

Museum of Science and Industry

Financial Statements
As of and for the Years Ended December 31, 2019
and 2018 and Independent Auditor's Report

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Independent Auditor's Report

Board of Trustees
Museum of Science and Industry

RSM US LLP

Report on the Financial Statements

We have audited the accompanying financial statements of the Museum of Science and Industry (the Museum), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets 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.

Auditor's 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 audit 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 auditor's 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 of Science and Industry as of December 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Notes 1 and 16 to the financial statements, the Museum adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

RSM US LLP

Chicago, Illinois
May 15, 2020

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Museum of Science and Industry

**Statements of Financial Position
December 31, 2019 and 2018**

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash | \$ 3,156,104 | \$ 5,436,049 |
| Operating investments | 4,986,757 | 3,845,995 |
| Pledges receivable, net | 39,456,643 | 47,645,207 |
| Other assets | 3,767,271 | 4,332,636 |
| Pension asset | - | 241,883 |
| Long-term investments | 109,635,001 | 100,767,425 |
| Museum properties, net | 129,583,063 | 119,805,127 |
| | <hr/> | <hr/> |
| Total assets | \$ 290,584,839 | \$ 282,074,322 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 6,484,024 | \$ 7,570,665 |
| Bonds payable, net of unamortized financing fees | 54,614,145 | 56,332,772 |
| Other liabilities | 4,082,864 | 3,624,089 |
| Total liabilities | 65,181,033 | 67,527,526 |
| | <hr/> | <hr/> |
| Net assets: | | |
| Without donor restrictions | 156,407,112 | 128,562,691 |
| With donor restrictions | 68,996,694 | 85,984,105 |
| Total net assets | 225,403,806 | 214,546,796 |
| | <hr/> | <hr/> |
| Total liabilities and net assets | \$ 290,584,839 | \$ 282,074,322 |
| | <hr/> <hr/> | <hr/> <hr/> |

See notes to financial statements.

Museum of Science and Industry

Statement of Activities and Changes in Net Assets Year Ended December 31, 2019

| | Without donor restrictions | With donor restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| Operating income: | | | |
| Revenue and support: | | | |
| Admissions | \$ 14,949,977 | \$ - | \$ 14,949,977 |
| Special exhibits | 982,553 | - | 982,553 |
| Ancillary services | 7,411,658 | - | 7,411,658 |
| Membership | 3,204,612 | - | 3,204,612 |
| Government support | 5,577,461 | 310,175 | 5,887,636 |
| Private support | 16,171,801 | 11,137,364 | 27,309,165 |
| Investment return designated for operations | 3,856,526 | 464,964 | 4,321,490 |
| Other income | 776,702 | - | 776,702 |
| Net assets released from restrictions | 31,302,450 | (31,302,450) | - |
| Total revenue and support | 84,233,740 | (19,389,947) | 64,843,793 |
| Expenses: | | | |
| Exhibits and public programs | 22,988,902 | - | 22,988,902 |
| Education programs | 11,086,343 | - | 11,086,343 |
| Guest services | 3,345,107 | - | 3,345,107 |
| Retail and supporting services | 2,798,746 | - | 2,798,746 |
| Membership | 975,742 | - | 975,742 |
| Development | 5,415,084 | - | 5,415,084 |
| Management and general | 5,728,973 | - | 5,728,973 |
| Expenses before depreciation and interest | 52,338,897 | - | 52,338,897 |
| Depreciation | 10,580,337 | - | 10,580,337 |
| Interest | 1,710,650 | - | 1,710,650 |
| Operating income (loss), including depreciation and interest expense | 19,603,856 | (19,389,947) | 213,909 |
| Non-operating income (loss): | | | |
| Gain on long-term investments, net, after investment return designated for operations | 10,349,658 | 2,402,441 | 12,752,099 |
| Loss on disposal of fixed assets | (138,690) | - | (138,690) |
| Net periodic pension cost other than service cost | (44,043) | - | (44,043) |
| Pension-related changes other than net periodic pension cost | 235,100 | - | 235,100 |
| Other income | 185,086 | 95 | 185,181 |
| Total non-operating income | 10,587,111 | 2,402,536 | 12,989,647 |
| Change in net assets | 30,190,967 | (16,987,411) | 13,203,556 |
| Net assets, beginning of year, as previously reported | 128,562,691 | 85,984,105 | 214,546,796 |
| Cumulative-effect adjustment from adoption of ASC 606 | (2,346,546) | - | (2,346,546) |
| Net assets, beginning of year, as adjusted | 126,216,145 | 85,984,105 | 212,200,250 |
| Net assets, end of year | \$ 156,407,112 | \$ 68,996,694 | \$ 225,403,806 |

See notes to financial statements.

Museum of Science and Industry

Statement of Activities and Changes in Net Assets Year Ended December 31, 2018

| | Without donor restrictions | With donor restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Operating income: | | | |
| Revenue and support: | | | |
| Admissions | \$ 16,571,968 | \$ - | \$ 16,571,968 |
| Special exhibits | 3,077,150 | - | 3,077,150 |
| Ancillary services | 7,931,872 | - | 7,931,872 |
| Membership | 3,336,636 | - | 3,336,636 |
| Government support | 5,409,280 | 485,148 | 5,894,428 |
| Private support | 8,587,514 | 43,035,624 | 51,623,138 |
| Investment return designated for operations | 3,806,152 | 1,293,200 | 5,099,352 |
| Other income | 1,884,228 | - | 1,884,228 |
| Net assets released from restrictions | 14,243,532 | (14,243,532) | - |
| Total revenue and support | 64,848,332 | 30,570,440 | 95,418,772 |
| Expenses: | | | |
| Exhibits and public programs | 23,607,322 | - | 23,607,322 |
| Education programs | 11,070,405 | - | 11,070,405 |
| Guest services | 3,513,968 | - | 3,513,968 |
| Retail and supporting services | 3,270,922 | - | 3,270,922 |
| Membership | 929,494 | - | 929,494 |
| Development | 5,415,026 | - | 5,415,026 |
| Management and general | 5,829,484 | - | 5,829,484 |
| Expenses before depreciation and interest | 53,636,621 | - | 53,636,621 |
| Depreciation | 12,895,371 | - | 12,895,371 |
| Interest | 1,680,582 | - | 1,680,582 |
| Operating income (loss), including depreciation interest expense | (3,364,242) | 30,570,440 | 27,206,198 |
| Non-operating income (loss): | | | |
| Loss on long-term investments, net, after investment return designated for operations | (9,778,573) | (2,581,812) | (12,360,385) |
| Loss on disposal of fixed assets | (6,355,726) | - | (6,355,726) |
| Net periodic pension cost other than service cost | 130,891 | - | 130,891 |
| Pension-related changes other than net periodic pension cost | 73,896 | - | 73,896 |
| Other income (loss) | 111,825 | (8,630) | 103,195 |
| Total non-operating loss | (15,817,687) | (2,590,442) | (18,408,129) |
| Change in net assets | (19,181,929) | 27,979,998 | 8,798,069 |
| Net assets, beginning of year | 147,744,620 | 58,004,107 | 205,748,727 |
| Net assets, end of year | \$ 128,562,691 | \$ 85,984,105 | \$ 214,546,796 |

See notes to financial statements.

Museum of Science and Industry

Statements of Cash Flows Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 13,203,556 | \$ 8,798,069 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 10,580,337 | 12,895,371 |
| Amortization of debt issuance costs | 19,373 | 19,374 |
| Change in value of interest rate swap | (227,960) | (264,441) |
| Loss on disposal of fixed assets | 138,690 | 6,355,726 |
| Proceeds from sale of collections | (95) | (31,158) |
| Realized gain on investments | (5,379,687) | (2,530,363) |
| Unrealized (gain) loss on investments | (8,475,620) | 12,461,147 |
| Gifts restricted for permanent endowment | (190,241) | (5,788,124) |
| Gifts restricted for acquisition of Museum properties | (372,325) | (25,164,392) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable, net | 65,251 | (208,320) |
| Other assets | 1,061,236 | (430,006) |
| Accounts payable and accrued liabilities | (2,056,019) | 1,161,280 |
| Other liabilities | (1,913,800) | (785,720) |
| Net cash provided by operating activities | 6,452,696 | 6,488,443 |
| Cash flows from investing activities: | | |
| Proceeds from sale of collections | 95 | 31,158 |
| Purchase of investments | (68,997,700) | (20,353,277) |
| Proceeds from sale of investments | 72,844,669 | 13,586,660 |
| Purchase of Museum properties | (19,527,584) | (4,245,399) |
| Net cash used in investing activities | (15,680,520) | (10,980,858) |
| Cash flows from financing activities: | | |
| Payment on bonds payable | (1,738,000) | (1,678,000) |
| Proceeds from gifts restricted for permanent endowment | 1,510,904 | 7,111,852 |
| Proceeds from gifts restricted for acquisition of Museum properties | 7,174,975 | 2,825,243 |
| Net cash provided by financing activities | 6,947,879 | 8,259,095 |
| Net change in cash | (2,279,945) | 3,766,680 |
| Cash, beginning of year | 5,436,049 | 1,669,369 |
| Cash, end of year | \$ 3,156,104 | \$ 5,436,049 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 1,525,146 | \$ 1,413,599 |
| Acquisition of Museum properties through purchase agreement | - | 564,700 |
| Accounts payable and accrued liabilities for Museum properties | 969,379 | 1,066,449 |

See notes to financial statements.

Museum of Science and Industry

Notes to Financial Statements

Note 1. Description of Organization

The Museum of Science and Industry (the Museum), a 501(c)(3) corporation, is the largest science museum in the Western Hemisphere and home to thousands of exhibits and artifacts. For 85 years, the Museum has been a premier destination in Chicago, Illinois. The Museum's mission is to inspire the inventive genius in everyone and its vision is to inspire and motivate children to achieve their full potential in science, technology, medicine and engineering. Nearly 300,000 students are among the nearly 1,400,000 guests that visit each year, making the Museum the number one Chicago museum field trip destination for the eleventh consecutive year. Through its Welcome to Science Initiative, the Museum engages over 700,000 participants annually in science education programs.

World-class permanent exhibitions include *Science Storms*, a 26,000-square-foot exhibit that reveals the extraordinary science behind some of nature's most powerful and compelling phenomena; *Numbers in Nature: A Mirror Maze*, an exhibit that exposes and explains hidden patterns in the natural world and features a 1,800-square-foot mirror maze; and *YOU! The Experience*, a 15,000-square-foot exhibit that explores the human mind, body and spirit. Other favorite experiences include the *U-505 Submarine*, the only German U-boat captured during World War II, surrounded by more than 30,000 square feet of artifacts and interactive activities; the *Coal Mine*, a reproduction of an Illinois coal mine that takes guests down fifty feet in a real hoist to the bottom of a mineshaft; *Future Energy Chicago*, a multi-player visual simulation where teams of guests work together to develop a greener city; *The Great Train Story*, a dynamic model train display that illustrates modern rail operation; and the *Giant Dome Theater*, which features educational films, rich in content and presented on Chicago's only five-story, domed wrap-around movie screen.

In 2019, the Museum announced a \$125 million gift from the Kenneth C. Griffin Charitable Fund. The largest gift in the Museum's history, it will strengthen the Museum's overall financial future and ensure it remains a resource for science learning for generations to come. The gift will be recognized as Private Support in the Statement of Activities when the intention is realized upon receipt of funds. For the year ended December 31, 2019, \$10 million is recognized in Private Support. In recognition of this historic gift, the Museum will, in time, become the Kenneth C. Griffin Museum of Science and Industry.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements have been prepared using the accrual basis of accounting. The Museum classifies its net assets, revenue, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum are reported as follows:

Without donor restrictions: Net assets that are not subject to donor-directed restrictions. Items that affect this net asset category principally consist of attendance-driven revenues and related expenses associated with the core activities of the Museum: general admission, special exhibitions, retail, and guest services. In addition to these exchange transactions, changes in this category of net assets include investment returns on funds functioning as endowments and philanthropic support (government support, private support, and memberships) that is free of a donor-directed restriction.

With donor restrictions: Net assets subject to donor-imposed restrictions that will be met either by actions of the Museum or the passage of time. Items that affect this net asset category are gifts for which donors have directed the use of funds toward areas of importance to the Museum's mission, including education, exhibitions, building preservation, and strategic initiatives. Also included in this category are net assets subject to donor-directed restrictions to be maintained permanently by the Museum, including gifts and pledges to the Museum's endowment fund. Generally, the donors of these assets permit the Museum to use all or part of the income earned on related investments for specific purposes.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 may differ from those estimates.

Collections: The Museum's permanent collections, which were acquired since the Museum's inception through purchases and contributions from benefactors, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as decreases in net assets with donor restrictions if the assets used to purchase the items were restricted by donors.

The Museum's collections are made up of artifacts of historical significance, scientific specimens and art objects that are held for educational, research, scientific and curatorial purposes. Each of the items is cataloged, preserved and cared for, and activities verifying the items' existence and assessing their condition are performed continuously. The collections are subject to the Museum's policy that requires proceeds from their sales to be used to acquire other items for collections.

Cash: The Museum had deposits in excess of federally insured limits at December 31, 2019 and 2018. However, the Museum had not experienced any losses in these accounts and believes that it is not exposed to any significant credit risk.

Investments: Investments are presented in the financial statements at fair value in accordance with U.S. GAAP. Investment income, realized gains (losses), and changes in unrealized gains (losses) are reflected in the statements of activities and changes in net assets. Investments received as contributions are recorded at fair value at the date of receipt. Investments are classified as either operating or long-term, based on intended use.

The Museum's investment portfolio is subject to various risks, such as interest rate, credit and overall market volatility. Because of these risks, it is possible that changes in the fair value of investments may occur and that such changes could materially affect the Museum's financial statements.

Pledges receivable: Pledges receivable are recorded in the period during which the pledge is received. Pledges to be collected after one year are discounted using an annual rate commensurate with the risk involved. Amortization of the discount is recorded as additional private support.

Pledges are recorded net of an allowance for uncollectible amounts. The Museum determines its allowance for uncollectible amounts by considering a number of factors, including the length of time receivables are past due, previous collection history, the donor's current ability to pay, and the condition of the general economy and industry as a whole. The Museum writes off pledges receivable that have become uncollectible.

Interest in charitable trusts: The Museum is the designated beneficiary of certain trusts held by third parties. For trusts that are irrevocable, the Museum records an asset equal to the fair value of its beneficial interest in these trusts, included in Other Assets on the statement of financial position. For trusts in which the Museum does not have an irrevocable interest (i.e. the trust has variance power), the value of the trust is not included in the financial statements.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Asset retirement obligations: U.S. GAAP requires the current recognition of a liability when a legal obligation exists relative to an asset retirement in which the timing or method of settlement are conditional and/or based on a future event that may or may not be under the control of the entity. The Illinois Commercial and Public Building Asbestos Abatement Act requires the controlled removal or encapsulation of asbestos by a licensed contractor in commercial and public buildings, including renovation and partial or complete demolition activities.

An asset retirement obligation (ARO) liability was recognized at its net present value, with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to accretion expense. The Museum has estimated its asbestos removal cost to be \$602,874 and \$927,254 at December 31, 2019 and 2018, respectively. The Museum's estimate represents the present value of anticipated costs of asbestos abatement utilizing a discount rate of 5% and the projected year of removal based on the Museum's capital plan or an estimated future date. The liability is included within Other Liabilities on the statement of financial position.

Revenue recognition: The Museum recognizes revenue for admissions, special exhibits, ancillary services, and memberships based on the satisfaction of performance obligations. Performance obligations are determined based on the service provided by the Museum. The following explains the performance obligations related to each revenue stream and how those are recognized. The revenue streams noted below do not include significant financing components as performance obligations are satisfied within a year of receipt of payment. In addition, there are no consideration amounts that are variable. Payments received in advance of the Museum satisfying its performance obligations are recorded as deferred revenue, which is included in Other Liabilities in the statement of financial position.

Admissions and special exhibits: Revenue from ticket sales, events, and group admissions is recognized on the date of visit. Payment is collected at the time of purchase.

Ancillary services: The Museum receives revenue from various ancillary services, including commissions for food sales, retail store purchases, and special events. The Museum recognizes revenue for purchases of goods and food commissions at the point in time when the sale occurs. Revenue from special events is recognized when the event occurs. Commission payments are generally due within 15 to 30 days following the month in which the revenue is earned.

Memberships: The Museum receives revenue from various levels of membership. Membership benefits include free admission to the Museum and the ability to attend certain special events. The portion of the membership related to Museum admission is recognized over the membership period. The portion related to special events is recognized when the event occurs. Certain membership levels contain a contribution element, which is recognized as revenue upon receipt of the membership payment. Payment for all membership levels is collected at the time of purchase.

Government support: The Museum receives support from the Chicago Park District based upon the annual tax levy ordinance of the Park District, as well as funding from various federal and state agencies for research, programming, and capital projects. Support from the Park District is recognized in the year payments are received. Other funding from federal and state agencies are primarily conditional contributions in which revenues are recognized as qualifying expenditures are incurred.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Private support: Contributions are recognized in the period received. The Museum recognizes donors' unconditional promises to give cash and other assets as revenue in the period the promises are made. Conditional pledges are not recognized as revenue until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Funding for specific programs are restricted and classified as net assets with donor restrictions and released from restriction as expenses are incurred. In the case of capital projects involving the construction or development of buildings, exhibits or software, restrictions are met as the asset is constructed or developed, provided there are no additional restrictions.

Gains and losses on other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

Donated services and in-kind contributions: The financial statements reflect amounts for the value of donated services and in-kind contributions for which an objective basis is available to measure their value. The Museum has recorded donated services and in-kind contributions at their estimated fair values of \$468,272 and \$401,975 in 2019 and 2018, respectively. The amount relating to services is \$413,214 and \$356,975 in 2019 and 2018, respectively, the majority of which relates to advertising in support of exhibits and public programs.

Volunteers contributed approximately 44,000 and 46,275 hours to the Museum in 2019 and 2018, respectively. The volunteers provided various services throughout the Museum. These services do not meet the criteria for financial statement recognition and, accordingly, the value of these services has not been reported in the financial statements.

Advertising expense: Advertising expense is recorded in the period in which the advertising first takes place. Advertising expense was \$2,666,541 and \$2,895,201 for the years ended December 31, 2019 and 2018, respectively.

Income tax: The Financial Accounting Standards Board (FASB) issued guidance requiring tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained should the position be challenged by a taxing authority. Management has determined that there are no material uncertain positions that require recognition in the financial statements. There are no tax positions for which a material change in any unrecognized tax benefit or liability is reasonably possible in the next twelve months.

The Museum has federal net operating loss carryforwards available to offset future unrelated business taxable income. The net operating loss carryforwards expire through 2036 and total approximately \$2,437,000 and \$2,287,000 at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, management has determined the likelihood of realizing the benefit from a future reversal of the net operating loss carryforwards is uncertain. Therefore, a 100% allowance has been applied to the deferred tax assets associated with the net operating loss carryforwards of approximately \$658,000 and \$617,000 at December 31, 2019 and 2018, respectively.

The Museum files Form 990 in the U.S. federal jurisdiction and the State of Illinois.

Accounting pronouncements adopted: In 2019, the Museum adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 requires the Museum to recognize the amount of revenue it expects to be entitled to for the transfer of promised goods or services to customers. The updated standard replaced most existing revenue recognition guidance in U.S. GAAP when it became effective. The Museum elected the modified retrospective method. Refer to Note 16 for the effect on the financial statements.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

In 2019, the Museum adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides guidance surrounding the categorization of certain transactions as contributions or exchange transactions. It further clarifies when contributions should be deemed conditional. The adoption of this standard did not have a material effect on the financial statements.

In 2019, the Museum adopted ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires the Museum to report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service component and outside a subtotal of income from operations. The adoption of the standard resulted in the reclassification of net periodic benefit costs other than service costs from operating expenses to non-operating expenses.

Recent accounting pronouncements: In 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU affects any entity that is required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. The new standard is effective for the Museum in 2020.

In 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. This ASU modifies the definition of the term *collections* and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care. The new standard is effective for the Museum in 2020.

The adoption of these standards is not expected to have a material effect on the Museum's financial statements.

Reclassifications: Certain 2018 amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

Museum of Science and Industry

Notes to Financial Statements

Note 3. Financial Assets and Liquidity Resources

The table below represents financial assets and liquidity resources available for general expenditures within one year of December 31:

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Financial assets at year-end: | | |
| Cash | \$ 3,156,104 | \$ 5,436,049 |
| Operating investments | 4,986,757 | 3,845,995 |
| Pledges receivable | 39,456,643 | 47,645,207 |
| Accounts receivable | 1,863,102 | 2,379,422 |
| Long-term investments | 109,635,001 | 100,767,425 |
| Total financial assets | <u>159,097,607</u> | <u>160,074,098</u> |
| Less amounts not available to be used within one year: | | |
| Pledges receivable for restricted gifts, net | (38,413,710) | (45,695,603) |
| Pledges receivable for operations due after one year, net | (470,000) | (1,145,000) |
| Long-term investments, net of investment return designated for operations | (105,745,898) | (96,891,011) |
| Total financial assets available within one year | <u>14,467,999</u> | <u>16,342,484</u> |
| Liquidity resources: | | |
| Bank lines of credit | <u>30,000,000</u> | <u>35,000,000</u> |
| Total financial assets and liquidity resources available within one year | <u>\$ 44,467,999</u> | <u>\$ 51,342,484</u> |

The Museum's cash flows have variations due to the seasonality of admissions revenue and a concentration of private support received at year-end. To manage liquidity, the Museum has various sources of liquidity at its disposal, including cash, short-term investments, as well as a \$5,000,000 working capital line of credit and a \$25,000,000 pledge-backed line of credit.

In addition to financial assets and liquidity resources available within one year, the Museum operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 4. Investments

Operating investments consisted of the following at December 31:

| | 2019 | 2018 |
|-----------------------------|---------------------|---------------------|
| Money market fund | \$ 4,977,757 | \$ 3,836,995 |
| Common and preferred stocks | 9,000 | 9,000 |
| Total operating investments | <u>\$ 4,986,757</u> | <u>\$ 3,845,995</u> |

Museum of Science and Industry

Notes to Financial Statements

Note 4. Investments (Continued)

Long-term investments consisted of the following at December 31:

| | 2019 | 2018 |
|-----------------------------|-----------------------|-----------------------|
| Short-term investment fund | \$ 1,476,481 | \$ 5,506,449 |
| Equity funds: | | |
| Domestic | 26,609,713 | 21,775,223 |
| International | 26,064,458 | 25,039,566 |
| Natural resources | 8,323,240 | 5,339,325 |
| Real estate | 7,717,138 | 7,060,965 |
| Fixed income funds | 39,443,971 | 36,045,897 |
| Total long-term investments | <u>\$ 109,635,001</u> | <u>\$ 100,767,425</u> |

The trustees of the Museum have authorized a portion of the cumulative investment return for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines. The amount designated for operations is calculated using the average fair value of the investment pool for the twelve trailing quarters ending September 30 of the previous year. The following schedule summarizes the investment return (loss) and its classification in the statements of activities and changes in net assets:

| | 2019 | 2018 |
|--|----------------------|-----------------------|
| Investment return (loss): | | |
| Interest and dividends | \$ 3,411,327 | \$ 2,874,700 |
| Net realized gain on sale of investments | 5,379,687 | 2,530,363 |
| Net unrealized gain (loss) on investments | 8,475,620 | (12,461,147) |
| Management fees | (193,045) | (204,949) |
| Total investment return (loss) | <u>\$ 17,073,589</u> | <u>\$ (7,261,033)</u> |
| | 2019 | 2018 |
| Classification in the statement of activities and changes in net assets: | | |
| Investment return designated for operations | \$ 4,321,490 | \$ 5,099,352 |
| Investment return (loss), after amount designated for operations | 12,752,099 | (12,360,385) |
| Total investment return (loss) | <u>\$ 17,073,589</u> | <u>\$ (7,261,033)</u> |

Note 5. Fair Value Disclosures

The Museum follows the accounting guidance on fair value measurements and disclosures, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Museum of Science and Industry

Notes to Financial Statements

Note 5. Fair Value Disclosures (Continued)

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but which are traded less frequently and investments that are fairly valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable data requires significant judgment by the Museum. The Museum considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Museum's perceived risk of that instrument.

Transfers between levels are recognized as of the end of the reporting period. For the years ended December 31, 2018 and 2017, there were no such transfers.

Investments with values that are based on quoted market prices in active markets are classified within Level 1 of the hierarchy. These include investments in money market funds, stocks, fixed-income funds, and equity funds.

The fair value of the Museum's investments in certain equity funds and fixed income funds generally represents the amount the Museum would expect to receive if it were to liquidate its investments in funds excluding any redemption charges that may apply. The fair value of these funds is based on the applicable percentage ownership of the underlying funds' net assets as of the measurement date, as determined by the fund manager or the Museum. In determining fair value, the Museum utilizes valuations provided by the underlying investment funds. The underlying investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds are determined by the managers of the investment fund. Investments in these funds have certain restrictions on liquidation and may have underlying investments in private placements or other securities for which prices are not readily available.

For these investments, the Museum uses the practical expedient. The practical expedient represents the applicable percentage ownership of the underlying funds' net assets as of the measurement date or net asset value (NAV).

Charitable trusts are recorded at their estimated fair value based on the present value of the estimated future cash receipts from the trust. Assumptions are made regarding the expected rate of return on investments in the trust, the discount rate, and the expected mortality of the individual(s) if the termination of the agreement is dependent on life expectancy. As the fair value of these trusts is derived from internal estimates of the present value of the Museum's interest in the underlying assets, the amounts ultimately received could differ from the amounts reflected in the historical financial statements. The fair value estimate is classified as Level 3.

Museum of Science and Industry

Notes to Financial Statements

Note 5. Fair Value Disclosures (Continued)

The interest rate swap is valued using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and uses of observable market-based inputs, including interest rates. The fair value estimate is classified as Level 2.

The following tables summarize financial instruments by fair value levels as of December 31:

| | 2019 | | | | |
|---------------------------------|---------------|--------------|------------|---------------------------------|----------------|
| | Level 1 | Level 2 | Level 3 | Valued Using NAV ⁽¹⁾ | Total |
| Assets: | | | | | |
| Investments | | | | | |
| Money market fund | \$ 4,977,757 | \$ - | \$ - | \$ - | \$ 4,977,757 |
| Short-term investment fund | - | - | - | 1,476,481 | 1,476,481 |
| Common and preferred stocks | 9,000 | - | - | - | 9,000 |
| Equity funds: | | | | | |
| Domestic | 20,025,957 | - | - | 6,583,756 | 26,609,713 |
| International | 14,701,564 | - | - | 11,362,894 | 26,064,458 |
| Natural resources | 8,323,240 | - | - | - | 8,323,240 |
| Real estate | 7,717,138 | - | - | - | 7,717,138 |
| Fixed income funds | 30,542,189 | - | - | 8,901,782 | 39,443,971 |
| Total investments at fair value | 86,296,845 | - | - | 28,324,913 | 114,621,758 |
| Charitable trusts | - | - | 643,644 | - | 643,644 |
| Interest rate swap | - | 253,988 | - | - | 253,988 |
| Total assets at fair value | \$ 86,296,845 | \$ 253,988 | \$ 643,644 | \$ 28,324,913 | \$ 115,519,390 |
| 2018 | | | | | |
| | Level 1 | Level 2 | Level 3 | Valued Using NAV ⁽¹⁾ | Total |
| Assets: | | | | | |
| Investments | | | | | |
| Money market fund | \$ 3,836,995 | \$ - | \$ - | \$ - | \$ 3,836,995 |
| Short-term investment fund | - | - | - | 5,506,449 | 5,506,449 |
| Common and preferred stocks | 9,000 | - | - | - | 9,000 |
| Equity funds: | | | | | |
| Domestic | 11,490,209 | - | - | 10,285,014 | 21,775,223 |
| International | 15,296,846 | - | - | 9,742,720 | 25,039,566 |
| Natural resources | 5,339,325 | - | - | - | 5,339,325 |
| Real estate | 7,060,965 | - | - | - | 7,060,965 |
| Fixed income funds | 30,753,731 | - | - | 5,292,166 | 36,045,897 |
| Total investments at fair value | 73,787,071 | - | - | 30,826,349 | 104,613,420 |
| Charitable trusts | - | - | 540,590 | - | 540,590 |
| Total assets at fair value | \$ 73,787,071 | \$ - | \$ 540,590 | \$ 30,826,349 | \$ 105,154,010 |
| Liabilities: | | | | | |
| Interest rate swap | \$ - | \$ (306,172) | \$ - | \$ - | \$ (306,172) |

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Museum of Science and Industry

Notes to Financial Statements

Note 5. Fair Value Disclosures (Continued)

Investments valued at NAV using the practical expedient as of December 31, 2019, consisted of the following:

| | <u>Fair value</u> | <u>Unfunded commitments</u> | <u>Redemption frequency</u> | <u>Redemption notice period</u> |
|---------------------------------|----------------------|-----------------------------|-----------------------------|---------------------------------|
| Short-term investment fund (a) | \$ 1,476,481 | \$ - | Daily | 2 days |
| Equity funds: | | | | |
| Domestic (b) | 6,583,756 | - | Daily | 2 days |
| International (c) | 11,362,894 | - | Daily | 2 days |
| Fixed income funds (d) | 8,901,782 | - | Daily | 2 days |
| Balance as of December 31, 2019 | <u>\$ 28,324,913</u> | <u>\$ -</u> | | |

Investments valued at NAV using the practical expedient as of December 31, 2018, consisted of the following:

| | <u>Fair value</u> | <u>Unfunded commitments</u> | <u>Redemption frequency</u> | <u>Redemption notice period</u> |
|---------------------------------|----------------------|-----------------------------|-----------------------------|---------------------------------|
| Short-term investment fund (a) | \$ 5,506,449 | \$ - | Daily | 2 days |
| Equity funds: | | | | |
| Domestic (b) | 10,285,014 | - | Daily | 2 days |
| International (c) | 9,742,720 | - | Daily | 2 days |
| Fixed income funds (d) | 5,292,166 | - | Daily | 2 days |
| Balance as of December 31, 2018 | <u>\$ 30,826,349</u> | <u>\$ -</u> | | |

- (a) Funds invested in high-grade money market instruments with short maturities.
- (b) Funds with principally long, diversified portfolios invested in highly liquid publicly traded U.S. equity securities, including large cap, mid-cap, and small cap.
- (c) Funds with principally long, diversified portfolios invested in highly liquid international equity securities, including developed funds and emerging funds.
- (d) Fund positions include a broad variety of highly liquid investments that are anticipated to have primarily a fixed income focus, including corporate, government and high yield investments.

Museum of Science and Industry

Notes to Financial Statements

Note 5. Fair Value Disclosures (Continued)

A reconciliation of the Museum's interest in charitable trusts, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for the years ended December 31, 2019 and 2018, is as follows:

| | |
|--------------------------------------|--------------------------|
| Charitable trusts, January 1, 2018 | \$ 601,840 |
| Change in beneficial interest | <u>(61,250)</u> |
| Charitable trusts, December 31, 2018 | 540,590 |
| | |
| Change in beneficial interest | <u>103,054</u> |
| Charitable trusts, December 31, 2019 | <u><u>\$ 643,644</u></u> |

Charitable trusts are included in other assets (Note 11) on the statement of financial position.

Note 6. Pledges Receivable

The Museum has received various pledges from individuals and corporate donors. Pledges to be collected after one year are discounted using an annual rate of 5%, which is for present value including a risk factor. The following is a summary of pledges receivable as of December 31, 2019 and 2018, by expected period of payment:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| Amounts expected to be collected in | | |
| Less than one year | \$ 23,509,667 | \$ 14,213,772 |
| One to five years | 13,626,137 | 33,176,429 |
| More than five years | <u>7,300,000</u> | <u>7,450,000</u> |
| Total pledges receivable | 44,435,804 | 54,840,201 |
| Less: | | |
| Reserve on uncollectible pledges | (1,559,768) | (1,559,768) |
| Discount | <u>(3,419,393)</u> | <u>(5,635,226)</u> |
| Pledges receivable, net | <u><u>\$ 39,456,643</u></u> | <u><u>\$ 47,645,207</u></u> |

As of December 31, 2019 and 2018, a single donor has an outstanding pledge balance of \$22,003,416 and \$27,000,000, respectively, primarily to support building preservation efforts.

In addition, the Museum has received conditional pledges totaling \$8,857,000 and \$5,775,000 for the years ended December 31, 2019 and 2018, respectively. These gifts will be recognized as private support revenue when the conditions are met.

Museum of Science and Industry

Notes to Financial Statements

Note 7. Net Assets

Net assets are available for the following purposes at December 31:

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Without donor restrictions: | | |
| Undesignated | <u>\$ 156,407,112</u> | <u>\$ 128,562,691</u> |
| With donor restrictions: | | |
| Purpose restricted | | |
| Strategic initiatives | \$ 2,053,191 | \$ 3,356,141 |
| Education programs | 11,683,080 | 12,213,341 |
| Building preservation | 22,160,921 | 40,511,424 |
| Exhibit development | 8,534,011 | 9,508,954 |
| Endowment funds, donations held in perpetuity | | |
| Education programs | 10,589,162 | 9,966,661 |
| Exhibit development | 5,667,500 | 5,665,000 |
| Endowment for operations | 1,931,252 | 1,045,349 |
| Endowment funds, accumulated earnings | | |
| Education programs | 939,094 | (555,071) |
| Exhibit development | 1,114,916 | 386,470 |
| Endowment for operations | 164,838 | (14,992) |
| Passage of time | 4,158,729 | 3,900,828 |
| | <u>\$ 68,996,694</u> | <u>\$ 85,984,105</u> |

Net assets were released from donor designations by incurring expenditures that satisfy the designated purpose and through the passage of time as defined below:

| | 2019 | 2018 |
|---------------------------------------|----------------------|----------------------|
| Satisfaction of purpose restrictions: | | |
| Strategic initiatives | \$ 2,957,073 | \$ 1,871,479 |
| Education programs | 6,572,566 | 6,586,244 |
| Building preservation | 18,536,317 | 3,155,724 |
| Exhibit development | 2,026,203 | 827,974 |
| Passage of time | 1,210,291 | 1,802,111 |
| | <u>\$ 31,302,450</u> | <u>\$ 14,243,532</u> |

Museum of Science and Industry

Notes to Financial Statements

Note 8. Donor Restricted Endowments

The Museum's endowment consists of donor-restricted funds primarily to support the maintenance and upkeep of certain exhibits.

The Museum accounts for endowment net assets by preserving the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, the Museum classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift.

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.

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration (underwater endowments). In this situation, the Museum has elected to cease spending on underwater endowments until fair value of the endowment assets are restored above the original gift value. As of December 31, 2019, there were no funds with deficiencies. As of December 31, 2018, funds with original gift values of \$10,627,603, fair values of \$10,044,736, and deficiencies of \$582,867 were reported in net assets with donor restrictions.

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. As of December 31, 2019 and 2018, endowment assets only include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide adequate liquidity, maximizing returns on all funds invested and achieving full employment of all available funds as earning assets. The Museum has an active Finance Committee that meets regularly to ensure the objectives of the investment policy are being met, and that strategies used to meet the objectives are in accordance with the Museum's investment policy.

Museum of Science and Industry

Notes to Financial Statements

Note 8. Donor Restricted Endowments (Continued)

During 2019 and 2018, the Museum had the following donor-restricted endowment-related activities:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Endowment net assets, beginning of year | \$ 16,493,417 | \$ 27,625,481 |
| Private support | 1,510,904 | 7,111,852 |
| Investment returns: | | |
| Interest and dividends | 548,470 | 384,068 |
| Realized gain on sale of investments | 905,435 | 398,840 |
| Net unrealized gain (loss) on investments | 1,413,500 | (2,071,520) |
| Total investment return (loss) | 2,867,405 | (1,288,612) |
| Appropriation of endowment assets for expenditures | (464,964) | (1,293,200) |
| Change in donor restrictions | - | (15,662,104) |
| Total change in endowment net assets | 2,402,441 | (18,243,916) |
| Endowment net assets, end of year | <u>\$ 20,406,762</u> | <u>\$ 16,493,417</u> |

In connection with ongoing efforts to raise donor contributions for building preservation projects, a donor agreed to remove a restriction on funds previously committed to the permanent endowment. As a result, these funds are now immediately available for the purpose of completing building preservation projects, resulting in a change in donor restrictions for endowments in 2018.

Note 9. Retirement Plans

Defined Benefit Plan

On December 31, 2018, the Museum terminated the Original Employees' Retirement Plan (the Plan). In 2019, benefits were distributed to participants in the form of lump sum payments and through the purchase of irrevocable, nonparticipating annuity contracts with a licensed insurance company. Upon distribution of all benefits, the plan ceased operations and reverted \$432,940 in assets to the Museum. As a result of settling the Plan's projected benefit obligation, the Museum recognized a non-operating gain of \$235,100, determined as follows:

| | |
|--|-------------------|
| Unrecognized actuarial loss prior to settlement | \$ 573,811 |
| Impact of plan settlements | (338,711) |
| Total pension related gain, other than net periodic pension expense: | <u>\$ 235,100</u> |

Museum of Science and Industry

Notes to Financial Statements

Note 9. Retirement Plans (Continued)

The following table sets forth the funded status of the Plan and amounts recognized in the Museum's financial statements as of December 31:

| | 2019 | 2018 |
|--|--------------|---------------------|
| Change in projected benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 3,663,843 | \$ 4,130,397 |
| Interest cost | 88,407 | 137,016 |
| Benefits paid | (30,381) | (191,811) |
| Actuarial gain | (294,536) | (411,759) |
| Settlement | (3,427,333) | - |
| Projected benefit obligation at end of year | <u>-</u> | <u>3,663,843</u> |
| Change in fair value of plan assets: | | |
| Fair value of plan assets at beginning of year | 3,905,726 | 4,167,493 |
| Actual return on plan assets | (15,072) | (69,956) |
| Employer reversions | (432,940) | - |
| Benefits paid | (30,381) | (191,811) |
| Settlement | (3,427,333) | - |
| Fair value of plan assets at end of year | <u>-</u> | <u>3,905,726</u> |
| Funded status | <u>\$ -</u> | <u>\$ 241,883</u> |
| Accumulated benefit obligation | <u>\$ -</u> | <u>\$ 3,663,843</u> |

Amounts that have not yet been recognized as a component of net periodic benefit cost consist of the following at December 31:

| | 2019 | 2018 |
|--------------------|------|------------|
| Net actuarial loss | \$ - | \$ 573,811 |

Net periodic pension cost (or benefit) and other amounts recognized in the statements of activities and changes in net assets are as follows at December 31:

| | 2019 | 2018 |
|--|------------------|---------------------|
| Interest cost | \$ 88,407 | \$ 137,016 |
| Recognized actuarial loss | 8,887 | 14,795 |
| Expected return on plan assets | (53,251) | (282,702) |
| Net periodic pension expense (benefit) | <u>\$ 44,043</u> | <u>\$ (130,891)</u> |

Museum of Science and Industry

Notes to Financial Statements

Note 9. Retirement Plans (Continued)

The weighted-average assumptions for the years ended December 31, 2019 and 2018, are as follows:

| | 2019 | 2018 |
|--|-------|-------|
| Discount rate (benefit expense) | 4.14% | 3.44% |
| Discount rate (benefit obligations) | n/a | 4.14% |
| Expected long-term rate of return on plan assets | 2.32% | 7.03% |
| Rate of compensation increase | 4.00% | 4.00% |

The long-term expected rate of return on plan assets is based on the Plan's target asset allocation and current market conditions. By examining the expected rates of return by asset class, including any appropriate alpha, and long-term inflation expectations, a forward-looking expected return is developed that reflects the weighted average of the expected returns.

The plan assets by fair value levels, including weighted-average asset allocations, for the year ended December 31, 2018 are as follows:

| | Valued Using NAV | Asset Allocation |
|----------------------------|---------------------|---------------------|
| Short-term investment fund | \$ 3,905,726 | 100% |

Investments valued at net asset value using the practical expedient as of December 31, 2018 consisted of a high-grade money market instrument with \$0 in unfunded commitments and a redemption frequency of daily, upon two days' notice.

Defined Contribution Plan

The Museum has an active 401(k) plan. Under the terms and conditions of the 401(k) plan, participants may annually defer up to 50% of annual salary or a maximum amount defined by law of \$19,000 and \$18,500 for 2019 and 2018, respectively. Participants who have attained age 50 before the end of the plan year are also eligible to make catch-up contributions.

The Museum makes a matching contribution of 100% of the first 1% contributed by participants and 50% of the next 5% contributed by participants. Vesting is 100% in the employee contribution and Museum match at all times. The Museum matches were \$524,280 and \$631,059 in 2019 and 2018, respectively.

Museum of Science and Industry

Notes to Financial Statements

Note 10. Museum Properties

The legal title to the Museum's land and original building is vested with the Chicago Park District. The sole and permanent right to the use and occupancy of the land and original building rests with the Museum under an agreement that extends in perpetuity as long as the Museum uses the property for the purposes under which it is incorporated.

Museum properties of \$5,000 or greater are recorded at cost and depreciated on a straight-line basis over the assets' estimated useful lives as follows:

| Asset description | Life |
|-----------------------------------|----------------|
| Building improvements | 15 to 30 years |
| Henry Crown Space Center | 40 years |
| Exhibits | 3 to 10 years |
| Underground garage | 40 years |
| Equipment, furniture and fixtures | 3 to 10 years |

Museum properties consisted of the following at December 31:

| | 2019 | 2018 |
|-----------------------------------|-----------------------|-----------------------|
| Building improvements | \$ 104,901,963 | \$ 104,047,518 |
| Henry Crown Space Center | 12,209,176 | 12,228,264 |
| Exhibits | 163,337,867 | 163,967,500 |
| Underground garage | 54,666,665 | 54,667,365 |
| Equipment, furniture and fixtures | 18,414,212 | 17,704,440 |
| Construction in progress | 23,325,562 | 5,591,144 |
| Total properties | 376,855,445 | 358,206,231 |
| Less accumulated depreciation | (247,272,382) | (238,401,104) |
| Properties, net | <u>\$ 129,583,063</u> | <u>\$ 119,805,127</u> |

Depreciation expense was \$10,580,337 and \$12,895,371 for the years ended December 31, 2019 and 2018, respectively. Loss on disposal of fixed assets totaling \$138,690 and \$6,355,726 for the years ending December 31, 2019 and 2018, respectively, relate to replacement and disposition of obsolete exhibits and equipment.

Construction in progress consists primarily of building improvements to the electrical system and roof, rebuilding and restoration of architectural features, and exterior waterproofing. The total cost of these projects is expected to be approximately \$30.6 million.

Museum of Science and Industry

Notes to Financial Statements

Note 11. Other Assets

Other assets balances at December 31:

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| Trade accounts receivable | \$ 1,863,102 | \$ 2,379,422 |
| Charitable remainder trusts | 643,644 | 540,590 |
| Prepaid expenses and deposits | 590,306 | 1,012,083 |
| Interest rate swap | 253,988 | - |
| Film consortium investment | 168,015 | 179,536 |
| Life insurance policy | 163,210 | 141,213 |
| Inventories | 85,006 | 79,792 |
| Total other assets | <u>\$ 3,767,271</u> | <u>\$ 4,332,636</u> |

Other assets consists of: (1) trade accounts receivable arising through the normal course of business, (2) the Museum's irrevocable interest in donors' charitable trusts, (3) prepaid expenses for insurance and other agreements whose economic benefits extend into future fiscal years, (4) the fair value of the asset in connection with the Museum's interest rate swap agreement, (5) the Museum's interest in the Giant Dome Theatre Consortium, whose purpose is to promote and support the development, production, distribution and exhibition of educational films for giant dome theatres (6) a life insurance policy that was purchased by a donor for the Museum and recorded at its surrender value, and (7) inventories, primarily for items held for resale.

Note 12. Other Liabilities

Other liabilities balances at December 31:

| | 2019 | 2018 |
|-----------------------------|---------------------|---------------------|
| Deferred revenue | \$ 2,541,022 | \$ 819,145 |
| Purchase agreement | 852,743 | 1,406,630 |
| Asset retirement obligation | 602,874 | 927,254 |
| Interest payable | 58,648 | 142,285 |
| Funds on deposit | 27,577 | 22,603 |
| Interest rate swap | - | 306,172 |
| Total other liabilities | <u>\$ 4,082,864</u> | <u>\$ 3,624,089</u> |

Other liabilities consists of: (1) deferred revenue from guests' purchases of future admissions and advance payments from retail partners, (2) the present value of amounts due under a purchase agreement for energy efficiency equipment, (3) an asset retirement obligation for the Museum's estimated cost of asbestos remediation, (4) interest payable on the Museum's outstanding bonds, (5) funds on deposit for group admissions and rental space, and (6) the fair value of the liability in connection with the Museum's interest rate swap agreement.

Museum of Science and Industry

Notes to Financial Statements

Note 13. Related-Party Transactions

The Museum obtains banking and other services, as well as procures products from companies with which certain Museum trustees are associated. The Museum also receives pledges and contributions from its trustees. A summary appears below.

| | 2019 | 2018 |
|---|----------------|----------------|
| Cash and investments held by the Museum | \$ 114,874,526 | \$ 104,864,776 |
| Outstanding pledges | 40,184,288 | 49,495,433 |
| Debt held by the Museum | 22,916,000 | 23,641,000 |
| Contributions | 5,663,602 | 34,155,637 |
| Utilities | 1,797,924 | 1,920,493 |
| Amounts due under purchase agreements | 852,743 | 1,406,630 |
| Interest and Bank fees | 660,950 | 638,794 |
| Other | 409,703 | 308,650 |
| Investments held by the Pension Plan | - | 3,905,726 |

Note 14. Bonds Payable and Lines of Credit

Following is a summary of bonds payable as of December 31:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Illinois Finance Authority (IFA) secured bonds: | | |
| Series 2017A - PNC Bank, N.A. | \$ 32,084,000 | \$ 33,097,000 |
| Series 2017B - BMO Harris Bank | 22,916,000 | 23,641,000 |
| Total | 55,000,000 | 56,738,000 |
| Less unamortized financing fees | (385,855) | (405,228) |
| Bonds payable, per statements of financial position: | <u>\$ 54,614,145</u> | <u>\$ 56,332,772</u> |

Aggregate maturities of bonds payable at December 31, 2019, are as follows:

| | |
|---------------------|----------------------|
| 2020 | \$ 1,818,000 |
| 2021 | 1,898,000 |
| 2022 | 1,978,000 |
| 2023 | 2,058,000 |
| 2024 | 2,138,000 |
| 2025 and thereafter | 45,110,000 |
| Total | <u>\$ 55,000,000</u> |

Museum of Science and Industry

Notes to Financial Statements

Note 14. Bonds Payable and Lines of Credit (Continued)

IFA Series 2017 Bonds:

In June 2017, the Museum issued to the IFA tax-exempt bonds (Series 2017A – PNC Bank, N.A. and Series 2017B – BMO Harris Bank) totaling \$60,000,000 through a private placement. The proceeds were loaned to the Museum for the purpose of redeeming 2009 bonds. The bonds have a variable interest rate based on a percentage of one-month LIBOR plus a fixed basis point component. The interest rate at December 31, 2019 is 2.18%. Certain expenses incurred in connection with the bond issue were deferred and are being amortized over the period the bonds are outstanding.

Interest Rate Swap Agreement:

In December 2019, the Museum terminated an interest rate swap agreement to convert \$15,000,000 of notional principal from floating-rate to fixed-rate (2.54%) instruments on previously issued bonds and recognized a loss of \$332,200. Concurrent with the termination, the Museum entered into a new interest rate swap agreement to convert \$30,000,000 of notional principal from floating-rate to fixed-rate instruments on previously issued bonds. The new agreement, which expires in December 2029, has monthly settlement and a fixed interest rate of 1.2885%. As of December 31, 2019 and 2018, the cumulative unrealized gain (loss) on the Museum's swap positions was \$253,988 and (\$306,172), respectively, based on the amount that such an instrument could be settled with a third party as determined by the counterparty.

Lines of Credit:

In June 2017, the Museum entered into a \$10,000,000 working capital line of credit agreement with an interest rate of one-month LIBOR plus a fixed basis point component on outstanding amounts. The line expired in May 2019 and was replaced with a \$5,000,000 working capital line of credit agreement with an interest rate of one-month LIBOR plus a fixed basis point component on outstanding amounts. The working capital line of credit expires in May 2021. In June 2017, the Museum entered into a \$25,000,000 pledge-backed project line of credit with an interest rate of one-month LIBOR plus a fixed basis point component on outstanding amounts. The pledge-backed line of credit expires in May 2022. There were no outstanding borrowings on the lines of credit at December 31, 2019 and 2018.

Note 15. Functional Classification of Expenses

Expenses by functional classification for the year ended December 31, 2019 consist of the following:

| | Program Expenses | | | | | | | Total |
|-------------------------------|------------------------------|--------------------|----------------|--------------------------------|------------|--------------|------------------------|---------------|
| | Exhibits and public programs | Education Programs | Guest services | Retail and supporting services | Membership | Development | Management and general | |
| Compensation & benefits | \$ 10,103,003 | \$ 8,497,493 | \$ 2,063,316 | \$ 986,892 | \$ 217,757 | \$ 3,603,313 | \$ 3,730,160 | \$ 29,201,934 |
| Facilities operations | 4,659,599 | 213,053 | 202,955 | 856,471 | - | 137,837 | 487,496 | 6,557,411 |
| Supplies, services, and other | 8,226,300 | 2,375,797 | 1,078,836 | 955,383 | 757,985 | 1,673,934 | 1,511,317 | 16,579,552 |
| Depreciation | 8,118,804 | 120,552 | 1,446,240 | 615,903 | - | - | 278,838 | 10,580,337 |
| Interest | 1,710,650 | - | - | - | - | - | - | 1,710,650 |
| Total | \$ 32,818,356 | \$ 11,206,895 | \$ 4,791,347 | \$ 3,414,649 | \$ 975,742 | \$ 5,415,084 | \$ 6,007,811 | \$ 64,629,884 |

Museum of Science and Industry

Notes to Financial Statements

Note 15. Functional Classification of Expenses (Continued)

Expenses by functional classification for the year ended December 31, 2018 consist of the following:

| | Program Expenses | | | | | | | Total |
|-------------------------------|------------------------------|--------------------|----------------|--------------------------------|------------|--------------|------------------------|---------------|
| | Exhibits and public programs | Education Programs | Guest services | Retail and supporting services | Membership | Development | Management and general | |
| Compensation & benefits | \$ 9,902,221 | \$ 8,546,838 | \$ 2,244,246 | \$ 822,365 | \$ 209,664 | \$ 3,411,479 | \$ 3,904,337 | \$ 29,041,150 |
| Facilities operations | 4,280,885 | 187,834 | 179,364 | 1,443,030 | 1,434 | 87,812 | 405,649 | 6,586,008 |
| Supplies, services, and other | 9,424,216 | 2,335,733 | 1,090,358 | 1,005,527 | 718,396 | 1,915,735 | 1,519,498 | 18,009,463 |
| Depreciation | 10,397,238 | 126,444 | 1,452,220 | 627,002 | - | - | 292,467 | 12,895,371 |
| Interest | 1,680,582 | - | - | - | - | - | - | 1,680,582 |
| Total | \$ 35,685,142 | \$ 11,196,849 | \$ 4,966,188 | \$ 3,897,924 | \$ 929,494 | \$ 5,415,026 | \$ 6,121,951 | \$ 68,212,574 |

Natural expenses attributable to more than one functional expense category are allocated based on headcount, square footage, and time and effort.

Note 16. Adoption of New Revenue Recognition Standard

The Museum adopted Topic 606 using the modified retrospective method applied to contracts not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The Museum recorded a net change in beginning net assets without donor restrictions of \$2,346,546 as of January 1, 2019. The impact of the cumulative effect adjustment on the statement of financial position upon adoption was as follows:

| | As of December 31, 2018 | Cumulative Effect Adjustment | As of January 1, 2019 |
|---------------------------------------|----------------------------|---------------------------------|--------------------------|
| Other liabilities | \$ 3,624,089 | \$ 2,346,546 | \$ 5,970,635 |
| Net assets without donor restrictions | 128,562,691 | (2,346,546) | 126,216,145 |
| Total net assets | 214,546,796 | (2,346,546) | 212,200,250 |

The impact of adoption on the Museum's financial statements as of and for the year ended December 31, 2019 was as follows:

| Statement of Financial Position | As of December 31, 2019 | | |
|---------------------------------------|-------------------------|---|---|
| | As Reported | Balances without adoption of Topic 606 | Effect of Adoption Increase/(Decrease) |
| Other liabilities | \$ 4,082,864 | \$ 1,999,754 | \$ 2,083,110 |
| Net assets without donor restrictions | 156,407,112 | 156,143,676 | 263,436 |
| Total net assets | 225,403,806 | 225,140,370 | 263,436 |

Museum of Science and Industry

Notes to Financial Statements

Note 16. Adoption of New Revenue Recognition Standard (Continued)

| Statement of Activities | For the year ended December 31, 2019 | | |
|--|--------------------------------------|--|--|
| | As Reported | Balances without adoption of Topic 606 | Effect of Adoption Increase/(Decrease) |
| Membership | \$ 3,204,612 | \$ 2,948,160 | \$ 256,452 |
| Private support without donor restrictions | 16,171,801 | 16,164,817 | 6,984 |
| Total revenue and support | 64,843,793 | 64,580,357 | 263,436 |
| Change in net assets | 13,203,556 | 12,940,120 | 263,436 |

Adoption of the new revenue standard had no impact to cash from or used in operating, financing or investing on the statements of cash flows.

Note 17. Commitments and Contingencies

In its normal course of operations, the Museum has various contracts including food service, janitorial, advertising, and fabrication for exhibits. As of December 31, 2019, the total commitments under those contracts are approximately \$9,200,000.

From time to time, the Museum is a defendant in legal proceedings arising out of the ordinary course of its business. Although the outcome of these proceedings cannot readily be determined, in the opinion of management, disposition of these proceedings would not have a material adverse effect on the financial position of the Museum.

Note 18. Subsequent Events

In January 2020, the Museum refinanced its series 2017A and 2017B bonds with existing lenders, amending the variable interest rate formula to achieve interest expense savings.

On March 11, 2020, the World Health Organization declared the COVID-19 coronavirus outbreak to be a pandemic. Actions taken around the world to mitigate the spread of the coronavirus include restrictions on travel, quarantines, and forced closures for certain types of public places and businesses, including the Museum. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the Museum, including lost revenue related to admissions, special exhibits, ancillary services, and membership. Additionally, stock markets in the United States and globally have recently experienced significant volatility attributed to coronavirus concerns, creating uncertainty and enhanced risk to the Museum's investment portfolio. It is unknown how long these conditions will last and what the complete financial effect will be to the Museum.

On April 16, 2020, the Museum received a loan from the Small Business Administration for \$4,923,900 under the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act. The Museum can use the loan for payroll, interest, and utility expenses incurred during the eight week period following receipt of the proceeds. The loan is eligible for forgiveness if certain employee and compensation levels are maintained. The Museum expects to meet the necessary criteria, which would result in forgiveness of a significant portion of the loan.

The Museum evaluated its December 31, 2019 financial statements for subsequent events through May 15, 2020, the date the financial statements were issued.