease liabilities		-	520,735

16. Subsequent Event

The Museum has evaluated subsequent events through November 21, 2024, which is the date that the financial statements were approved and available to be issued.