

The Science Museum of Minnesota

Financial Statements

June 30, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, 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
December 27, 2022

The Science Museum of Minnesota

Statements of Financial Position

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 42,706	\$ 1,640,620
Restricted cash	724,820	1,691,611
Accounts and grants receivable, less allowance for doubtful accounts of \$5,000 in 2022 and 2021	2,386,544	4,196,465
Contributions receivable, net	505,261	1,213,319
Inventories	184,662	209,413
Other assets	768,972	872,719
Investments	41,149,576	46,562,501
Property and equipment, net	75,690,639	81,605,470
	<u>121,453,180</u>	<u>137,992,118</u>
Total assets	<u>\$ 121,453,180</u>	<u>\$ 137,992,118</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,724,468	\$ 744,016
Accrued payroll and other expenses	1,554,407	2,113,609
Deferred revenue	1,638,834	874,062
Annuity obligations	84,606	90,589
Interest rate swaps liability	106,837	684,232
Notes and loan payable	-	2,122,311
Line of credit payable	-	2,000,000
Capital leases payable	314,420	462,835
Bonds payable	9,983,218	11,270,121
	<u>15,406,790</u>	<u>20,361,775</u>
Total liabilities	<u>15,406,790</u>	<u>20,361,775</u>
Net Assets		
Without donor restrictions	72,435,760	77,412,758
With donor restrictions	33,610,630	40,217,585
	<u>106,046,390</u>	<u>117,630,343</u>
Total net assets	<u>106,046,390</u>	<u>117,630,343</u>
Total liabilities and net assets	<u>\$ 121,453,180</u>	<u>\$ 137,992,118</u>

See notes to financial statements

The Science Museum of Minnesota

Statement of Activities

Year Ended June 30, 2022

	Without Donor Restrictions			Total	With Donor Restrictions	
	Undesignated Operating	Designated	Property and Equipment		Restrictions	Total
Revenues, Gains and Other Support						
Contributions and grants	\$ 2,222,297	\$ 345,131	\$ -	\$ 2,567,428	\$ 1,324,055	\$ 3,891,483
Government grants	8,923,022	-	-	8,923,022	-	8,923,022
Change in beneficial interest in trusts	-	-	-	-	(141,927)	(141,927)
Admissions and fees	4,664,874	7,137	-	4,672,011	4,622	4,676,633
Proceeds from conservation easement	-	2,217,000	-	2,217,000	-	2,217,000
Memberships	1,556,489	-	-	1,556,489	-	1,556,489
Museum shops, sales	1,079,243	-	-	1,079,243	-	1,079,243
Parking ramp	776,946	-	-	776,946	-	776,946
Film and exhibit fees	4,828,227	-	-	4,828,227	-	4,828,227
Investment income	59,537	6,254	60	65,851	-	65,851
Gain on forgiveness of debt	2,000,000	-	-	2,000,000	-	2,000,000
Gain on interest rate swaps	-	577,395	-	577,395	-	577,395
Loss on investments	(17,037)	(1,309,705)	-	(1,326,742)	(3,942,538)	(5,269,280)
	26,093,598	1,843,212	60	27,936,870	(2,755,788)	25,181,082
Appropriation of endowment assets for expenditure	3,009,812	(1,690,244)	-	1,319,568	(1,319,568)	-
Net assets released from restrictions	2,531,599	-	-	2,531,599	(2,531,599)	-
Loss on disposal of fixed asset	-	-	(311,697)	(311,697)	-	(311,697)
Capital additions	(415,161)	-	415,161	-	-	-
Total revenues, gains and other support	31,219,848	152,968	103,524	31,476,340	(6,606,955)	24,869,385
Expenses and Transfers of Net Assets						
Program	24,843,300	-	5,155,241	29,998,541	-	29,998,541
Management and general	4,324,394	-	43,725	4,368,119	-	4,368,119
Fundraising and development	2,051,698	-	34,980	2,086,678	-	2,086,678
Allocable expenses:						
Interest expense	439,239	-	-	439,239	-	439,239
Building operations and maintenance	3,953,510	-	737,826	4,691,336	-	4,691,336
Less allocated expenses	(5,130,575)	-	-	(5,130,575)	-	(5,130,575)
Total expenses	30,481,566	-	5,971,772	36,453,338	-	36,453,338
Transfers of net assets	697,073	515,432	(1,212,505)	-	-	-
Total expenses and transfers of net assets	31,178,639	515,432	4,759,267	36,453,338	-	36,453,338
Change in net assets	41,209	(362,464)	(4,655,743)	(4,976,998)	(6,606,955)	(11,583,953)
Net Assets, Beginning	1,453,006	15,748,462	60,211,290	77,412,758	40,217,585	117,630,343
Net Assets, Ending	\$ 1,494,215	\$ 15,385,998	\$ 55,555,547	\$ 72,435,760	\$ 33,610,630	\$ 106,046,390

See notes to financial statements

The Science Museum of Minnesota

Statement of Activities

Year Ended June 30, 2021

	Without Donor Restrictions			Total	With Donor Restrictions	Total
	Undesignated Operating	Designated	Property and Equipment			
Revenues, Gains and Other Support						
Contributions and grants	\$ 2,935,659	\$ 446,649	\$ -	\$ 3,382,308	\$ 693,974	\$ 4,076,282
Government grants	7,136,964	-	128,834	7,265,798	215,125	7,480,923
Change in beneficial interest in trusts	-	-	-	-	269,554	269,554
Admissions and fees	1,942,388	4,413	-	1,946,801	390	1,947,191
Memberships	972,926	-	-	972,926	-	972,926
Museum shops, sales	366,758	-	-	366,758	-	366,758
Parking ramp	128,901	-	-	128,901	-	128,901
Film and exhibit fees	5,027,736	-	-	5,027,736	-	5,027,736
Investment income (loss)	35,472	(23,266)	160	12,366	-	12,366
Gain on forgiveness of debt	4,536,500	-	-	4,536,500	-	4,536,500
Gain on interest rate swaps	-	423,758	-	423,757	-	423,757
Gain on investments	6,118	3,103,519	-	3,109,637	7,521,771	10,631,408
	<u>23,089,421</u>	<u>3,955,073</u>	<u>128,994</u>	<u>27,173,488</u>	<u>8,700,814</u>	<u>35,874,302</u>
Appropriation of endowment assets for expenditure	4,400,205	(3,138,912)	-	1,261,293	(1,261,293)	-
Net assets released from restrictions	1,777,545	-	-	1,777,545	(1,777,545)	-
Capital additions	(635,912)	-	635,912	-	-	-
	<u>28,631,259</u>	<u>816,161</u>	<u>764,906</u>	<u>30,212,326</u>	<u>5,661,976</u>	<u>35,874,302</u>
Expenses and Transfers of Net Assets						
Program	19,811,660	-	5,303,101	25,114,761	-	25,114,761
Management and general	4,019,076	-	43,657	4,062,733	-	4,062,733
Fundraising and development	1,834,253	-	34,926	1,869,179	-	1,869,179
Allocable expenses:						
Interest expense	479,397	-	-	479,397	-	479,397
Building operations and maintenance	3,468,198	-	736,497	4,204,695	-	4,204,695
Less allocated expenses	(4,684,092)	-	-	(4,684,092)	-	(4,684,092)
	<u>24,928,492</u>	<u>-</u>	<u>6,118,181</u>	<u>31,046,673</u>	<u>-</u>	<u>31,046,673</u>
Transfers of net assets	1,439,190	234,976	(1,674,166)	-	-	-
	<u>26,367,682</u>	<u>234,976</u>	<u>4,444,015</u>	<u>31,046,673</u>	<u>-</u>	<u>31,046,673</u>
Total expenses and transfers of net assets						
Change in net assets	2,263,577	581,185	(3,679,109)	(834,347)	5,661,976	4,827,629
Net Assets, Beginning	<u>(810,571)</u>	<u>15,167,277</u>	<u>63,890,399</u>	<u>78,247,105</u>	<u>34,555,609</u>	<u>112,802,714</u>
Net Assets, Ending	<u>\$ 1,453,006</u>	<u>\$ 15,748,462</u>	<u>\$ 60,211,290</u>	<u>\$ 77,412,758</u>	<u>\$ 40,217,585</u>	<u>\$ 117,630,343</u>

See notes to financial statements

The Science Museum of Minnesota

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (11,583,953)	\$ 4,827,629
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	6,044,171	6,118,181
Loss on disposals of property and equipment		
Gain on forgiveness of debt	(2,000,000)	(4,536,500)
Amortization of bond issuance costs	13,097	13,097
Loss on disposals of property and equipment	311,697	-
Loss (gain) on investments	5,335,131	(10,761,330)
Gain on interest rate swaps	(577,395)	(423,758)
Change in beneficial interest in trusts	141,927	(269,554)
Change in operating assets and liabilities:		
Accounts receivable, net	1,809,921	(2,961,013)
Contributions receivable, net, operations	708,058	829,806
Inventories	24,751	(14,859)
Other assets	103,747	(210,054)
Accounts payable	993,190	120,912
Accrued payroll and other expenses	(559,202)	132,458
Deferred revenue	764,772	(244,218)
Annuity obligations	(5,983)	(5,963)
Net cash flows from operating activities	<u>1,523,929</u>	<u>(7,385,166)</u>
Cash Flows From Investing Activities		
Sales of investments	16,242,075	6,310,581
Purchases of investments	(16,306,208)	(1,115,775)
Additions to property and equipment	<u>(453,775)</u>	<u>(898,524)</u>
Net cash flows from investing activities	<u>(517,908)</u>	<u>4,296,282</u>
Cash Flows From Financing Activities		
Payments on capital leases payable	(148,415)	(142,844)
Payments on notes and loan payable	(122,311)	(231,322)
Proceeds from notes and loan payable	-	2,000,000
Payments on line of credit payable	(2,000,000)	-
Payments on bonds payable	<u>(1,300,000)</u>	<u>(1,300,000)</u>
Net cash flows from financing activities	<u>(3,570,726)</u>	<u>325,834</u>
Net change in cash and cash equivalents	(2,564,705)	(2,763,050)
Cash, Cash Equivalents and Restricted Cash Beginning	<u>3,332,231</u>	<u>6,095,281</u>
Cash, Cash Equivalents and Restricted Cash Ending	<u>\$ 767,526</u>	<u>\$ 3,332,231</u>

See notes to financial statements

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2022 and 2021

1. Significant Accounting Policies

The Science Museum of Minnesota (the Museum) is a Minnesota nonprofit corporation. The Museum is one of the state's oldest and best-known cultural institutions with its headquarters in downtown Saint Paul. Its mission is to "Turn on the Science: Inspire learning. Inform policy. Improve lives" and its vision is "a world where everyone has the power to use science to make lives better." The Museum is a resource that creates and presents science, technology, engineering and math learning experiences reaching all of Minnesota's 87 counties, engaging core audiences, K-12 students, and teachers and administrators. The Museum's primary facility is a cornerstone of downtown Saint Paul's riverfront revitalization and serves more than three-quarters of a million people each year with a unique combination of classes and camps, teacher training, resident and touring exhibits, giant screen Omnitheater films, and special events. The Museum is the most visited museum in a five-state region and consistently chosen as a favorite for family and school field trip outings. 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.

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.

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 had \$5,835,689 and \$3,361,248 of conditional promises to give at June 30, 2022 and 2021, respectively.

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2022 and 2021

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).

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 \$966,791 and \$308,439 of the restricted funds in fiscal years ended June 30, 2022 and 2021, respectively.

Accounts Receivables, Net

Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. 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.

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 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, 2022 and 2021 was \$174,104 and \$158,759, respectively.

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.

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2022 and 2021

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 in excess of \$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 on 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 are considered to be 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.

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.

The Science Museum of Minnesota

Notes to Financial Statements

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Employee Retention Credit

The Employee Retention Credit (ERC), was included as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and amended by the Consolidated Appropriations Act (CAA) and the American Rescue Plan Act (ARPA) and ended with Infrastructure Investment and Jobs Act. The ERC incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020, and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. The Museum qualified for the ERC in the calendar year 2021 in the first three quarters as it experienced a significant decline in gross receipts (for 2021, defined as a 20% decline in gross receipts when compared to the same quarter in 2019). The Museum averaged less than 500 full-time employees (FTEs) during 2019, therefore, it was considered a small employer for qualification for the 2021 ERC. For the calendar year 2021, the ERC equaled 70 percent of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit of \$28,000 for each employee.

The Museum accounts for this federal funding in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and, accordingly, revenues are measured and recognized when barriers are substantially met. The Museum claimed credits of \$2,064,742 relating to the ERC credit for the calendar year 2021 quarter 1 and quarter 2, which were recorded in the fiscal year ended June 30, 2021 financial statements. The Museum claimed an additional \$963,789 of credits relating to calendar year 2021 quarter 3, which were recorded in the fiscal year ended June 30, 2022 financial statements. These amounts are included in government grants and accounts receivable on the financial statements.

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.

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 match a portion of employee contributions up to a specified portion of their salary. Retirement plan expense for the years ended June 30, 2022 and 2021 was \$414,000 and 367,000, respectively.

Advertising Expenses

Advertising expenses approximated \$830,000 and \$534,000 for the years ended June 30, 2022 and 2021, respectively. Advertising costs are expensed when incurred.

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2022 and 2021

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). Tax receivables of \$53,604 were recorded for the year ended June 30, 2021, and tax payables of \$37,270 were recorded for the year ended June 30, 2022, relating to the Museum's unrelated business income. During the years ended June 30, 2022 and 2021, the Museum incurred unrelated business income relating to their alternative investments. As a result, the Museum has recorded income tax expense of \$97,175 and \$17,710 for the years ended June 30, 2022 and 2021 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, 2022 and 2021. 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.

New Pronouncement Adopted in Current Year

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The implementation of this standard had no impact on the Museum's financial statements.

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New Pronouncements Not Yet Effective

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021 (fiscal year 2023). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Museum is assessing the impact this standard will have on its financial statements.

In June 2016, 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. FASB has issued subsequent standards to clarify, correct errors in or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022 (fiscal year 2024). Early adoption is permitted. The Museum is currently assessing the impact this standard will have on its consolidated financial statements.

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, 2022 and 2021, the following financial assets could readily be made available within one year to meet general expenditures:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ -	\$ 494,563
Accounts and grants receivable, net	2,386,544	4,196,465
Contributions receivable for general expenditures due in one year or less	466,561	829,919
Approved endowment distribution in next 12 months	<u>5,700,000</u>	<u>3,009,422</u>
Financials assets available in next 12 months	<u>\$ 8,553,105</u>	<u>\$ 8,530,369</u>

As of June 30, 2022, amounts not available include \$258,001 of cash and cash equivalents held in the endowment, \$20,651,541 of investments held in perpetuity, and \$20,591,136 of investments held until approved for spending distribution by the Board. As of June 30, 2021, amounts not available include: \$1,146,057 of cash and cash equivalents held in the endowment, \$20,789,468 of investments held in perpetuity, and \$26,848,820 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 not utilized as of June 30, 2022, however, it was fully utilized as of June 30, 2021.

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 and money market funds - The fair value of mutual funds and money market 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 swap is 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, 2022 and 2021.

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.

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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 following table presents information about the Museum's assets and liabilities measured at fair value on a recurring basis as of June 30, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments:				
Mutual funds, U.S. equities	\$ 11,036,369	\$ 11,036,369	\$ -	\$ -
Mutual funds, U.S. bonds	7,488,799	7,488,799	-	-
Money market funds	12,865	12,865	-	-
Beneficial interest in trusts	<u>1,309,795</u>	<u>-</u>	<u>-</u>	<u>1,309,795</u>
Total assets in the fair value hierarchy	19,847,828	<u>\$ 18,538,033</u>	<u>\$ -</u>	<u>\$ 1,309,795</u>
Alternative investments measured using NAV	<u>21,301,748</u>			
Total assets at fair value	<u>\$ 41,149,576</u>			
Liabilities				
Interest rate swap liability	<u>\$ 106,837</u>	<u>\$ -</u>	<u>\$ 106,837</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, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments:				
Mutual funds, U.S. equities	\$ 3,352,357	\$ 3,352,357	\$ -	\$ -
Mutual funds, U.S. bonds	11,107,900	11,107,900	-	-
Money market funds	10,200	10,200	-	-
Beneficial interest in trusts	<u>1,451,722</u>	<u>-</u>	<u>-</u>	<u>1,451,722</u>
Total assets in the fair value hierarchy	15,922,179	<u>\$ 14,470,457</u>	<u>\$ -</u>	<u>\$ 1,451,722</u>
Alternative investments measured using NAV	<u>30,640,322</u>			
Total assets at fair value	<u>\$ 46,562,501</u>			
Liabilities				
Interest rate swap liability	<u>\$ 684,232</u>	<u>\$ -</u>	<u>\$ 684,232</u>	<u>\$ -</u>

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There were no purchases, sales or transfers of Level 3 assets during the years ended June 30, 2022 and 2021.

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.

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, 2022:

Asset Class	Fair Value June 30, 2022	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Commingled fund	\$ 13,236,723	\$	Monthly/ Quarterly	7-60 days	N/A
Hedge funds:					
Pointer	3,561,751		Annually	107 days	N/A
BlackRock Tempus	<u>202,113</u>		Illiquid	N/A	N/A
Total hedge funds	3,763,864				
Private equity funds	<u>4,301,161</u>	<u>1,588,742</u>	2-10 years	N/A	N/A
Total	<u>\$ 21,301,748</u>	<u>\$ 1,588,742</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, 2021:

Asset Class	Fair Value June 30, 2021	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Commingled fund	\$ 20,401,806	\$	Monthly/ Quarterly	7-60 days	N/A
Hedge funds:					
Flowering Tree	1,161,633		Quarterly	90 days	N/A
Pointer	4,154,286		Annually	107 days	N/A
BlackRock Tempus	<u>269,447</u>		Illiquid	N/A	N/A
Total hedge funds	5,585,366				
Private equity funds	<u>4,653,150</u>	<u>1,770,057</u>	2-10 years	N/A	N/A
Total	<u>\$ 30,640,322</u>	<u>\$ 1,770,057</u>			

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. 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 within a 7 to 60 day notice.

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- 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 receivable consist of unconditional promises to give as follows as of June 30:

	<u>2022</u>	<u>2021</u>
Operations	\$ 109,070	\$ 116,287
With donor restrictions	407,491	1,122,532
	<u>516,561</u>	<u>1,238,819</u>
Gross unconditional promises to give	516,561	1,238,819
Less allowances	(9,900)	(24,500)
Less unamortized discount	(1,400)	(1,000)
	<u>\$ 505,261</u>	<u>\$ 1,213,319</u>
	<u>2022</u>	
Amounts due in:		
Less than one year	\$ 466,561	
One to five years	50,000	
	<u>\$ 516,561</u>	

Promises due in one to five years were discounted using a rate of 0.25 percent and 0.2 percent at June 30, 2022 and 2021, respectively. Promises due in less than one year were not discounted. Net unconditional promises to give at June 30, 2022 and 2021 from related parties were \$0 and \$2,600, respectively. For the years ended June 30, 2022 and 2021, the Museum received total contributions from Board members and officers of \$83,472 and \$135,815, respectively.

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5. Property and Equipment, Net

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

	<u>2022</u>	<u>2021</u>
Land	\$ 2,429,155	\$ 2,429,155
Buildings	123,516,746	123,417,186
Equipment	9,639,111	9,333,531
Exhibits	58,692,074	58,079,087
Films	14,082,961	14,082,962
Exhibits and construction in process	-	1,344,276
	<u>208,360,047</u>	<u>208,686,197</u>
Less accumulated depreciation	<u>(132,669,408)</u>	<u>(127,080,727)</u>
	<u>\$ 75,690,639</u>	<u>\$ 81,605,470</u>

6. Notes 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.

The Museum also had a note payable to the City of Saint Paul, with 0 percent interest for monthly payments of \$20,833 per month, which commenced in January 2002 and continues until December 2021. At June 30, 2021, the net present value of the future minimum payments was \$122,311, using a discount rate of 7.5 percent. The imputed interest for the note was \$18,678 for the year ended June 30, 2021. The note was paid in full by June 30, 2022.

In April 2020, the Museum was granted a loan from PNC Bank, N.A. in the amount of \$4,536,500, pursuant to the Paycheck Protection Program under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan, which was in the form of a Note dated April 15, 2020 issued by the Borrower, matured on April 15, 2022 and bore interest at a rate of 1% per annum. The Museum used the loan for qualifying expenses during a twenty-four-week period as described in the CARES Act and was granted full forgiveness of the loan under the terms of the Paycheck Protection Program during the year ended June 30, 2021, and recorded a gain on forgiveness of debt on the statement of activities.

In January 2021, the Museum was granted a loan from PNC Bank, N.A. in the amount of \$2,000,000, pursuant to the Paycheck Protection Program. The loan, which was in the form of a Note issued by the Borrower, matures on January 27, 2026 and bears interest at a rate of 1% per annum. The Museum used the loan for qualifying expenses during a twenty-four-week period as described in the CARES Act and was granted full forgiveness of the loan under the terms of the Paycheck Protection Program during the year ended June 30, 2022, and recorded a gain on forgiveness of debt in the statement of activities.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

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7. Bonds Payable and Line of Credit Payable

In March 2015, the Museum issued Revenue Note, Series 2015 issued by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota, providing financing of \$16,600,000. The note was held by US Bank National Association. Principal was payable in annual installments with the remaining payable at maturity, May 1, 2027, or upon earlier option or mandatory pre-payment. 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.

Debt consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Revenue note, Series 2020	\$ 10,100,000	\$ 11,400,000
Less deferred financing fees, net of accumulated amortization	<u>(116,782)</u>	<u>(129,879)</u>
Total debt	<u>\$ 9,983,218</u>	<u>\$ 11,270,121</u>

At June 30, 2022 and 2021, the interest rate on the revenue notes were 3 percent and 1.3 percent, respectively.

The principal maturities on the note payable for each of the five years subsequent and thereafter to June 30, 2022 approximate:

Years ending June 30:	
2023	\$ 1,400,000
2024	1,500,000
2025	1,600,000
2026	1,700,000
2027	1,900,000
Thereafter	<u>2,000,000</u>
Total	<u>\$ 10,100,000</u>

The Museum has a \$2,000,000 line of credit with US Bank. At June 30, 2020, the line of credit was unsecured and bears interest based on the Daily Reset LIBOR Rate (1.4 percent at June 30, 2020). In February 2021, the line of credit agreement was amended to require collateral of 110 percent of the outstanding balance, change the interest rate to the prime rate less applicable margin of 1.25 percent per annum, and extend the maturity date to June 30, 2021. In December 2021, the line of credit agreement was amended to extend the maturity date to December 31, 2022. The balance outstanding at June 30, 2022 and 2021 was \$0 and \$2,000,000, respectively

In order 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.

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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 swaps are recognized as either assets or liabilities on the statements of financial position and are measured 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 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 into a new interest rate swap transaction with US Bank National Association which replaced the previous agreement.

In fiscal 2022, the Museum received \$198,831 more than it paid in interest under the swap agreements. In fiscal 2021 the Museum paid \$253,536 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, 2022:

Instrument Type	Effective Date	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	April 1, 2020	\$ 10,100,000	April 1, 2029	2.121 %	82% of USD-LIBOR-BBA

The following is a summary of the outstanding positions under these interest rate swaps as of June 30, 2021:

Instrument Type	Effective Date	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	April 1, 2020	\$ 11,400,000	April 1, 2029	2.098 %	82% of USD-LIBOR-BBA

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2022 and 2021 as follows:

Derivatives not Designated as Hedging Instruments	Statements of Financial Position Location	Liabilities Derivative	
		Fair Value	
		2022	2021
Interest rate swap	Interest rate swaps liability	\$ 106,837	\$ 684,232

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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	
		2022	2021
Interest rate swap	Gain on interest rate swaps	\$ 557,395	\$ 423,757

9. Net Assets

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

	2022	2021
Undesignated	\$ 1,494,215	\$ 1,453,006
Board designated endowment	11,154,383	12,172,853
Designated	4,231,615	3,575,609
Property and equipment	55,555,547	60,211,290
	<u>\$ 72,435,760</u>	<u>\$ 77,412,758</u>

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

	2022	2021
Restricted in perpetuity	\$ 20,651,541	\$ 20,789,468
Time restricted - endowment	9,436,753	14,675,967
Time restricted - other	537,394	1,099,032
Purpose restricted	2,984,942	3,653,118
	<u>\$ 33,610,630</u>	<u>\$ 40,217,585</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.

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.

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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

Endowment net asset composition by type of fund consists of the following as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 30,088,294	\$ 30,088,294
Designated endowment funds	11,154,383	-	11,154,383
Total endowment net assets	<u>\$ 11,154,383</u>	<u>\$ 30,088,294</u>	<u>\$ 41,242,677</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 35,465,434	\$ 35,465,434
Designated endowment funds	12,172,853	-	12,172,853
Total endowment net assets	<u>\$ 12,172,853</u>	<u>\$ 35,465,434</u>	<u>\$ 47,638,287</u>

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Changes in endowment net assets for the year ended June 30, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2021	\$ 12,172,853	\$ 35,465,434	\$ 47,638,287
Investment return:			
Net depreciation, realized and unrealized	(1,309,705)	(3,942,538)	(5,252,243)
Contributions	2,345,131	4,000	2,349,131
Appropriation of endowment assets for expenditure, spending policy	(867,648)	(1,319,568)	(2,187,216)
Other approved endowment draws	(822,596)	-	(822,596)
Other changes:			
Other transfers	(363,652)	22,893	(340,759)
Change in beneficial interest in trusts	-	(141,927)	(141,927)
Endowment net assets, June 30, 2022	<u>\$ 11,154,383</u>	<u>\$ 30,088,294</u>	<u>\$ 41,242,677</u>

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2020	\$ 11,761,597	\$ 28,932,902	\$ 40,694,499
Investment return:			
Net appreciation (loss), realized and unrealized	3,103,519	7,521,771	10,625,290
Contributions	446,649	2,500	449,149
Appropriation of endowment assets for expenditure, spending policy	(963,912)	(1,261,293)	(2,225,205)
Other approved endowment draws	(2,175,000)	-	(2,175,000)
Other changes:			
Change in beneficial interest in trusts	-	269,554	269,554
Endowment net assets, June 30, 2021	<u>\$ 12,172,853</u>	<u>\$ 35,465,434</u>	<u>\$ 47,638,287</u>

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 was 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, 2022 and 2021.

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.

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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 percent to 6 percent 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 percent to 4 percent 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. On December 17, 2020, the Museum approved an incremental draw from the board designated endowment of \$3,000,000 in response to the re-closure of the Museum. Of this approved amount, the Museum drew \$2,175,000 for Museum operations. During fiscal year 2022, the Museum drew approximately \$823,000 from the board designated endowment in addition to the spending policy allocation that was made.

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 on deposit with a single bank. Investments are diversified in order 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 has entered into various operating leases for office and warehouse space through fiscal year 2022. The Museum is responsible for all operating costs associated with the leased space. The Museum also rents films from other museums and organizations, which are expensed.

Total rent and lease expense was \$182,983 and \$142,827 for the years ended June 30, 2022 and 2021, respectively.

The following is a schedule of future minimum lease payments required under noncancellable operating leases as of June 30, 2022:

Years ending June 30:		
2023	\$	119,700
2024		123,375
2025		126,000
2026		129,675
2027		55,125
		<hr/>
Total lease commitments	\$	553,875

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In 2020, the Museum entered into a five-year lease for equipment with annual payments of \$166,466 and an implicit interest rate of 3.9 percent. The Museum was obligated to pay costs of insurance, taxes, repairs and maintenance pursuant to the terms of the leases.

Property and equipment include the following amounts for equipment held under capital lease at June 30:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 772,145	\$ 772,145
Less accumulated amortization	(386,073)	(231,643)
Total equipment under capital lease, net	<u>\$ 386,072</u>	<u>\$ 540,502</u>

Amortization expense is included in depreciation expense in the statement of activities.

The capital lease obligation consists of the following at June 30:

Present value of minimum lease payments	\$ 314,420
Less current portion	(154,203)
Long-term portion	<u>\$ 160,217</u>

Future minimum lease commitments under the capital lease for the years ended June 30, consist of the following:

2023	\$ 166,466
2024	166,464
Total	<u>332,930</u>
Less: amount representing interest	(18,510)
Present value of minimum lease payments	<u>\$ 314,420</u>

13. Functional Expenses

The Museum's expenses for the year ended June 30, 2022 are classified functionally as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and benefits	\$ 14,392,458	\$ 2,699,289	\$ 1,575,683	\$ 18,667,430
Utilities, maintenance, print and supplies	2,654,851	251,463	94,124	3,000,438
Marketing and advertising	864,705	-	-	864,705
Travel, professional development, and meetings	338,713	66,928	15,897	421,538
Professional services	1,827,133	1,266,929	289,507	3,383,569
Fabrication and exhibits	2,184,895	144	115	2,185,154
Depreciation	5,924,694	77,876	41,601	6,044,171
Interest	429,357	5,490	4,392	439,239
Cost of goods sold	475,726	-	-	475,726
Other	906,009	-	65,359	971,368
Total	<u>\$ 29,998,541</u>	<u>\$ 4,368,119</u>	<u>\$ 2,086,678</u>	<u>\$ 36,453,338</u>

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The Museum's expenses for the year ended June 30, 2021 are classified functionally as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and benefits	\$ 12,173,997	\$ 3,086,921	\$ 1,559,814	\$ 16,820,732
Utilities, maintenance, print and supplies	1,718,167	320,212	60,490	2,098,869
Marketing and advertising	533,902	-	-	533,902
Travel, professional development and meetings	118,710	20,733	1,892	141,335
Professional services	1,186,489	530,759	179,681	1,896,929
Fabrication and exhibits	2,284,768	-	-	2,284,768
Depreciation	6,023,027	52,863	42,291	6,118,181
Interest	468,611	5,992	4,794	479,397
Cost of goods sold	139,108	-	-	139,108
Other	467,982	45,253	20,217	533,452
Total	<u>\$ 25,114,761</u>	<u>\$ 4,062,733</u>	<u>\$ 1,869,179</u>	<u>\$ 31,046,673</u>

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.

15. Supplemental Disclosure of Cash Flow Information

	<u>2022</u>	<u>2021</u>
Interest paid	\$ 436,955	\$ 483,236
Income taxes paid	-	4,575
Noncash investing and financing activities:		
Additions to property and equipment included in accounts payable	-	12,738

16. Subsequent Event

The Museum has evaluated subsequent events through December 27, 2022, which is the date that the financial statements were approved and available to be issued.