

**THE SCIENCE MUSEUM OF MINNESOTA**

Saint Paul, Minnesota

Audit Report on Financial Statements  
and Federal Awards

As of and for the Year Ended June 30, 2017

# THE SCIENCE MUSEUM OF MINNESOTA

## TABLE OF CONTENTS

---

Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 25
Schedule of Expenditures of Federal Awards	26 - 27
Notes to Schedule of Expenditures of Federal Awards	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29 - 30
Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	31 - 32
Schedule of Findings and Questioned Costs	33
Summary Schedule of Prior Audit Findings	34

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
The Science Museum of Minnesota  
Saint Paul, Minnesota

### ***Report on the Financial Statements***

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, 2017 and 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Science Museum of Minnesota as of June 30, 2017 and 2016, 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.

### **Other Matters**

#### *Report on Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017 on our consideration of The Science Museum of Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control over financial reporting and compliance.

*Baker Tilly Veitchau Krause, LLP*

Minneapolis, Minnesota  
November 13, 2017

**THE SCIENCE MUSEUM OF MINNESOTA**

**STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2017 and 2016

<b>ASSETS</b>		
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 6,513,666	\$ 2,030,689
Accounts receivable, less allowance for doubtful accounts of \$5,000 in 2017 and 2016	3,425,606	3,283,116
Contributions receivable, net	1,465,365	1,924,926
Inventories	169,026	201,552
Other assets	557,957	618,340
Investments	43,673,778	49,579,194
Property and equipment, net	<u>81,189,288</u>	<u>81,278,802</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 136,994,686</u></b>	<b><u>\$ 138,916,619</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,012,412	\$ 1,599,434
Accrued payroll and other expenses	2,404,592	2,346,735
Deferred revenue	1,945,755	1,497,579
Interest rate swaps liability	1,162,242	1,920,346
Notes and loan payable	1,149,669	1,457,740
Capital leases payable	32,328	49,097
Bonds payable	<u>13,999,578</u>	<u>14,989,366</u>
Total Liabilities	<u>21,706,576</u>	<u>23,860,297</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	2,888,069	2,728,686
Designated - Board designated endowment and donor restricted	15,157,501	14,279,072
Designated - Other	5,014,346	4,553,642
Property and equipment	<u>59,406,406</u>	<u>63,717,257</u>
Total unrestricted	82,466,322	85,278,657
Temporarily restricted	14,413,893	11,655,656
Permanently restricted	<u>18,407,895</u>	<u>18,122,009</u>
Total Net Assets	<u>115,288,110</u>	<u>115,056,322</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 136,994,686</u></b>	<b><u>\$ 138,916,619</u></b>

See accompanying notes to financial statements.

**THE SCIENCE MUSEUM OF MINNESOTA**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total Net Assets	
	Undesignated Operating	Designated	Property and Equipment				Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>							
Contributions and grants	\$ 6,039,680	\$ -	\$ -	\$ 6,039,680	\$ 3,000,989	\$ 240,000	\$ 9,280,669
Government grants	7,153,519	-	-	7,153,519	-	-	7,153,519
Change in beneficial interest in trusts	-	-	-	-	-	45,886	45,886
Admissions and fees	8,592,102	7,192	-	8,599,294	10,310	-	8,609,604
Memberships	2,864,469	-	-	2,864,469	-	-	2,864,469
Museum shops - sales	1,028,960	-	-	1,028,960	-	-	1,028,960
Parking ramp	2,120,843	-	-	2,120,843	-	-	2,120,843
Film and exhibit fees	3,717,406	-	-	3,717,406	-	-	3,717,406
Investment income	59,673	34,620	-	94,293	3,718	-	98,011
Gain on interest rate swaps	-	758,104	-	758,104	-	-	758,104
Gain on investments	-	1,884,702	-	1,884,702	3,428,077	-	5,312,779
	<u>31,576,652</u>	<u>2,684,618</u>	<u>-</u>	<u>34,261,270</u>	<u>6,443,094</u>	<u>285,886</u>	<u>40,990,250</u>
Appropriation of endowment assets for expenditure	2,137,391	(1,088,035)	-	1,049,356	(1,049,356)	-	-
Net assets released from restrictions	2,545,151	(1,065)	-	2,544,086	(2,544,086)	-	-
Capital additions	(5,732,015)	-	5,732,015	-	-	-	-
Total Revenues, Gains and Other Support	<u>30,527,179</u>	<u>1,595,518</u>	<u>5,732,015</u>	<u>37,854,712</u>	<u>2,849,652</u>	<u>285,886</u>	<u>40,990,250</u>
<b>EXPENSES AND TRANSFERS OF NET ASSETS</b>							
Program	25,788,186	-	9,562,596	35,350,782	-	-	35,350,782
Management and general	3,302,649	-	89,107	3,391,756	-	-	3,391,756
Fundraising and development	1,944,640	-	71,284	2,015,924	-	-	2,015,924
Allocable expenses							
Interest expense	1,099,808	-	5,431	1,105,239	-	-	1,105,239
Building operations and maintenance	4,608,987	-	633,382	5,242,369	-	-	5,242,369
Less: Allocated expenses	(6,342,177)	-	(5,431)	(6,347,608)	-	-	(6,347,608)
Total Expenses	<u>30,402,093</u>	<u>-</u>	<u>10,356,369</u>	<u>40,758,462</u>	<u>-</u>	<u>-</u>	<u>40,758,462</u>
Transfers of net assets	(34,297)	256,385	(313,503)	(91,415)	91,415	-	-
Total Expenses and Transfers of Net Assets	<u>30,367,796</u>	<u>256,385</u>	<u>10,042,866</u>	<u>40,667,047</u>	<u>91,415</u>	<u>-</u>	<u>40,758,462</u>
<b>CHANGE IN NET ASSETS</b>	159,383	1,339,133	(4,310,851)	(2,812,335)	2,758,237	285,886	231,788
NET ASSETS - Beginning of Year	<u>2,728,686</u>	<u>18,832,714</u>	<u>63,717,257</u>	<u>85,278,657</u>	<u>11,655,656</u>	<u>18,122,009</u>	<u>115,056,322</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,888,069</u>	<u>\$ 20,171,847</u>	<u>\$ 59,406,406</u>	<u>\$ 82,466,322</u>	<u>\$ 14,413,893</u>	<u>\$ 18,407,895</u>	<u>\$ 115,288,110</u>

See accompanying notes to financial statements.

**THE SCIENCE MUSEUM OF MINNESOTA**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total Net Assets	
	Undesignated Operating	Designated	Property and Equipment				Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>							
Contributions and grants	\$ 6,125,747	\$ -	\$ -	\$ 6,125,747	\$ 4,266,381	\$ 6,500	\$ 10,398,628
Government grants	6,045,982	-	-	6,045,982	-	-	6,045,982
Change in beneficial interest in trusts	-	-	-	-	-	(13,685)	(13,685)
Admissions and fees	9,772,486	31,265	-	9,803,751	7,383	-	9,811,134
Memberships	2,260,433	-	-	2,260,433	-	-	2,260,433
Museum shops - sales	1,084,753	-	-	1,084,753	-	-	1,084,753
Parking ramp	2,146,089	-	-	2,146,089	-	-	2,146,089
Film and exhibit fees	5,418,519	-	-	5,418,519	-	-	5,418,519
Investment income	71,169	23,343	-	94,512	4,147	-	98,659
Loss on interest rate swaps	-	(302,131)	-	(302,131)	-	-	(302,131)
Loss on investments	-	(571,114)	-	(571,114)	(749,763)	-	(1,320,877)
	<u>32,925,178</u>	<u>(818,637)</u>		<u>32,106,541</u>	<u>3,528,148</u>	<u>(7,185)</u>	<u>35,627,504</u>
Appropriation of endowment assets for expenditure	2,018,991	(1,053,654)	-	965,337	(965,337)	-	-
Net assets released from restrictions	3,456,604	(74,137)	-	3,382,467	(3,382,467)	-	-
Capital additions	(3,842,554)	-	3,842,554	-	-	-	-
Total Revenues, Gains and Other Support	<u>34,558,219</u>	<u>(1,946,428)</u>	<u>3,842,554</u>	<u>36,454,345</u>	<u>(819,656)</u>	<u>(7,185)</u>	<u>35,627,504</u>
<b>EXPENSES AND TRANSFERS OF NET ASSETS</b>							
Program	28,472,274	108,460	5,979,785	34,560,519	-	-	34,560,519
Management and general	2,762,951	1,419	46,771	2,811,141	-	-	2,811,141
Fundraising and development	1,810,069	1,135	37,419	1,848,623	-	-	1,848,623
Allocable expenses							
Interest expense	824,522	-	8,132	832,654	-	-	832,654
Building operations and maintenance	4,374,619	113,517	632,716	5,120,852	-	-	5,120,852
Less: Allocated expenses	(5,811,431)	(113,517)	(28,558)	(5,953,506)	-	-	(5,953,506)
Total Expenses	<u>32,433,004</u>	<u>111,014</u>	<u>6,676,265</u>	<u>39,220,283</u>			<u>39,220,283</u>
Transfers of net assets	2,079,406	(420,160)	(1,735,627)	(76,381)	76,381	-	-
Total Expenses and Transfers of Net Assets	<u>34,512,410</u>	<u>(309,146)</u>	<u>4,940,638</u>	<u>39,143,902</u>	<u>76,381</u>	<u>-</u>	<u>39,220,283</u>
<b>CHANGE IN NET ASSETS</b>	45,809	(1,637,282)	(1,098,084)	(2,689,557)	(896,037)	(7,185)	(3,592,779)
NET ASSETS - Beginning of Year	<u>2,682,877</u>	<u>20,469,996</u>	<u>64,815,341</u>	<u>87,968,214</u>	<u>12,551,693</u>	<u>18,129,194</u>	<u>118,649,101</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,728,686</u>	<u>\$ 18,832,714</u>	<u>\$ 63,717,257</u>	<u>\$ 85,278,657</u>	<u>\$ 11,655,656</u>	<u>\$ 18,122,009</u>	<u>\$ 115,056,322</u>

See accompanying notes to financial statements.

**THE SCIENCE MUSEUM OF MINNESOTA**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 231,788	\$ (3,592,779)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	5,821,529	5,317,277
Amortization	10,212	10,212
Loss on disposals of property and equipment	11,928	-
(Gain) loss on investments	(5,312,779)	1,320,877
(Gain) loss on interest rate swaps	(758,104)	302,131
Change in beneficial interest in trusts	(45,886)	13,685
Change in operating assets and liabilities		
Accounts receivable, net	(142,490)	1,700,774
Contributions receivable, net - operations	(30,537)	69,993
Inventories	32,526	(5,461)
Other assets	60,383	(336,482)
Accounts payable	(589,755)	115,352
Accrued payroll and other expenses	57,857	(133,103)
Deferred revenue	448,176	(629,141)
Contributions restricted for long-term investment	(857,904)	(1,281,189)
Net Cash Flows From Operating Activities	<u>(1,063,056)</u>	<u>2,872,146</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments	14,595,367	8,174,237
Purchases of investments	(3,331,286)	(5,263,160)
Additions to property and equipment	(5,741,210)	(3,842,553)
Net Cash Flows From Investing Activities	<u>5,522,871</u>	<u>(931,476)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital leases payable	(16,769)	(2,915)
Payments on note payable	(308,071)	(318,404)
Payments on bonds payable	(1,000,000)	(1,000,000)
Contributions received restricted for long-term investment	1,348,002	630,765
Net Cash Flows From Financing Activities	<u>23,162</u>	<u>(690,554)</u>
<b>Net Change in Cash and Cash Equivalents</b>	4,482,977	1,250,116
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,030,689</u>	<u>780,573</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 6,513,666</u>	<u>\$ 2,030,689</u>

See accompanying notes to financial statements.

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 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 in which all people have 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 of families with children, 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 purposes of financial reporting, the Museum classifies resources into three 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:

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently 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.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met by action of the Museum and/or the passage of time.

**Unrestricted Net Assets** - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. 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 unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as changes in unrestricted net assets.

Contributions, including unconditional 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 temporary restrictions on 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 are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

---

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; 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.

**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, 2017 and June 30, 2016 was \$302,829 and \$260,255, respectively.

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

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

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

---

**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 unrestricted net assets in the year in which the items are acquired or as temporarily restricted net assets if a donor makes a contribution intended to fund the subsequent purchase of collections. Contributions of collections are not reflected on the financial statements.

**Deferred Revenue** - Certain revenue related to exhibits for sale, traveling exhibits and summer education programs is deferred and recognized as revenue in the same period expenses are recognized.

**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, 2017 and 2016 was \$474,000 and \$469,000, respectively.

**Advertising Expenses** - Advertising expenses approximated \$1,171,000 and \$1,455,000 for the years ended June 30, 2017 and 2016, respectively. Advertising costs are expensed when incurred.

**Income Taxes** - The Museum has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provision of State law. Accordingly, the Museum is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). A tax liability of \$33,500 and \$2,200 was recorded for the years ended June 30, 2017 and 2016, respectively, relating to the Museum's unrelated business income.

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, 2017 and 2016. The Museum's tax returns are subject to review and examination by federal and state authorities.

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

---

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**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** - In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018. Early application is permitted for fiscal years beginning after December 15, 2016. The Museum is assessing the impact this new standard will have on its financial statements.

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, 2019. 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 August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Museum is assessing the impact this standard will have on its financial statements.

**Reclassifications** – Certain amounts appearing in the 2016 financial statements have been reclassified to conform to the 2017 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 2 - FAIR VALUE MEASUREMENTS

---

**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:

**Money markets** - The fair value of money markets is classified as Level 2 since quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

**Mutual funds** - The fair value of mutual funds is 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).

**THE SCIENCE MUSEUM OF MINNESOTA**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)**

**Interest rate swap 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, 2017 and 2016.

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, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Investments				
U.S. Treasury Bills	\$ 2,494,375	\$ 2,494,375	\$ -	\$ -
Mutual funds - U.S. Equities	6,968,171	6,968,171	-	-
Mutual funds - U.S. Bonds	4,493,252	4,493,252	-	-
Beneficial interest in trusts	<u>1,115,311</u>	<u>-</u>	<u>-</u>	<u>1,115,311</u>
Subtotal by valuation hierarchy	\$ 15,071,109	\$ <u>13,955,798</u>	\$ <u>-</u>	\$ <u>1,115,311</u>
Alternative investments measured using NAV	<u>28,602,669</u>			
Total Assets at fair value	<u>\$ 43,673,778</u>			
<b>LIABILITIES</b>				
Interest rate swaps liability	<u>\$ 1,162,242</u>	<u>-</u>	<u>\$ 1,162,242</u>	<u>-</u>

**THE SCIENCE MUSEUM OF MINNESOTA**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)**

The following table presents information about the Museum's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Investments				
Money market funds	\$ 257,804	\$ -	\$ 257,804	\$ -
Mutual funds - U.S. Equities	5,950,088	5,950,088	-	-
Mutual funds - U.S. Bonds	4,364,374	4,364,374	-	-
Beneficial interest in trusts	<u>1,069,425</u>	<u>-</u>	<u>-</u>	<u>1,069,425</u>
Subtotal by valuation hierarchy	\$ 11,641,691	\$ <u>10,314,462</u>	\$ <u>257,804</u>	\$ <u>1,069,425</u>
Alternative investments measured using NAV	<u>31,069,608</u>			
Total Assets at fair value	<u>\$ 42,711,299</u>			
<b>LIABILITIES</b>				
Interest rate swaps liability	<u>\$ 1,920,346</u>	<u>-</u>	<u>\$ 1,920,346</u>	<u>-</u>

The changes in financial instruments classified as Level 3, the beneficial interest in trusts, as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 1,069,425	\$ 1,083,110
Change in value	<u>45,886</u>	<u>(13,685)</u>
Ending balance	<u>\$ 1,115,311</u>	<u>\$ 1,069,425</u>

The amount of change in value attributable to the change in unrealized gains (losses) relating to assets measured at fair value still held at June 30, 2017 and 2016 were \$45,886 and (\$13,685), respectively.

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 SCIENCE MUSEUM OF MINNESOTA**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)**

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, 2017:

Asset Class	Fair Value June 30, 2017	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Commingled fund	\$ 13,247,842	\$ -	Quarterly	60 days	N.A.
Hedge funds					
Fir Tree	1,599,295	-	Every 2 years	90 days	N.A.
Discovery	847,385	-	Quarterly	90 days	N.A.
Flowering Tree	2,465,476	-	Quarterly	90 days	N.A.
ABS	1,019,399	-	Quarterly	45 days	N.A.
Pointer	2,848,686	-	Annually	Sept 15 <sup>th</sup>	N.A.
BlackRock Tempus	1,722,841	-	Semi-Annually	120 days	N.A.
Total hedge funds	<u>10,503,082</u>	<u>-</u>			
Private equity funds	<u>4,851,745</u>	<u>1,494,735</u>	2 - 10 Yrs.	N.A.	N.A.
Total	<u>\$ 28,602,669</u>	<u>\$ 1,494,735</u>			

**THE SCIENCE MUSEUM OF MINNESOTA**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)**

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, 2016:

Asset Class	Fair Value June 30, 2016	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Commingled fund	\$ 13,099,301	\$ -	Quarterly	N.A.	N.A.
Hedge funds					
Coast Diversified Fund	70,092	-	Liquidating	N.A.	N.A.
Fir Tree	1,488,889	-	Quarterly	90 days	2 years
Discovery	872,651	-	Quarterly	90 days	1 year
Flowering Tree	1,981,194	-	Quarterly	90 days	N.A.
Litespeed	118,522	-	Annually	45 days	N.A.
ABS	912,900	-	Quarterly	45 days	N.A.
Pointer	2,561,114	-	Annually	Sept 15 <sup>th</sup>	N.A.
BlackRock Tempus	2,193,797	-	Semi-Annually	120 days	N.A.
BlackRock QSPII	2,772,276	-	Quarterly	90 days	N.A.
Total hedge funds	<u>12,971,435</u>	<u>-</u>			
Private equity funds	<u>4,998,872</u>	<u>2,378,513</u>	2 - 10 Yrs.	N.A.	0 - 11 years
Total	<u>\$ 31,069,608</u>	<u>\$ 2,378,513</u>			

- > 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 currently has a redemption restriction of a 10% quarterly gate. No other restrictions were in place at year end.
- > 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.

**THE SCIENCE MUSEUM OF MINNESOTA**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

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

	<u>2017</u>	<u>2016</u>
Operations	\$ 137,357	\$ 129,820
Endowment	190,000	135,000
Temporarily restricted	<u>1,199,008</u>	<u>1,744,106</u>
Gross unconditional promises to give	1,526,365	2,008,926
Less: Allowance	(46,000)	(61,000)
Less: Unamortized discount	<u>(15,000)</u>	<u>(23,000)</u>
 Net unconditional promises to give	 <u>\$ 1,465,365</u>	 <u>\$ 1,924,926</u>
 Amounts due in:		
Less than one year	\$ 1,226,365	
One to five years	<u>300,000</u>	
 Totals	 <u>\$ 1,526,365</u>	

Promises due in one to five years were discounted using a rate of 3% at June 30, 2017 and 2016. Promises due in less than one year were not discounted. Net unconditional promises to give at June 30, 2017 and 2016 from related parties were \$17,136 and \$9,784, respectively.

For the years ended June 30, 2017 and 2016, the Museum received total contributions from board members and officers of \$78,451 and \$67,793, respectively.

**NOTE 4 - INVESTMENTS**

Investments consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 2,494,375	\$ 7,125,270
Mutual funds - U.S. Equities	6,968,171	5,950,088
Mutual funds - U.S. Bonds	4,493,252	4,364,374
Alternative investments		
Commingled fund	13,247,842	13,099,301
Hedge funds	10,503,082	12,971,434
Private equity funds	4,851,745	4,998,872
Other (at cost)	-	430
Beneficial interests in trusts	<u>1,115,311</u>	<u>1,069,425</u>
	 <u>\$ 43,673,778</u>	 <u>\$ 49,579,194</u>

Included in short-term investments and other at June 30, 2016 are certificates of deposit totaling \$6,867,465, which are carried at cost.

Income from long-term investments is shown net of fiduciary fees of \$65,500 and \$88,000 for the years ended June 30, 2017 and 2016, respectively.

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 4 - INVESTMENTS (Continued)

---

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.

---

### NOTE 5 - PROPERTY AND EQUIPMENT, NET

---

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

	<u>2017</u>	<u>2016</u>
Land	\$ 2,429,155	\$ 2,429,155
Buildings	102,201,861	95,509,181
Equipment	12,782,894	12,759,353
Exhibits	63,387,358	61,712,548
Films	14,082,962	14,082,962
Exhibits and construction in process	<u>3,300,619</u>	<u>5,959,635</u>
	198,184,849	192,452,834
Less: Accumulated depreciation	<u>(116,995,561)</u>	<u>(111,174,032)</u>
	<u>\$ 81,189,288</u>	<u>\$ 81,278,802</u>

---

### NOTE 6 - SCIENCE MUSEUM FACILITY AND NOTE PAYABLE/LOAN AGREEMENT

---

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% interest for monthly payments of \$20,833 per month, which commenced in January 2002 and continues until December 2021. At June 30, 2017 and 2016, the net present value of the future minimum payments is \$952,328 and \$1,123,854, respectively, using a discount rate of 7.5%. The imputed interest for the note was \$78,472 and \$90,829 for the years ended June 30, 2017 and 2016, respectively.

In May 2013, the Museum entered into a loan agreement with the Port Authority of the City of Saint Paul, which has an interest rate of 2%. The Museum paid principal of \$825,000 in November 2013. Monthly payments of \$11,831 commenced in December 2013 and continue until November 2018, at which time all unpaid principal and interest will be due. The balance of this loan at June 30, 2017 and 2016 is \$197,341 and \$333,886, respectively.

The principal reductions to the note payable and loan agreement for each of the five years subsequent and thereafter to June 30, 2017 approximate: \$324,000, \$257,000, \$215,000, \$231,000 and \$122,000, respectively.

## THE SCIENCE MUSEUM OF MINNESOTA

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

#### NOTE 7 - BONDS PAYABLE AND LINE OF CREDIT

---

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 is held by US Bank National Association. Principal is payable in annual installments with the remaining payable at maturity, May 1, 2027, or upon earlier option or mandatory pre-payment. 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 meet both a coverage ratio and a liquidity ratio as of June 30 and December 31 each year and to meet a fixed charge coverage ratio as of June 30 each year. As of June 30, 2017, the Museum is in compliance with these covenants.

Debt consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Revenue Note, Series 2015	\$ 14,100,000	\$ 15,100,000
Less: Deferred financing fees	<u>(100,422)</u>	<u>(110,634)</u>
Total Debt	<u>\$ 13,999,578</u>	<u>\$ 14,989,366</u>

At June 30, 2017 and 2016, the interest rate on the note was 2.1% and 1.6%, respectively.

The principal maturities on the note payable for each of the five years subsequent and thereafter to June 30, 2017 approximate: \$1,100,000, \$1,100,000, \$1,200,000, \$1,300,000, \$1,300,000 and \$8,100,000, respectively.

In November 2016, the Museum entered into a \$4,000,000 line of credit agreement with US Bank. The line of credit is unsecured and bears interest based on the Daily Reset LIBOR Rate (2.7% at June 30, 2017) and matures on March 30, 2018. There was no balance outstanding at June 30, 2017.

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.

---

#### NOTE 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  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 8 - DERIVATIVE INSTRUMENTS (Continued)**

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 order to secure payment and performance of the Museum's obligation under the agreements, the Museum has provided cash collateral in the amount of \$4,493,252 and \$4,364,376 at June 30, 2017 and 2016, respectively. The collateral is held in a pledged account, which is included on the statement of financial position as investments as of June 30, 2017 and June 30, 2016. The Museum does not anticipate non-performance by its counterparties.

In fiscal 2017 and 2016, the Museum paid \$391,690 and \$463,709, 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 and changes in net assets.

The following is a summary of the outstanding positions under these interest rate swaps as of June 30, 2017 and 2016:

<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	May 3, 2010	\$ 5,900,000	July 1, 2021	3.66%	67.0% of USD-LIBOR-BBA
Floating to fixed rate swap	November 1, 2010	\$ 8,000,000	July 1, 2026	3.04%	67.0% of USD-LIBOR-BBA

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2017 and 2016 as follows:

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Liabilities Derivative</u>	
	<u>Statement of Financial Position Location</u>	<u>Fair Value</u>
		<u>2017</u> <u>2016</u>
Interest rate swap	Interest rate swaps liability	<u>\$ 1,162,242</u> <u>\$ 1,920,346</u>

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 Gain(Loss) on Derivatives Recognized in the Statement of Activities and Changes In Net Assets</u>	<u>Amount of Gain (Loss) on Derivatives Recognized in the Statement of Activities and Changes in Net Assets</u>	
		<u>2017</u>	<u>2016</u>
		Interest rate swap	Gain/(loss) on interest rate swaps

THE SCIENCE MUSEUM OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 9 - NET ASSETS**

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

	<u>2017</u>	<u>2016</u>
Science/research	\$ 4,919,837	\$ 3,146,804
Schools/education programs	3,239,365	3,011,284
Exhibits	1,209,109	1,236,348
Other programs	<u>5,045,582</u>	<u>4,261,220</u>
	<u>\$ 14,413,893</u>	<u>\$ 11,655,656</u>

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

	<u>2017</u>	<u>2016</u>
Science/research	\$ 7,894,823	\$ 7,894,823
School/education programs	4,061,662	3,811,662
Exhibits	372,288	369,288
Other programs	<u>6,079,122</u>	<u>6,046,236</u>
	<u>\$ 18,407,895</u>	<u>\$ 18,122,009</u>

Net assets were released from temporary donor restrictions during the years ended June 30, 2017 and 2016 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	<u>2017</u>	<u>2016</u>
Science/research	\$ 601,449	\$ 11,169
School/education programs	1,222,721	1,097,573
Exhibits	204,304	1,516,564
Other programs	<u>515,612</u>	<u>757,161</u>
	<u>\$ 2,544,086</u>	<u>\$ 3,382,467</u>

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

### NOTE 10 - ENDOWMENT

The Museum's endowment consists of 22 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily 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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (18,273)	\$ 8,037,398	\$ 18,407,895	\$ 26,427,020
Designated endowment funds	15,175,774	-	-	15,175,774
Total endowment net assets	\$ 15,157,501	\$ 8,037,398	\$ 18,407,895	\$ 41,602,794

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (109,688)	\$ 5,869,156	\$ 18,122,009	\$ 23,881,477
Designated endowment funds	4,388,760	-	-	14,388,760
Total endowment net assets	\$ 14,279,072	\$ 5,869,156	\$ 18,122,009	\$ 38,270,237

**THE SCIENCE MUSEUM OF MINNESOTA**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE 10 - ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ 14,279,072	\$ 5,869,156	\$ 18,122,009	\$ 38,270,237
Investment return:				
Investment income	2,250	3,718	-	5,968
Net appreciation - realized and unrealized	<u>1,964,214</u>	<u>3,327,618</u>	<u>-</u>	<u>5,291,832</u>
Total investment return	1,966,464	3,331,336	-	5,297,800
Contributions	-	-	240,000	240,000
Appropriation of endowment assets for expenditure – spending policy	(1,088,035)	(1,049,356)	-	(2,137,391)
Other changes:				
Other transfers	-	(113,738)	-	(113,738)
Change in beneficial interest	<u>-</u>	<u>-</u>	<u>45,886</u>	<u>45,886</u>
Endowment net assets, June 30, 2017	<u>\$ 15,157,501</u>	<u>\$ 8,037,398</u>	<u>\$ 18,407,895</u>	<u>\$ 41,602,794</u>

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 15,793,044	\$ 7,664,016	\$ 18,129,194	\$ 41,586,254
Investment return:				
Investment income	3,140	4,141	-	7,281
Net depreciation - realized and unrealized	<u>(569,585)</u>	<u>(748,707)</u>	<u>-</u>	<u>(1,318,292)</u>
Total investment return	(566,445)	(744,566)	-	(1,311,011)
Contributions	-	-	6,500	6,500
Appropriation of endowment assets for expenditure – spending policy	(1,053,654)	(965,337)	-	(2,018,991)
Other changes:				
Other transfers	106,127	(84,957)	-	21,170
Change in beneficial interest	<u>-</u>	<u>-</u>	<u>(13,685)</u>	<u>(13,685)</u>
Endowment net assets, June 30, 2016	<u>\$ 14,279,072</u>	<u>\$ 5,869,156</u>	<u>\$ 18,122,009</u>	<u>\$ 38,270,237</u>

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 10 - ENDOWMENT (Continued)

---

**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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$18,273 and \$109,688 as of June 30, 2017 and 2016, respectively. These deficiencies resulted 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. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**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 maintain the purchasing power of the endowment assets. 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 exceed the Consumer Price Index by 6% with an annualized return after investment management fees while assuming a moderate level of investment risk. Actual returns in any year may vary from this amount.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments and fund of hedge funds to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Museum has a policy of appropriating for distribution each year 4% to 6% of its endowment fund's average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow at an average of 2% to 4% annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

# THE SCIENCE MUSEUM OF MINNESOTA

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

---

### NOTE 11 - LEASES

---

The Museum has entered into various operating leases for office and warehouse space through fiscal year 2017. 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 \$206,100 and \$105,100 for the years ended June 30, 2017 and 2016, respectively.

The following is a schedule of future minimum lease payments required under noncancelable operating leases as of June 30, 2017:

Year Ending June 30:		
2018	\$	111,401
2019		112,545
2020		114,094
2021		115,200
2022		<u>48,000</u>
Total lease commitments	\$	<u>501,240</u>

The Museum has one capital lease for various items of equipment. The lease term is 36 months and expires in 2019. Lease payments of \$1,536 are made monthly, with an implicit interest rate of 4%. The Museum is 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>2017</u>	<u>2016</u>
Equipment	\$ 52,012	\$ 52,012
Less: Accumulated amortization	<u>(20,227)</u>	<u>(2,890)</u>
Total equipment under capital lease, net	<u>\$ 31,785</u>	<u>\$ 49,122</u>

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

---

### NOTE 12 - 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.

**THE SCIENCE MUSEUM OF MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

---

**NOTE 13 - 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.

---

**NOTE 14 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

---

	<u>2017</u>	<u>2016</u>
Interest Paid	\$ 772,772	\$ 842,866
Noncash Investing and Financing Activities		
Acquired capital Lease	-	52,012
Construction in progress included in accounts payable	2,733	565,304

---

**NOTE 15 - SUBSEQUENT EVENT**

---

The Museum has evaluated subsequent events through November 13, 2017 which is the date that the financial statements were approved and available to be issued.

**THE SCIENCE MUSEUM OF MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2017

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity	Pass-through Entity Number	Federal Expenditures	Passed Through to Subrecipients
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>					
National Science Foundation					
Education and Human Resources	47.076			328,967	
Education and Human Resources	47.076			230,380	
Education and Human Resources	47.076			114,226	
Education and Human Resources	47.076			511,012	
Education and Human Resources	47.076			390,539	
Education and Human Resources	47.076			150,545	
Education and Human Resources	47.076			51,525	
Education and Human Resources	47.076	Museum of Science, Boston	4526-SMM-01	374,069	
Education and Human Resources	47.076	Museum of Science, Boston	4565-SMM-01	80,701	
Education and Human Resources	47.076	Museum of Science, Boston	4569-SMM-01	99,477	
Education and Human Resources	47.076	Cornell University	72627-10366	26,612	
Education and Human Resources	47.076	University of Minnesota	A002923101	4,293	
Education and Human Resources	47.076	University of Minnesota	A003618801	14,882	
Education and Human Resources	47.076	Arizona State University	SC 34118M00216	23,613	
Education and Human Resources	47.076	University of North Carolina	Unknown	1,709	
Education and Human Resources	47.076	Connor Prairie Museum, Inc.	1223770	16,187	
Education and Human Resources	47.076	University of Wisconsin-Madison	629K042	217,323	
Education and Human Resources	47.076	National Federation of the Blind	Unknown	5,031	
Total Education and Human Resources				<u>2,641,091</u>	
Geosciences	47.050	University of Minnesota	H002949502	59,312	
Geosciences	47.050	University of Minnesota	A003104901	46,125	
Geosciences	47.050	University of Minnesota	A003176701	34,399	
Total Geosciences				<u>139,836</u>	
Biological Sciences	47.074			17,375	
National Leadership Grants	45.312	Museum of Science, Boston	4323-SMM-01	5,202	
<b>Total National Science Foundation</b>				<u>2,803,504</u>	
U.S. Department of Health and Human Services					
National Institutes of Health					
Research Infrastructure Programs	93.351			161,835	
<b>Total U.S. Department of Health and Human Services</b>				<u>161,835</u>	
<b>Total Research and Development Cluster</b>				<u>2,965,339</u>	
<b>OTHER PROGRAMS</b>					
Department of the Interior					
National Park Service					
Rivers, Trails and Conservation Assistance	15.921			35,075	
Cooperative Research and Training Programs - Resources of the National Park System	15.945			11,000	
Natural Resource Stewardship	15.944			7,868	
<b>Total Department of the Interior</b>				<u>53,943</u>	

**THE SCIENCE MUSEUM OF MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2017

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity	Pass-through Entity Number	Federal Expenditures	Passed Through to Subrecipients
Institute of Museum and Library Services					
Museums for America	45.301			7,921	
Museums for America	45.301			<u>30,663</u>	
Total Museums of America				<u>38,584</u>	
National Leadership Grants	45.312	New York Hall of Science	IML0005-001	<u>41,102</u>	
<b>Total Institute of Museum and Library Services</b>				<u>79,686</u>	
National Aeronautics and Space Administration					
Science	43.001			<u>2,463,859</u>	1,137,986
<b>Total National Aeronautics and Space Administration</b>				<u>2,463,859</u>	
U.S. Department of Agriculture					
National Institute of Food and Agriculture					
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326	University of Wisconsin - River Falls	2016-2001	26,018	
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326	University of Wisconsin - River Falls	2016-3001	<u>34,994</u>	
<b>Total U.S. Department of Agriculture</b>				<u>61,012</u>	
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>5,623,839</u>	

## THE SCIENCE MUSEUM OF MINNESOTA

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

---

#### **NOTE 1 - BASIS OF PRESENTATION**

---

The accompanying schedule of expenditures of federal awards ("the Schedule") includes federal grant activity of The Science Museum of Minnesota (the "Museum") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this Schedule presents only a selected portion of the operations of the Museum, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Museum.

---

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

---

#### **NOTE 3 - INDIRECT COST RATE**

---

The Museum has elected not to use the 10% de minimis indirect cost rate.

---

#### **NOTE 4 - PASS-THROUGH ENTITY NUMBERS**

---

Two of the programs, grants, and/or awards included in the schedule of expenditures of federal awards are missing the pass-through entity identification number. The missing numbers are due to the pass-through entity not providing the pass-through entity number.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Board of Trustees  
The Science Museum of Minnesota  
Saint Paul, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Science Museum of Minnesota, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered The Science Museum of Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Science Museum of Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of The Science Museum of Minnesota's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Science Museum of Minnesota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
November 13, 2017

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

To the Board of Trustees  
The Science Museum of Minnesota  
Saint Paul, Minnesota

***Report on Compliance for the Major Federal Program***

We have audited The Science Museum of Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Science Museum of Minnesota's major federal program for the year ended June 30, 2017. The Science Museum of Minnesota's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for The Science Museum of Minnesota's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Science Museum of Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of The Science Museum of Minnesota's compliance.

### **Opinion on the Major Federal Program**

In our opinion, The Science Museum of Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of The Science Museum of Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Science Museum of Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Science Museum of Minnesota's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
November 13, 2017

THE SCIENCE MUSEUM OF MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017

---

**SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

---

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 516(a) of the Uniform Guidance?	No
Identification of major programs:	

CFDA

<u>Number</u>	<u>Name of Federal Program or Cluster</u>
---------------	-------------------------------------------

43.001	Science
--------	---------

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

---

**SECTION II - FINANCIAL STATEMENT FINDINGS**

---

*None noted.*

---

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

*None noted.*

**THE SCIENCE MUSEUM OF MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended June 30, 2017

---

The previous audit of the Federal Award Programs was for the year ended June 30, 2016. There were no findings noted.