

The Science Museum of Minnesota

Financial Statements

June 30, 2020 and 2019

The Science Museum of Minnesota

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Independent Auditors' Report

To the Board of Directors 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, 2020 and 2019, 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, 2020 and 2019, 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

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
February 5, 2021

The Science Museum of Minnesota

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 4,095,231	\$ 1,711,035
Restricted cash	2,000,050	-
Accounts and grants receivable, less allowance for doubtful accounts of \$5,000 in 2020 and 2019	1,235,452	5,664,139
Contributions receivable, net	2,043,125	2,759,943
Inventories	194,554	174,093
Other assets	662,665	888,660
Investments	40,726,423	47,761,539
Property and equipment, net	<u>86,830,070</u>	<u>84,810,359</u>
Total assets	<u>\$ 137,787,570</u>	<u>\$ 143,769,768</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 628,047	\$ 4,635,622
Accrued payroll and other expenses	1,981,151	1,997,047
Deferred revenue	1,118,280	1,605,571
Annuity obligations	96,552	72,934
Interest rate swaps liability	1,107,990	820,875
Notes and loan payable	4,890,133	568,290
Line of credit payable	2,000,000	-
Capital leases payable	605,679	-
Bonds payable	<u>12,557,024</u>	<u>11,820,002</u>
Total liabilities	<u>24,984,856</u>	<u>21,520,341</u>
Net Assets		
Without donor restrictions	78,247,105	84,932,704
With donor restrictions	<u>34,555,609</u>	<u>37,316,723</u>
Total net assets	<u>112,802,714</u>	<u>122,249,427</u>
Total liabilities and net assets	<u>\$ 137,787,570</u>	<u>\$ 143,769,768</u>

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			
Revenues, Gains and Other Support						
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
	23,899,705	(279,226)	2,813,407	26,433,886	2,016,170	28,450,056
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	-	-	-
Total revenues, gains and other support	28,624,353	(3,814,878)	6,401,695	31,211,170	(2,761,114)	28,450,056
Expenses and Transfers of Net Assets						
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)
Total expenses	31,816,021	-	6,080,748	37,896,769	-	37,896,769
Transfers of net assets	606,648	808,009	(1,414,657)	-	-	-
Total expenses and transfers of net assets	32,422,669	808,009	4,666,091	37,896,769	-	37,896,769
Change in net assets	(3,798,316)	(4,622,887)	1,735,604	(6,685,599)	(2,761,114)	(9,446,713)
Net Assets, Beginning	2,987,745	19,790,164	62,154,795	84,932,704	37,316,723	122,249,427
Net Assets, Ending	\$ (810,571)	\$ 15,167,277	\$ 63,890,399	\$ 78,247,105	\$ 34,555,609	\$ 112,802,714

See notes to financial statements

The Science Museum of Minnesota

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions			Total	With Donor Restrictions	
	Undesignated Operating	Designated	Property and Equipment		Restrictions	Total
Revenues, Gains and Other Support						
Contributions and grants	\$ 5,587,305	\$ 856,200	\$ -	\$ 6,443,505	\$ 4,987,461	\$ 11,430,966
Government grants	9,530,110	-	7,872,254	17,402,364	-	17,402,364
Change in beneficial interest in trusts	-	-	-	-	3,297	3,297
Admissions and fees	7,602,276	18,879	-	7,621,155	5,836	7,626,991
Memberships	2,592,945	-	-	2,592,945	-	2,592,945
Museum shops, sales	945,715	-	-	945,715	-	945,715
Parking ramp	2,418,269	-	-	2,418,269	-	2,418,269
Film and exhibit fees	5,492,669	-	-	5,492,669	-	5,492,669
Investment income (loss)	73,401	(67,329)	-	6,072	-	6,072
Loss on interest rate swaps	-	(173,851)	-	(173,851)	-	(173,851)
Gain on investments	274,183	641,837	-	916,020	1,200,780	2,116,800
	<u>34,516,873</u>	<u>1,275,736</u>	<u>7,872,254</u>	<u>43,664,863</u>	<u>6,197,374</u>	<u>49,862,237</u>
Appropriation of endowment assets for expenditure	2,678,878	(1,509,382)	-	1,169,496	(1,169,496)	-
Net assets released from restrictions	3,108,099	-	-	3,108,099	(3,108,099)	-
Capital additions	(1,052,667)	-	1,052,667	-	-	-
	<u>39,251,183</u>	<u>(233,646)</u>	<u>8,924,921</u>	<u>47,942,458</u>	<u>1,919,779</u>	<u>49,862,237</u>
Expenses and Transfers of Net Assets						
Program	33,377,451	-	5,226,249	38,603,700	-	38,603,700
Management and general	4,453,135	-	35,981	4,489,116	-	4,489,116
Fundraising and development	2,164,979	-	28,785	2,193,764	-	2,193,764
Allocable expenses						
Interest expense	739,857	-	505	740,362	-	740,362
Building operations and maintenance	4,462,487	-	661,817	5,124,304	-	5,124,304
Less allocated expenses	(5,864,161)	-	(505)	(5,864,666)	-	(5,864,666)
	<u>39,333,748</u>	<u>-</u>	<u>5,952,832</u>	<u>45,286,580</u>	<u>-</u>	<u>45,286,580</u>
Transfers of net assets	(70,430)	1,003,780	(933,350)	-	-	-
	<u>39,263,318</u>	<u>1,003,780</u>	<u>5,019,482</u>	<u>45,286,580</u>	<u>-</u>	<u>45,286,580</u>
Change in net assets	(12,135)	(1,237,426)	3,905,439	2,655,878	1,919,779	4,575,657
Net Assets, Beginning	<u>2,999,880</u>	<u>21,027,590</u>	<u>58,249,356</u>	<u>82,276,826</u>	<u>35,396,944</u>	<u>117,673,770</u>
Net Assets, Ending	<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>

See notes to financial statements

The Science Museum of Minnesota

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (9,446,713)	\$ 4,575,657
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	6,075,748	5,952,327
Amortization of bond issuance costs	83,272	10,212
Loss on disposals of property and equipment	62,042	-
In-kind contribution	(36,264)	-
Gain on investments	(556,358)	(2,135,830)
Loss on interest rate swaps	287,115	173,851
Change in beneficial interest in trusts	6,222	(3,297)
Change in operating assets and liabilities:		
Accounts receivable, net	4,428,687	889,370
Contributions receivable, net, operations	641,818	81,057
Inventories	(20,461)	(10,684)
Other assets	225,995	(14,911)
Accounts payable	(471,863)	(372,639)
Accrued payroll and other expenses	(15,896)	104,670
Deferred revenue	(487,291)	(153,093)
Annuity obligations	23,618	(2,204)
Contributions restricted for long-term investment	-	(2,591,102)
Net cash flows from operating activities	<u>799,671</u>	<u>6,503,384</u>
Cash Flows From Investing Activities		
Sales of investments	13,373,949	14,671,010
Purchases of investments	(5,788,697)	(11,525,397)
Additions to property and equipment	<u>(10,884,804)</u>	<u>(10,856,770)</u>
Net cash flows from investing activities	<u>(3,299,552)</u>	<u>(7,711,157)</u>
Cash Flows From Financing Activities		
Payments on capital leases payable	(166,466)	(13,387)
Payments on notes and loan payable	(214,657)	(257,235)
Proceeds from notes and loan payable	4,536,500	-
Proceeds from line of credit payable	2,000,000	-
Payments on bond issuance costs	(146,250)	-
Payments on bonds payable	(1,200,000)	(1,100,000)
Proceeds on bonds payable	2,000,000	-
Contributions received restricted for long-term investment	<u>75,000</u>	<u>999,145</u>
Net cash flows from financing activities	<u>6,884,127</u>	<u>(371,477)</u>
Net change in cash and cash equivalents	4,384,246	(1,579,250)
Cash, Cash Equivalents and Restricted Cash Beginning	<u>1,711,035</u>	<u>3,290,285</u>
Cash, Cash Equivalents and Restricted Cash Ending	<u>\$ 6,095,281</u>	<u>\$ 1,711,035</u>

See notes to financial statements

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2020 and 2019

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 \$4,916,727 of conditional promises to give at June 30, 2020.

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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.

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, 2020 and 2019 was \$172,913 and \$220,413, respectively.

Investments

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

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2020 and 2019

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.

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.

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, 2020 and 2019 was \$426,000 and \$555,800, respectively.

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2020 and 2019

Advertising Expenses

Advertising expenses approximated \$1,072,000 and \$1,742,000 for the years ended June 30, 2020 and 2019, 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). Tax receivables of \$66,799 and \$134,148 were recorded for the years ended June 30, 2020 and 2019, respectively, relating to the Museum's unrelated business income. During the years ended June 30, 2020 and 2019, the Museum incurred unrelated business income relating to their alternative investments. As a result, the Museum has recorded income tax expense of \$14,123 and an income tax refund of \$84,994 for June 30, 2020 and 2019 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, 2020 and 2019. 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 June 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Museum adopted the provisions of this standard on the modified prospective basis during the year ended June 30, 2020. The guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. The Museum adopted the provisions of this standard on the modified prospective basis during the year ended June 30, 2020.

New Pronouncements Not Yet Effective

In May 2014, FASB issued 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. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). The Museum is assessing the impact this 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, 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. Early adoption is permitted. The Museum is currently assessing the impact this standard will have on its financial statements

The Science Museum of Minnesota

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019, the following financial assets could readily be made available within one year to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,953,200	\$ 1,667,306
Accounts receivable, net	1,235,452	5,664,139
Contributions receivable for general expenditures due in one year or less	1,007,851	1,041,410
Approved endowment distribution in next 12 months	2,251,274	2,362,815
Short-term investments available in next 12 months	89,870	2,992,346
	<u>\$ 8,547,647</u>	<u>\$ 13,728,016</u>
Financials assets available in next 12 months		

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. As of June 30, 2019, amounts not available include: \$33,729 of cash and cash equivalents held in the endowment, \$25,000 of contributions receivable due within one year to be held in perpetuity, \$20,408,907 of investments held in perpetuity, and \$24,430,286 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 is fully utilized as of June 30, 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.

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Valuation Techniques and Inputs

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

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

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

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

There have been no changes in the techniques and inputs used as of June 30, 2020 and 2019.

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, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
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
Total assets in the fair value hierarchy	17,237,823	<u>\$ 16,055,655</u>	<u>\$ -</u>	<u>\$ 1,182,168</u>
Alternative investments measured using NAV	<u>23,488,600</u>			
Total assets at fair value	<u>\$ 40,726,423</u>			
Liabilities				
Interest rate swap liability	<u>\$ 1,107,990</u>	<u>\$ -</u>	<u>\$ 1,107,990</u>	<u>\$ -</u>

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The following table presents information about the Museum's assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments:				
Mutual funds, U.S. equities	\$ 8,195,642	\$ 8,195,642	\$ -	\$ -
Mutual funds, U.S. bonds	11,254,923	11,254,923	-	-
Money market funds	7,589	7,589	-	-
Beneficial interest in trusts	<u>1,188,390</u>	<u>-</u>	<u>-</u>	<u>1,188,390</u>
Total assets in the fair value hierarchy	20,646,544	<u>\$ 19,458,154</u>	<u>\$ -</u>	<u>\$ 1,188,390</u>
Alternative investments measured using NAV	<u>27,114,995</u>			
Total assets at fair value	<u>\$ 47,761,539</u>			
Liabilities				
Interest rate swap liability	<u>\$ 820,875</u>	<u>\$ -</u>	<u>\$ 820,875</u>	<u>\$ -</u>

The changes in financial instruments classified as Level 3, the beneficial interest in trusts, as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,188,390	\$ 1,204,755
Change in value	<u>(6,222)</u>	<u>(16,365)</u>
Ending balance	<u>\$ 1,182,168</u>	<u>\$ 1,188,390</u>

The amount of change in value attributable to the change in unrealized gain relating to assets measured at fair value still held at June 30, 2020 and 2019 were (\$6,222) and \$3,297, 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.

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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 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, 2019:

Asset Class	Fair Value June 30, 2019	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Commingled fund	\$ 17,936,641	\$ -	Monthly/ Quarterly	1-60 days	N/A
Hedge funds:					
Fir Tree Int'l Value	69,768	-	Illiquid	N/A	N/A
Flowering Tree	1,218,780	-	Quarterly	90 days	N/A
Pointer	3,317,441	-	Annually	107 days	N/A
BlackRock Tempus	494,748	-	Illiquid	N/A	N/A
Total hedge funds	5,100,737				
Private equity funds	4,077,617	1,923,170	2-10 years	N/A	N/A
Total	<u>\$ 27,114,995</u>	<u>\$ 1,923,170</u>			

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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.

4. Contributions Receivable

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

	<u>2020</u>	<u>2019</u>
Operations	\$ 177,940	\$ 222,301
Endowment	-	75,000
With donor restrictions	<u>1,909,385</u>	<u>2,574,142</u>
Gross unconditional promises to give	2,087,325	2,871,443
Less allowances	(41,500)	(57,100)
Less unamortized discount	<u>(2,700)</u>	<u>(54,400)</u>
Net unconditional promises to give	<u>\$ 2,043,125</u>	<u>\$ 2,759,943</u>
	<u>2020</u>	
Amounts due in:	\$	
Less than one year	1,007,851	
One to five years	<u>1,079,474</u>	
Total	<u>\$ 2,087,325</u>	

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Promises due in one to five years were discounted using a rate of 0.2 percent and 1.7 percent at June 30, 2020 and 2019, respectively. Promises due in less than one year were not discounted. Net unconditional promises to give at June 30, 2020 and 2019 from related parties were \$38,480 and \$24,975, respectively.

For the years ended June 30, 2020 and 2019, the Museum received total contributions from Board members and officers of \$106,574 and \$45,040, respectively.

5. Property and Equipment, Net

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

	<u>2020</u>	<u>2019</u>
Land	\$ 2,429,155	\$ 2,429,155
Buildings	122,844,082	116,393,440
Equipment	9,390,565	6,171,362
Exhibits	57,827,223	58,900,219
Films	14,082,962	14,082,962
Exhibits and construction in process	1,359,812	3,043,827
	<u>207,933,799</u>	<u>201,020,965</u>
Less accumulated depreciation	<u>(121,103,729)</u>	<u>(116,210,606)</u>
	<u>\$ 86,830,070</u>	<u>\$ 84,810,359</u>

6. Notes and Loan Payable

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

The Museum also 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, 2020 and 2019, the net present value of the future minimum payments is \$353,633 and \$568,290, respectively, using a discount rate of 7.5 percent. The imputed interest for the note was \$35,343 and \$50,806 for the years ended June 30, 2020 and 2019, respectively. The principal reductions to the note payable for each of the two years subsequent to June 30, 2020 approximate: \$231,000 and \$122,000.

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, matures on April 15, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on November 15, 2020. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. 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 as described in the CARES Act.

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7. Bonds Payable and Line of Credit Payable

In March 2015, the Museum issued Revenue Note, Series 2015 issued by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota, providing financing of \$16,600,000. The note was held by US Bank National Association. Principal was payable in annual installments with the remaining payable at maturity, May 1, 2027, or upon earlier option or mandatory pre-payment. In April 2020, the Museum issued Revenue Note, Series 2020 issued by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota and held by US Bank National Association, providing financing of \$13,900,000 to refund the Series 2015 Revenue Note balance of \$11,900,000 and provide an additional \$2,000,000 of proceeds to finance certain capital equipment, improvements, and upgrades to the Museum. In February 2021 the continuing covenant agreement was amended to add additional reporting requirements. The note agreement between the Museum and US Bank National Association requires the Museum to comply with certain financial and other covenants which require the Museum to provide weekly and monthly reports, meet a liquidity ratio as of June 30 and December 31 each year and a fixed charge coverage ratio as of June 30 each year. Principal is payable in annual installments with the remaining payable at maturity, June 1, 2031, or upon earlier option or mandatory pre-payment.

Debt consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Revenue note, Series 2020	\$ 12,700,000	\$ -
Revenue note, Series 2015	-	11,900,000
Less deferred financing fees, net of accumulated amortization	<u>(142,976)</u>	<u>(79,998)</u>
Total debt	<u>\$ 12,557,024</u>	<u>\$ 11,820,002</u>

At June 30, 2020 and 2019, the interest rate on the revenue notes were 1.4 percent and 3.7 percent, respectively.

The principal maturities on the note payable for each of the five years subsequent and thereafter to June 30, 2020 approximate:

Years ending June 30:	
2021	\$ 1,300,000
2022	1,300,000
2023	1,400,000
2024	1,500,000
2025	1,600,000
Thereafter	<u>5,600,000</u>
Total	<u>\$ 12,700,000</u>

Originally in November 2016, the Museum entered into a \$4,000,000 line of credit agreement with US Bank. In March 2018, the line of credit was reduced to \$2,000,000 and subsequently increased to \$4,000,000 in March 2019. In March 2020 the agreement was amended to reduce the line of credit to \$2,000,000 on July 1, 2020. 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% of the outstanding balance, change the interest rate to based on the prime rate less applicable margin of 1.25% per annum, and extend the maturity date to June 30, 2021. The balance outstanding at June 30, 2020 and 2019 was \$2,000,000 and \$0, respectively.

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

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8. Derivative Instruments

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

Interest rate swaps between the Museum and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the Museum's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. In order to secure payment and performance of the Museum's obligation under the agreements, the Museum provided cash collateral in the amount of \$5,227,184 at June 30, 2019. The amount of collateral required at June 30, 2019 was \$1,251,452. The collateral was held in a pledged account, which was included on the statements of financial position as investments as of June 2019. No collateral amount was required at June 30, 2020. 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 2020 and 2019, the Museum paid \$213,146 and \$194,125, 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, 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

The following is a summary of the outstanding positions under these interest rate swaps as of June 30, 2019:

<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	\$ 3,700,000	July 1, 2021	3.66 %	67.0% of USD-LIBOR-BBA
Floating to fixed rate swap	November 1, 2020	\$ 8,000,000	July 1, 2026	3.04 %	67.0% of USD-LIBOR-BBA

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Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2020 and 2019 as follows:

Derivatives not Designated as Hedging Instruments	Statements of Financial Position Location	Liabilities Derivative	
		Fair Value	
		2020	2019
Interest rate swap	Interest rate swaps liability	\$ 1,107,990	\$ 820,875

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

Derivatives not Designated as Hedging Instruments	Location of Loss on Derivative Recognized in the Statements of Activities and Changes in Net Assets	Amount of Loss on Derivatives Recognized in the Statements of Activities and Changes in Net Assets	
		2020	2019
		Interest rate swap	Loss on interest rate swaps

9. Net Assets

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

	2020	2019
Undesignated	\$ (810,571)	\$ 2,987,745
Board designated endowment	11,761,597	15,253,065
Designated	3,405,680	4,537,099
Property and equipment	63,890,399	62,154,795
	<u>\$ 78,247,105</u>	<u>\$ 84,932,704</u>

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

	2020	2019
Restricted in perpetuity	\$ 20,517,414	\$ 20,514,836
Time restricted - endowment	8,415,488	9,106,850
Time restricted - other	1,868,585	2,470,742
Purpose restricted	3,754,122	5,224,295
	<u>\$ 34,555,609</u>	<u>\$ 37,316,723</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.

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June 30, 2020 and 2019

10. Endowment

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

Interpretation of Relevant Law

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

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

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

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

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

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Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 29,621,686	\$ 29,621,686
Designated endowment funds	15,253,065	-	15,253,065
Total endowment net assets	\$ 15,253,065	\$ 29,621,686	\$ 44,874,751

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	\$ 11,761,597	\$ 28,932,902	\$ 40,694,499

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 15,264,410	\$ 29,541,830	\$ 44,806,240
Investment return:			
Net appreciation, realized and unrealized	641,837	1,200,780	1,842,617
Contributions	856,200	20,200	876,400
Appropriation of endowment assets for expenditure, spending policy	(1,509,382)	(1,169,496)	(2,678,878)
Other changes:			
Other transfers	-	25,075	25,075
Change in beneficial interest in trusts	-	3,297	3,297
Endowment net assets, June 30, 2019	\$ 15,253,065	\$ 29,621,686	\$ 44,874,751

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, 2020 and 2019.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum has a policy of appropriating for distribution each year 4 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.

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.

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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 \$138,911 and \$144,146 for the years ended June 30, 2020 and 2019, respectively.

The following is a schedule of future minimum lease payments required under noncancelable operating leases as of June 30, 2020:

Years ending June 30:	
2021	\$ 115,200
2022	<u>48,000</u>
Total lease commitments	<u>\$ 163,200</u>

The Museum had a capital lease for an equipment item with a lease term of 36 months that expired in 2019. Lease payments of \$1,536 were made monthly, with an implicit interest rate of 4 percent. In 2020, the Museum entered into a five year lease for equipment with annual payments of \$166,466 and an implicit interest rate of 3.9 percent. The Museum was obligated to pay costs of insurance, taxes, repairs and maintenance pursuant to the terms of the leases.

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

	<u>2020</u>	<u>2019</u>
Equipment	\$ 772,145	\$ 52,012
Less accumulated amortization	<u>(77,215)</u>	<u>(52,012)</u>
Total equipment under capital lease, net	<u>\$ 694,930</u>	<u>\$ -</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	\$ 605,679
Less current portion	<u>(142,844)</u>
Long-term portion	<u>\$ 462,835</u>

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

2021	\$ 166,466
2022	166,466
2023	166,466
2024	<u>166,464</u>
Total	665,862
Less: amount representing interest	<u>(60,183)</u>
Present value of minimum lease payments	<u>\$ 605,679</u>

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13. Functional Expenses

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>

The Museum's expenses for the year ended June 30, 2019 are classified functionally as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and benefits	\$ 19,487,486	\$ 3,175,082	\$ 1,583,531	\$ 24,246,099
Utilities, maintenance, print and supplies	2,372,259	460,925	62,631	2,895,815
Marketing and advertising	1,734,578	-	7,819	1,742,397
Travel, professional development and meetings	620,484	184,341	33,775	838,600
Professional services	1,644,906	565,733	210,903	2,421,542
Fabrication and exhibits	4,343,792	-	-	4,343,792
Depreciation	5,872,681	44,248	35,398	5,952,327
Interest	723,704	9,255	7,404	740,363
Cost of goods sold	393,287	-	-	393,287
Other	1,410,523	49,532	252,303	1,712,358
Total	<u>\$ 38,603,700</u>	<u>\$ 4,489,116</u>	<u>\$ 2,193,764</u>	<u>\$ 45,286,580</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.

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15. Supplemental Disclosure of Cash Flow Information

	<u>2020</u>	<u>2019</u>
Interest paid	\$ 649,917	\$ 739,405
Income taxes paid	64,840	366,973
Noncash investing and financing activities:		
Additions to property and equipment included in accounts payable	17,681	3,553,393
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 February 5, 2021, which is the date that the financial statements were approved and available to be issued.

In February 2021 amendments were made to the bonds payable and line of credit payable agreements and the changes are disclosed in Note 7.

Due to the COVID-19 pandemic, economic uncertainties arose which negatively impacted the Museum's operations. On March 16, 2020, the State of Minnesota issued Executive Order 20-04 which necessitated the temporary closure of the Museum. On June 5, 2020, the State of Minnesota issued Executive Order 20-74 which required places of public accommodation to develop and implement a COVID-19 Preparedness Plan, prohibited large group gatherings, and limited venue occupant capacity to 25% of established capacity, not to exceed 250 patrons. As a result of these restrictions, the Museum remained closed to the public from March 14, 2020 to August 20, 2020, when it reopened per the terms of Executive Order 20-74. The Museum closed again on November 19, 2020 as required by State of Minnesota Executive Order 20-99. Revenue was negatively impacted, however the overall financial impact of the COVID-19 pandemic is unknown at this time. In July 2020 staff headcount was reduced by 39% as a direct result of the Museum's extended closure and the unknown negative economic impact of the COVID-19 pandemic.

In January 2021, the Museum was granted a loan from PNC Bank, N.A. in the amount of \$2,000,000, pursuant to the Paycheck Protection Program. The loan, which was in the form of a Note issued by the Borrower, matures on January 27, 2026 and bears interest at a rate of 1% per annum. 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.