

# **The Science Museum of Minnesota**

Financial Statements

June 30, 2021 and 2020

# The Science Museum of Minnesota

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## **Independent Auditors' Report**

To the Board of Trustees of  
The Science Museum of Minnesota

We have audited the accompanying financial statements of The Science Museum of Minnesota (the Museum), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2021 and 2020, 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.

*Baker Tilly US, LLP*  
Minneapolis, Minnesota  
November 19, 2021

# The Science Museum of Minnesota

## Statements of Financial Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,640,620	\$ 4,095,231
Restricted cash	1,691,611	2,000,050
Accounts and grants receivable, less allowance for doubtful accounts of \$5,000 in 2021 and 2020	4,196,465	1,235,452
Contributions receivable, net	1,213,319	2,043,125
Inventories	209,413	194,554
Other assets	872,719	662,665
Investments	46,562,501	40,726,423
Property and equipment, net	<u>81,605,470</u>	<u>86,830,070</u>
Total assets	<u>\$ 137,992,118</u>	<u>\$ 137,787,570</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 744,016	\$ 628,047
Accrued payroll and other expenses	2,113,609	1,981,151
Deferred revenue	874,062	1,118,280
Annuity obligations	90,589	96,552
Interest rate swaps liability	684,232	1,107,990
Notes and loan payable	2,122,311	4,890,133
Line of credit payable	2,000,000	2,000,000
Capital leases payable	462,835	605,679
Bonds payable	<u>11,270,121</u>	<u>12,557,024</u>
Total liabilities	<u>20,361,775</u>	<u>24,984,856</u>
<b>Net Assets</b>		
Without donor restrictions	77,412,758	78,247,105
With donor restrictions	<u>40,217,585</u>	<u>34,555,609</u>
Total net assets	<u>117,630,343</u>	<u>112,802,714</u>
Total liabilities and net assets	<u>\$ 137,992,118</u>	<u>\$ 137,787,570</u>

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			
<b>Revenues, Gains and Other Support</b>						
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)	35,471	(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 (loss) on investments	6,118	3,103,519	-	3,109,637	7,521,771	10,631,408
	23,089,421	3,955,073	128,994	27,173,488	8,700,814	35,874,302
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	-	-	-
<b>Total revenues, gains and other support</b>	<b>28,631,259</b>	<b>816,161</b>	<b>764,906</b>	<b>30,212,326</b>	<b>5,661,976</b>	<b>35,874,302</b>
<b>Expenses and Transfers of Net Assets</b>						
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)
<b>Total expenses</b>	<b>24,928,492</b>	<b>-</b>	<b>6,118,181</b>	<b>31,046,673</b>	<b>-</b>	<b>31,046,673</b>
Transfers of net assets	1,439,190	234,976	(1,674,166)	-	-	-
<b>Total expenses and transfers of net assets</b>	<b>26,367,682</b>	<b>234,976</b>	<b>4,444,015</b>	<b>31,046,673</b>	<b>-</b>	<b>31,046,673</b>
Change in net assets	2,263,577	581,185	(3,679,109)	(834,347)	5,661,976	4,827,629
<b>Net Assets, Beginning</b>	<b>(810,571)</b>	<b>15,167,277</b>	<b>63,890,399</b>	<b>78,247,105</b>	<b>34,555,609</b>	<b>112,802,714</b>
<b>Net Assets, Ending</b>	<b>\$ 1,453,006</b>	<b>\$ 15,748,462</b>	<b>\$ 60,211,290</b>	<b>\$ 77,412,758</b>	<b>\$ 40,217,585</b>	<b>\$ 117,630,343</b>

See notes to financial statements

**The Science Museum of Minnesota**

Statement of Activities

Year Ended June 30, 2020

	Without Donor Restrictions			Total	With Donor Restrictions	Total
	Undesignated Operating	Designated	Property and Equipment			
<b>Revenues, Gains and Other Support</b>						
Contributions and grants	\$ 4,852,351	\$ 301,497	\$ -	\$ 5,153,848	\$ 1,492,802	\$ 6,646,650
Government grants	4,989,025	-	2,813,357	7,802,382	-	7,802,382
Change in beneficial interest in trusts	-	-	-	-	(6,222)	(6,222)
Admissions and fees	4,973,773	-	-	4,973,773	3,608	4,977,381
Memberships	2,461,650	-	-	2,461,650	-	2,461,650
Museum shops, sales	627,732	-	-	627,732	-	627,732
Parking ramp	1,472,878	-	-	1,472,878	-	1,472,878
Film and exhibit fees	4,318,759	-	-	4,318,759	-	4,318,759
Investment income (loss)	59,777	(58,985)	50	842	-	842
Loss on interest rate swaps	-	(287,115)	-	(287,115)	-	(287,115)
Gain (loss) on investments	143,760	(234,623)	-	(90,863)	525,982	435,119
	<u>23,899,705</u>	<u>(279,226)</u>	<u>2,813,407</u>	<u>26,433,886</u>	<u>2,016,170</u>	<u>28,450,056</u>
Appropriation of endowment assets for expenditure	3,352,996	(3,535,652)	1,400,000	1,217,344	(1,217,344)	-
Net assets released from restrictions	3,559,940	-	-	3,559,940	(3,559,940)	-
Capital additions	(2,188,288)	-	2,188,288	-	-	-
	<u>28,624,353</u>	<u>(3,814,878)</u>	<u>6,401,695</u>	<u>31,211,170</u>	<u>(2,761,114)</u>	<u>28,450,056</u>
Total revenues, gains and other support						
<b>Expenses and Transfers of Net Assets</b>						
Program	25,890,422	-	5,303,185	31,193,607	-	31,193,607
Management and general	4,671,935	-	40,745	4,712,680	-	4,712,680
Fundraising and development	1,957,886	-	32,596	1,990,482	-	1,990,482
Allocable expenses:						
Interest expense	652,053	-	-	652,053	-	652,053
Building operations and maintenance	3,639,743	-	704,222	4,343,965	-	4,343,965
Less allocated expenses	(4,996,018)	-	-	(4,996,018)	-	(4,996,018)
	<u>31,816,021</u>	<u>-</u>	<u>6,080,748</u>	<u>37,896,769</u>	<u>-</u>	<u>37,896,769</u>
Total expenses						
Transfers of net assets	606,648	808,009	(1,414,657)	-	-	-
	<u>32,422,669</u>	<u>808,009</u>	<u>4,666,091</u>	<u>37,896,769</u>	<u>-</u>	<u>37,896,769</u>
Total expenses and transfers of net assets						
Change in net assets	(3,798,316)	(4,622,887)	1,735,604	(6,685,599)	(2,761,114)	(9,446,713)
<b>Net Assets, Beginning</b>	<u>2,987,745</u>	<u>19,790,164</u>	<u>62,154,795</u>	<u>84,932,704</u>	<u>37,316,723</u>	<u>122,249,427</u>
<b>Net Assets, Ending</b>	<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>

See notes to financial statements

# The Science Museum of Minnesota

## Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 4,827,629	\$ (9,446,713)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	6,118,181	6,075,748
Amortization of bond issuance costs	13,097	83,272
Loss on disposals of property and equipment	-	62,042
In-kind contribution	-	(36,264)
Gain on forgiveness of debt	(4,536,500)	-
Gain on investments	(10,761,330)	(556,358)
(Gain) loss on interest rate swaps	(423,758)	287,115
Change in beneficial interest in trusts:	(269,554)	6,222
Change in operating assets and liabilities:		
Accounts receivable, net	(2,961,013)	4,428,687
Contributions receivable, net, operations	829,806	641,818
Inventories	(14,859)	(20,461)
Other assets	(210,054)	225,995
Accounts payable	120,912	(471,863)
Accrued payroll and other expenses	132,458	(15,896)
Deferred revenue	(244,218)	(487,291)
Annuity obligations	(5,963)	23,618
Net cash flows from operating activities	<u>(7,385,166)</u>	<u>799,671</u>
<b>Cash Flows From Investing Activities</b>		
Sales of investments	6,310,581	13,373,949
Purchases of investments	(1,115,775)	(5,788,697)
Additions to property and equipment	(898,524)	(10,884,804)
Net cash flows from investing activities	<u>4,296,282</u>	<u>(3,299,552)</u>
<b>Cash Flows From Financing Activities</b>		
Payments on capital leases payable	(142,844)	(166,466)
Payments on notes and loan payable	(231,322)	(214,657)
Proceeds from notes and loan payable	2,000,000	4,536,500
Proceeds from line of credit payable	-	2,000,000
Payments on bond issuance costs	-	(146,250)
Payments on bonds payable	(1,300,000)	(1,200,000)
Proceeds on bonds payable	-	2,000,000
Contributions received restricted for long-term investment	-	75,000
Net cash flows from financing activities	<u>325,834</u>	<u>6,884,127</u>
Net change in cash and cash equivalents	(2,763,050)	4,384,246
<b>Cash, Cash Equivalents and Restricted Cash Beginning</b>	<u>6,095,281</u>	<u>1,711,035</u>
<b>Cash, Cash Equivalents and Restricted Cash Ending</b>	<u>\$ 3,332,231</u>	<u>\$ 6,095,281</u>

See notes to financial statements



# The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2021 and 2020

## 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 that 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 \$3,361,248 and \$4,916,727 of conditional promises to give at June 30, 2021 and 2020, respectively.

# The Science Museum of Minnesota

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## Notes to Financial Statements

June 30, 2021 and 2020

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. During the year ended June 30, 2021, \$308,439 of the restricted funds were spent. The restricted cash balance as of June 30, 2021 and 2020 was \$1,691,611 and \$2,000,000, 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 receivable 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, 2021 and 2020 was \$158,759 and \$172,913, 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

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Notes to Financial Statements

June 30, 2021 and 2020

## 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

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Notes to Financial Statements

June 30, 2021 and 2020

## **Employee Retention Credit**

The Employee Retention Credit (ERC), which 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), 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 through September 30, 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 2021 in quarters one and two as it experienced a significant decline in gross receipts (for 2021, defined as a 20 percent decline in gross receipts when compared to the same quarters in 2019). The Museum averaged less than 500 full-time employees (FTEs) during 2019, therefore, it was considered a small employer for qualification of the 2021 ERC. For 2021, the ERC equaled 70 percent of an employee's qualified wages, including health benefits, 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 quarter 1 and quarter 2. The amount is included in government grants and accounts and grants receivable on the financial statements as of and for the year ended June 30, 2021.

## **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, 2021 and 2020 was \$367,000 and \$426,000, respectively.

## **Advertising Expenses**

Advertising expenses approximated \$534,000 and \$1,072,000 for the years ended June 30, 2021 and 2020, respectively. Advertising costs are expensed when incurred.

# The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2021 and 2020

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## 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 and \$66,799 were recorded for the years ended June 30, 2021 and 2020, respectively, relating to the Museum's unrelated business income. During the years ended June 30, 2021 and 2020, the Museum incurred unrelated business income relating to their alternative investments. As a result, the Museum has recorded income tax expense of \$17,710 and \$14,123 for June 30, 2021 and 2020 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, 2021 and 2020. 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 Pronouncements Adopted in Current Year

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers*. This accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The Museum adopted this guidance beginning July 1, 2020 utilizing the modified retrospective method of adoption, and the adoption of this standard did not have a material impact on the Museum's financial statements for the year ended June 30, 2021. The Museum provided expanded disclosures pertaining to revenue recognition within Note 1.

# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

In August 2018, FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, which the Board finalized on August 28, 2018. The Museum has adopted the provisions of this new standard for the year ended June 30, 2021. This standard was retroactively applied.

### 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 September 2020, the FASB issued 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 standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (fiscal year 2022). Early adoption is permitted. The Museum is assessing the impact this standard will have on its 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, 2021 and 2020, the following financial assets could readily be made available within one year to meet general expenditures:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 494,563	\$ 3,953,200
Accounts receivable, net	4,196,465	1,235,452
Contributions receivable for general expenditures due in one year or less	829,919	1,007,851
Approved endowment distribution in next 12 months	3,009,422	2,251,274
Short-term investments available in next 12 months	-	89,870
	<u>          </u>	<u>          </u>
Financials assets available in next 12 months	<u>\$ 8,530,369</u>	<u>\$ 8,537,647</u>

# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

As of June 30, 2021, amounts not available include: \$1,146,057 of cash and cash equivalents held in the endowment, \$19,643,412 of investments held in perpetuity, and \$26,919,089 of investments held until approved for spending distribution by the Board. As of June 30, 2020, amounts not available include: \$142,031 of cash and cash equivalents held in the endowment, \$20,375,383 of investments held in perpetuity, and \$20,261,170 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, 2021 and 2020.

### 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 are 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 are 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 swap liability 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.).

# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

There have been no changes in the techniques and inputs used as of June 30, 2021 and 2020.

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 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>
<b>Assets</b>				
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	1,451,722		-	1,451,722
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>			
<b>Liabilities</b>				
Interest rate swap liability	<u>\$ 684,232</u>	<u>\$ -</u>	<u>\$ 684,232</u>	<u>\$ -</u>



# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

The following table presents information about the Museum's assets and liabilities measured at fair value on a recurring basis as of June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Investments:				
Mutual funds, U.S. equities	\$ 3,015,843	\$ 3,015,843	\$ -	\$ -
Mutual funds, U.S. bonds	13,029,613	13,029,613	-	-
Money market funds	10,199	10,199	-	-
Beneficial interest in trusts	1,182,168	-	-	1,182,168
	<u>17,237,823</u>	<u>\$ 16,055,655</u>	<u>\$ -</u>	<u>\$ 1,182,168</u>
Total assets in the fair value hierarchy				
Alternative investments measured using NAV	<u>23,488,600</u>			
Total assets at fair value	<u>\$ 40,726,423</u>			
<b>Liabilities</b>				
Interest rate swap liability	<u>\$ 1,107,990</u>	<u>\$ -</u>	<u>\$ 1,107,990</u>	<u>\$ -</u>

There were no purchases, sales or transfers of Level 3 assets during the years ended June 30, 2021 and 2020.

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, 2021:

<b>Asset Class</b>	<u>Fair Value June 30, 2021</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>	<u>Remaining Life (Years)</u>
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	269,447	-	Illiquid	N/A	N/A
Total hedge funds	5,585,366	-			
Private equity funds	4,653,150	1,770,057	2-10 years	N/A	N/A
Total	<u>\$ 30,640,322</u>	<u>\$ 1,770,057</u>			

# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

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, 2020:

Asset Class	Fair Value June 30, 2020	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Commingled fund	\$ 14,929,581	\$ -	Monthly/ Quarterly	7-60 days	N/A
Hedge funds:					
Fir Tree Int'l Value	10,247	-	Illiquid	N/A	N/A
Flowering Tree	1,022,273	-	Quarterly	90 days	N/A
Pointer	3,452,783	-	Annually	107 days	N/A
BlackRock Tempus	380,741	-	Illiquid	N/A	N/A
Total hedge funds	4,866,044	-			
Private equity funds	3,692,975	1,877,786	2-10 years	N/A	N/A
Total	<u>\$ 23,488,600</u>	<u>\$ 1,877,786</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 with 60 day notice a 20 percent fund level gate.
- 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.

# The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2021 and 2020

## 4. Contributions Receivable

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

	<u>2021</u>	<u>2020</u>
Operations	\$ 116,287	\$ 177,940
With donor restrictions	<u>1,122,532</u>	<u>1,909,385</u>
	1,238,819	2,087,325
	(24,500)	(41,500)
Less allowances	(24,500)	(41,500)
Less unamortized discount	<u>(1,000)</u>	<u>(2,700)</u>
	<u>\$ 1,213,319</u>	<u>\$ 2,043,125</u>
	<u>2021</u>	
Amounts due in:		
Less than one year	\$ 829,919	
One to five years	<u>408,900</u>	
Ending balance	<u>\$ 1,238,819</u>	

Promises due in one to five years were discounted using a rate of 0.25 percent and 0.2 percent at June 30, 2021 and 2020, respectively. Promises due in less than one year were not discounted. Net unconditional promises to give at June 30, 2021 and 2020 from related parties were \$2,600 and \$38,480, respectively.

For the years ended June 30, 2021 and 2020, the Museum received total contributions from Board members and officers of \$135,815 and \$106,574, respectively.

## 5. Property and Equipment, Net

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

	<u>2021</u>	<u>2020</u>
Land	\$ 2,429,155	\$ 2,429,155
Buildings	123,417,186	122,844,082
Equipment	9,333,531	9,390,565
Exhibits	58,079,087	57,827,223
Films	14,082,962	14,082,962
Exhibits and construction in process	<u>1,344,276</u>	<u>1,359,812</u>
	208,686,197	207,933,799
	(127,080,727)	(121,103,729)
Less accumulated depreciation	<u>(127,080,727)</u>	<u>(121,103,729)</u>
	<u>\$ 81,605,470</u>	<u>\$ 86,830,070</u>

# The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2021 and 2020

## 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 has 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 and 2020, the net present value of the future minimum payments is \$122,311 and \$353,633, respectively, using a discount rate of 7.5 percent. The imputed interest for the note was \$18,678 and \$35,343 for the years ended June 30, 2021 and 2020, respectively. The principal reductions to the note payable for the year subsequent to June 30, 2021 are \$122,311.

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 percent 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. A gain on forgiveness of debt of \$4,536,500 was recorded during the year ended June 30, 2021.

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 percent per annum. Under the terms of the Paycheck Protection Program, certain amounts of the loan may be forgiven if they are used for qualifying expenses during a twenty-four week period.

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.

## 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.

# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

Debt consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Revenue note, Series 2020	\$ 11,400,000	\$ 12,700,000
Less deferred financing fees, net of accumulated amortization	<u>(129,879)</u>	<u>(142,976)</u>
Total debt	<u>\$ 11,270,121</u>	<u>\$ 12,557,024</u>

At June 30, 2021 and 2020, the interest rate on the revenue notes were 1.3 percent and 1.4 percent, respectively.

The principal maturities on the note payable for each of the five years subsequent and thereafter to June 30, 2021 approximate:

Years ending June 30:	
2022	\$ 1,300,000
2023	1,400,000
2024	1,500,000
2025	1,600,000
2026	1,700,000
Thereafter	<u>3,900,000</u>
Total	<u>\$ 11,400,000</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 based on the prime rate less applicable margin of 1.25 percent per annum, and extend the maturity date to June 30, 2021. In June 2021, the line of credit agreement was amended to extend the maturity date to December 31, 2021. The balance outstanding at June 30, 2021 and 2020 was \$2,000,000.

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.

## 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.

# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

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 2021 and 2020, the Museum paid \$253,536 and \$213,146, 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, 2021:

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

The following is a summary of the outstanding positions under these interest rate swaps as of June 30, 2020:

<u>Instrument Type</u>	<u>Effective Date</u>	<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Rate Paid</u>	<u>Rate Received</u>
Floating to fixed rate swap	April 1, 2020	\$ 12,700,000	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, 2021 and 2020 as follows:

<u>Derivatives not Designated as Hedging Instruments</u>	<u>Statements of Financial Position Location</u>	<u>Liabilities Derivative</u>	
		<u>Fair Value</u>	
		<u>2021</u>	<u>2020</u>
Interest rate swap	Interest rate swaps liability	\$ 684,232	\$ 1,107,990

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

<u>Derivatives not Designated as Hedging Instruments</u>	<u>Location of Loss on Derivative Recognized in the Statements of Activities and Changes in Net Assets</u>	<u>Amount of Loss on Derivatives Recognized in the Statements of Activities and Changes in Net Assets</u>	
		<u>2021</u>	<u>2020</u>
		Interest rate swap	Gain (loss) on interest rate swaps

# The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2021 and 2020

## 9. Net Assets

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

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 1,453,006	\$ (810,571)
Board designated endowment	12,172,853	11,761,597
Designated	3,575,609	3,405,680
Property and equipment	60,211,290	63,890,399
	<u>\$ 77,412,758</u>	<u>\$ 78,247,105</u>

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

	<u>2021</u>	<u>2020</u>
Restricted in perpetuity	\$ 20,789,468	\$ 20,517,414
Time restricted - endowment	14,675,966	8,415,488
Time restricted - other	1,099,033	1,868,585
Purpose restricted	3,653,118	3,754,122
	<u>\$ 40,217,585</u>	<u>\$ 34,555,609</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.

### 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 Science Museum of Minnesota

### Notes to Financial Statements

June 30, 2021 and 2020

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, 2021:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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>

Endowment net asset composition by type of fund consists of the following as of June 30, 2020:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 28,932,902	\$ 28,932,902
Designated endowment funds	11,761,597	-	11,761,597
Total endowment net assets	<u>\$ 11,761,597</u>	<u>\$ 28,932,902</u>	<u>\$ 40,694,499</u>



# The Science Museum of Minnesota

## Notes to Financial Statements

June 30, 2021 and 2020

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2020	\$ 11,761,597	\$ 28,932,902	\$ 40,694,499
Investment return:			
Net appreciation, 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>

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, June 30, 2019	\$ 15,253,065	\$ 29,621,686	\$ 44,874,751
Investment return:			
Net appreciation (loss), realized and unrealized	(234,623)	525,982	291,359
Contributions	278,807	8,800	287,607
Appropriation of endowment assets for expenditure, spending policy	(1,135,652)	(1,217,344)	(2,352,996)
Other approved endowment draws	(2,400,000)	-	(2,400,000)
Other changes:			
Change in beneficial interest in trusts	-	(6,222)	(6,222)
Endowment net assets, June 30, 2020	<u>\$ 11,761,597</u>	<u>\$ 28,932,902</u>	<u>\$ 40,694,499</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, 2021 and 2020.

### 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.

# The Science Museum of Minnesota

Notes to Financial Statements

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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. During fiscal 2020, \$1,400,000 was drawn from the board designated endowment for the building preservation project. On March 18, 2020, the Museum approved an emergency draw from the board designated endowment of \$2,000,000 in response to the economic impact of COVID-19 and anticipated Museum operations shutdown. Of this approved amount, the Museum drew \$1,000,000 for Museum operations. 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.

## 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 \$142,827 and \$138,911 for the years ended June 30, 2021 and 2020, respectively.

## The Science Museum of Minnesota

### Notes to Financial Statements

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The following is a schedule of future minimum lease payments required under noncancellable operating leases as of June 30, 2021:

Years ending June 30:	
2022	\$ 117,825
2023	119,700
2024	123,375
2025	126,000
2026	129,675
2027	55,125
	<hr/>
Total lease commitments	\$ 671,700

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, which is classified as a capital lease. 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>2021</u>	<u>2020</u>
Equipment	\$ 772,145	\$ 772,145
Less accumulated amortization	<u>(231,643)</u>	<u>(77,215)</u>
Total equipment under capital lease, net	<u>\$ 540,502</u>	<u>\$ 694,930</u>

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

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

Present value of minimum lease payments	\$ 462,835
Less current portion	<u>(148,415)</u>
Long-term portion	<u>\$ 314,420</u>

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

2022	\$ 166,466
2023	166,466
2024	<u>166,464</u>
Total	499,396
Less amount representing interest	<u>(36,561)</u>
Present value of minimum lease payments	<u>\$ 462,835</u>

# The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2021 and 2020

## 13. Functional Expenses

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>

The Museum's expenses for the year ended June 30, 2020 are classified functionally as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and benefits	\$ 15,378,447	\$ 3,554,570	\$ 1,530,505	\$ 20,463,522
Utilities, maintenance, print and supplies	2,007,409	439,115	121,438	2,567,962
Marketing and advertising	1,072,113	-	-	1,072,113
Travel, professional development and meetings	461,153	59,743	23,439	544,335
Professional services	1,541,773	519,676	170,213	2,231,662
Fabrication and exhibits	2,500,561	-	-	2,500,561
Depreciation	5,986,675	49,485	39,588	6,075,748
Interest	637,381	8,151	6,521	652,053
Cost of goods sold	315,052	-	-	315,052
Other	1,293,043	81,940	98,778	1,473,761
Total	<u>\$ 31,193,607</u>	<u>\$ 4,712,680</u>	<u>\$ 1,990,482</u>	<u>\$ 37,896,769</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.

# The Science Museum of Minnesota

Notes to Financial Statements  
June 30, 2021 and 2020

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## 15. Supplemental Disclosure of Cash Flow Information

	<u>2021</u>	<u>2020</u>
Interest paid	\$ 483,236	\$ 649,917
Income taxes paid	4,575	64,840
Noncash investing and financing activities:		
Additions to property and equipment included in accounts payable	12,738	17,681
Additions to property and equipment with proceeds from capital lease	-	772,145
Proceeds from issuance of Series 2020 Bonds used to retire Series 2015 Bonds	-	11,900,000

## 16. Subsequent Event

The Museum has evaluated subsequent events through November 19, 2021, which is the date that the financial statements were approved and available to be issued.