

Museum of Science and Industry

Financial Statements
As of and for the Years Ended December 31, 2018
and 2017 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, 2018 and 2017, 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, 2018 and 2017, 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

The Museum adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. The adoption of the standard resulted in additional footnote disclosures and significant changes to classification of net assets and the disclosures related to net assets. Our opinion is not modified with respect to this matter.

RSM US LLP

Chicago, Illinois
May 14, 2019

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Museum of Science and Industry

**Statements of Financial Position
December 31, 2018 and 2017**

	2018	2017
Assets		
Cash	\$ 5,436,049	\$ 1,669,369
Operating investments	3,845,995	256,479
Pledges receivable, net	47,645,207	26,421,466
Other assets	4,332,636	4,107,417
Pension asset	241,883	37,096
Long-term investments	100,767,425	107,521,108
Museum properties, net	119,805,127	133,179,676
	<u>282,074,322</u>	<u>273,192,611</u>
Total assets	\$ 282,074,322	\$ 273,192,611
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,570,665	\$ 5,342,937
Bonds payable, net of unamortized financing fees	56,332,772	57,991,398
Other liabilities	3,624,089	4,109,549
Total liabilities	<u>67,527,526</u>	<u>67,443,884</u>
Net assets:		
Without donor restrictions	128,562,691	147,744,620
With donor restrictions	85,984,105	58,004,107
Total net assets	<u>214,546,796</u>	<u>205,748,727</u>
	<u>282,074,322</u>	<u>273,192,611</u>
Total liabilities and net assets	\$ 282,074,322	\$ 273,192,611

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 (Note 4)	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	5,698,593	-	5,698,593
Expenses before depreciation and interest	53,505,730	-	53,505,730
Depreciation	12,895,371	-	12,895,371
Interest	1,680,582	-	1,680,582
Operating income (loss), including depreciation and interest expense	(3,233,351)	30,570,440	27,337,089
Non-operating income (loss):			
Loss on long-term investments, net, after investment return designated for operations (Note 4)	(9,778,573)	(2,581,812)	(12,360,385)
Loss on disposal of fixed assets	(6,355,726)	-	(6,355,726)
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	(15,948,578)	(2,590,442)	(18,539,020)
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

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2017**

	Without donor restrictions	With donor restrictions	Total
Operating income:			
Revenue and support:			
Admissions	\$ 13,957,567	\$ -	\$ 13,957,567
Special exhibits	2,916,735	-	2,916,735
Ancillary services	7,847,477	-	7,847,477
Membership	3,061,155	-	3,061,155
Government support	5,483,968	549,213	6,033,181
Private support	6,724,992	10,417,399	17,142,391
Investment return designated for operations (Note 4)	3,833,858	862,021	4,695,879
Other income	973,277	-	973,277
Net assets released from restrictions	13,852,581	(13,852,581)	-
Total revenue and support	58,651,610	(2,023,948)	56,627,662
Expenses:			
Exhibits and public programs	23,167,880	-	23,167,880
Education programs	10,537,875	-	10,537,875
Guest services	3,006,293	-	3,006,293
Retail and supporting services	3,049,364	-	3,049,364
Membership	907,023	-	907,023
Development	4,938,365	-	4,938,365
Management and general	5,684,814	-	5,684,814
Expenses before depreciation and interest	51,291,614	-	51,291,614
Depreciation	13,166,765	-	13,166,765
Interest and financing expenses	1,343,515	-	1,343,515
Operating loss, including depreciation, interest and financing expenses	(7,150,284)	(2,023,948)	(9,174,232)
Non-operating income (loss):			
Gain on long-term investments, net, after investment return designated for operations (Note 4)	7,105,191	2,270,102	9,375,293
Loss on disposal of fixed assets	(12,443)	-	(12,443)
Loss on extinguishment of bonds payable	(666,894)	-	(666,894)
Pension-related changes other than net periodic pension cost	217,720	-	217,720
Other income	210,932	-	210,932
Total non-operating income	6,854,506	2,270,102	9,124,608
Change in net assets	(295,778)	246,154	(49,624)
Net assets, beginning of year	148,040,398	57,757,953	205,798,351
Net assets, end of year	\$ 147,744,620	\$ 58,004,107	\$ 205,748,727

See notes to financial statements.

Museum of Science and Industry

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 8,798,069	\$ (49,624)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	12,895,371	13,166,765
Amortization of debt issuance costs	19,374	24,426
Change in value of interest rate swap	(264,441)	(239,730)
Loss on disposal of fixed assets	6,355,726	12,443
Loss on extinguishment of bonds payable	-	666,894
Proceeds from sale of collections	(31,158)	-
Realized gain on investments	(2,530,363)	(1,410,113)
Unrealized loss (gain) on investments	12,461,147	(10,565,427)
Gifts restricted for permanent endowment	(5,788,124)	(759,313)
Gifts restricted for acquisition of Museum properties	(25,164,392)	(1,400,892)
Changes in operating assets and liabilities:		
Pledges receivable, net	(208,320)	(1,036,317)
Other assets	(430,006)	162,378
Accounts payable and accrued liabilities	1,161,280	(189,502)
Other liabilities	(785,720)	(1,621,953)
Net cash provided by (used in) operating activities	6,488,443	(3,239,965)
Cash flows from investing activities:		
Proceeds from sale of collections	31,158	-
Purchase of investments	(20,353,277)	(35,362,370)
Proceeds from sale of investments	13,586,660	35,509,510
Purchase of Museum properties	(4,245,399)	(5,577,814)
Net cash used in investing activities	(10,980,858)	(5,430,674)
Cash flows from financing activities:		
Payment for debt issuance costs	-	(213,606)
Proceeds from bonds payable	-	60,000,000
Payment on bonds payable	(1,678,000)	(61,184,000)
Proceeds from gifts restricted for permanent endowment	7,111,852	6,471,518
Proceeds from gifts restricted for acquisition of Museum properties	2,825,243	1,142,592
Net cash provided by financing activities	8,259,095	6,216,504
Net change in cash	3,766,680	(2,454,135)
Cash, beginning of year	1,669,369	4,123,504
Cash, end of year	\$ 5,436,049	\$ 1,669,369
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,413,599	\$ 713,759
Acquisition of Museum properties through purchase agreement	564,700	-
Accounts payable and accrued liabilities for Museum properties	1,066,449	288,884

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. More than 365,000 students are among the nearly 1,500,000 guests that visit each year, making the Museum the number one field trip destination in Chicago for the tenth consecutive year. Through its Welcome to Science Initiative, the Museum reaches thousands of students and teachers through special programs, learning labs, and educator workshops.

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.

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.

Net assets without donor restrictions at December 31, 2017 of \$147,744,620 was previously reported as unrestricted net assets. Net assets with donor restrictions at December 31, 2017 of \$58,004,107 represents the sum of \$31,032,514 and \$26,971,593 previously reported as temporarily restricted and permanently restricted net assets, respectively.

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.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2018 and 2017. 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.

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.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 \$927,254 and \$1,015,669 at December 31, 2018 and 2017, 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 and support: Revenue and support are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. 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.

The Museum receives income from ticket sales, events and group admission in advance of earning this revenue. The advance payments are accounted for as deferred revenue, which is included in Other Liabilities in the accompanying statement of financial position. Revenue is recognized as it is earned, which is the date upon which the event occurs or the date for which general admission is purchased. Revenue from various ancillary services, including commissions for food sales, retail store purchases, special events and membership are also recognized in the period earned.

The Museum receives support from the Chicago Park District based upon the annual tax levy ordinance of the Park District, as well as occasional funding from various federal and state agencies for programming and capital projects. Support from the Park District is recognized on an accrual basis and is classified as government support without donor restrictions.

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 \$401,975 and \$587,257 in 2018 and 2017, respectively. The amount relating to services is \$356,975 and \$120,438 in 2018 and 2017, respectively.

Volunteers contributed approximately 46,275 and 43,850 hours to the Museum in 2018 and 2017, 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 \$2,895,201 and \$2,451,963 for the years ended December 31, 2018 and 2017, respectively.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 \$3,300,000 at December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, 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 \$890,000 at December 31, 2018 and 2017, respectively.

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

Accounting pronouncements adopted: In 2018, the Museum adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU addresses net asset classifications, and reporting and disclosures about liquidity, financial performance, expenses, and cash flows. Certain provisions, as required, have been applied retrospectively to 2017. Amounts previously reported as temporarily or permanently restricted have been reclassified to be reported as net assets with donor restrictions. In addition, the Museum has added or enhanced disclosures for liquidity, net assets, endowments and expenses.

Recent accounting pronouncements: In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for the Museum in 2019. The Museum has not selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2018, the FASB issued 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 new standard is effective for the Museum in 2019; early adoption is permitted. The Museum is currently evaluating the impact of the adoption of this standard on its financial statements.

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 affect 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; early adoption is permitted. The Museum is currently evaluating the impact of the adoption of this standard on its financial statements.

Reclassifications: Certain 2017 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:

	2018	2017
Financial assets at year-end:		
Cash	\$ 5,436,049	\$ 1,669,369
Accounts receivable	2,379,422	1,457,663
Pledges receivable	47,645,207	26,421,466
Operating investments	3,845,995	256,479
Long-term investments	100,767,425	107,521,108
Total financial assets	<u>160,074,098</u>	<u>137,326,085</u>
Less amounts not available to be used within one year:		
Pledges receivable for restricted gifts, net	(45,695,603)	(25,191,466)
Pledges receivable for operations due after one year, net	(1,145,000)	(750,000)
Portion of long-term investments functioning as endowment and not available for operations within one year	(96,891,011)	(103,702,036)
Total financial assets available within one year	<u>16,342,484</u>	<u>7,682,583</u>
Liquidity resources:		
Bank line of credit	<u>10,000,000</u>	<u>10,000,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 26,342,484</u>	<u>\$ 17,682,583</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 \$10 million working capital 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:

	2018	2017
Money market fund	\$ 3,836,995	\$ 247,479
Common and preferred stocks	9,000	9,000
Total operating investments	<u>\$ 3,845,995</u>	<u>\$ 256,479</u>

Museum of Science and Industry

Notes to Financial Statements

Note 4. Investments (Continued)

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

	2018	2017
Short-term investment fund	\$ 5,506,449	\$ 1,309,635
Equity funds:		
Domestic	21,775,223	23,960,872
International	25,039,566	32,428,221
Natural resources	5,339,325	6,615,895
Real estate	7,060,965	7,600,209
Fixed income funds	36,045,897	35,606,276
Total long-term investments	<u>\$ 100,767,425</u>	<u>\$ 107,521,108</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:

	2018	2017
Investment return (loss):		
Interest and dividends	\$ 2,874,700	\$ 2,298,280
Net realized gain on sale of investments	2,530,363	1,410,113
Net unrealized (loss) gain on investments	(12,461,147)	10,565,427
Management fees	(204,949)	(202,648)
Total investment return (loss)	<u>\$ (7,261,033)</u>	<u>\$ 14,071,172</u>
Classification in the statements of activities and changes in net assets:		
Investment return designated for operations	\$ 5,099,352	\$ 4,695,879
Investment return (loss), after amount designated for operations	(12,360,385)	9,375,293
Total investment return (loss)	<u>\$ (7,261,033)</u>	<u>\$ 14,071,172</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)

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

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
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>		

Investments valued at NAV using the practical expedient as of December 31, 2017, consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Short-term investment fund (a)	\$ 1,309,635	\$ -	Daily	2 days
Equity funds:				
Domestic (b)	12,263,594	-	Daily	2 days
International (c)	11,754,822	-	Daily	2 days
Fixed income funds (d)	5,216,151	-	Daily	2 days
Balance as of December 31, 2017	<u>\$ 30,544,202</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, 2018 and 2017, is as follows:

Charitable trusts, January 1, 2017	\$ 525,631
Trust distributions	(54,977)
Change in beneficial interest	<u>131,186</u>
Charitable trusts, December 31, 2017	601,840
Change in beneficial interest	<u>(61,250)</u>
Charitable trusts, December 31, 2018	<u><u>\$ 540,590</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. In 2018, a single donor pledged \$27,000,000 primarily to support building preservation efforts. Pledges to be collected after one year are discounted using an annual rate of 5%, which is commensurate with the risk involved.

The following is a summary of pledges receivable as of December 31, 2018 and 2017, by expected period of payment:

	<u>2018</u>	<u>2017</u>
Amounts expected to be collected in		
Less than one year	\$ 14,213,772	\$ 9,369,497
One to five years	33,176,429	15,533,572
More than five years	7,450,000	7,800,000
Total pledges receivable	<u>54,840,201</u>	<u>32,703,069</u>
Less:		
Reserve on uncollectible pledges	(1,559,768)	(1,520,000)
Discount	<u>(5,635,226)</u>	<u>(4,761,603)</u>
Pledges receivable, net	<u><u>\$ 47,645,207</u></u>	<u><u>\$ 26,421,466</u></u>

The Museum has received conditional pledges in the form of challenge grants totaling \$5,000,000 and \$0 for the years ended December 31, 2018 and 2017, 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:

	2018	2017
Without donor restrictions:		
Undesignated	<u>\$ 128,562,691</u>	<u>\$ 147,744,620</u>
With donor restrictions:		
Purpose restricted		
Strategic initiatives	\$ 3,356,141	\$ 897,272
Education programs	12,213,341	15,471,586
Building preservation	40,511,424	1,450,145
Exhibit development	9,508,954	6,245,614
Endowment funds		
Education programs	9,409,167	3,868,091
Building preservation	-	16,799,796
Exhibit development	6,051,470	6,489,995
Endowment for operations	1,032,780	467,599
Passage of time	3,900,828	6,314,009
	<u>\$ 85,984,105</u>	<u>\$ 58,004,107</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:

	2018	2017
Satisfaction of purpose restrictions:		
Strategic initiatives	\$ 1,871,479	\$ 1,823,841
Education of programs	6,586,244	6,265,605
Building preservation	3,155,724	2,748,749
Exhibit development	827,974	2,260,386
Passage of time	1,802,111	754,000
	<u>\$ 14,243,532</u>	<u>\$ 13,852,581</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, 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. As of December 31, 2017, there were no donor-restricted endowment funds with deficiencies.

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, 2018 and 2017, 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 2018 and 2017, the Museum had the following donor-restricted endowment-related activities:

	2018	2017
Endowment net assets, beginning of year	\$ 27,625,481	\$ 18,883,483
Private support	7,111,852	6,471,518
Investment returns:		
Interest and dividends	384,068	467,435
Realized loss on sale of investments	398,840	346,944
Net unrealized gain (loss) on investments	(2,071,520)	2,318,122
Total investment return (loss)	(1,288,612)	3,132,501
Appropriation of endowment assets for expenditures	(1,293,200)	(862,021)
Change in donor restrictions	(15,662,104)	-
Total change in endowment net assets	(18,243,916)	2,270,480
Endowment net assets, end of year	<u>\$ 16,493,417</u>	<u>\$ 27,625,481</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:

In May 1989, the Museum terminated its defined benefit retirement plan (the Original Plan). Upon termination of the Original Plan, eligible employees automatically became participants in the Original Employees' Retirement Plan (the Current Plan), a non-contributory retirement plan. Vesting in the Current Plan is based upon completion of five years of continuous service. On December 31, 2018, the Museum terminated the Current Plan. Subsequent to the termination date, benefits will be distributed to participants in the form of a lump sum payment or the purchase of an irrevocable annuity with a licensed insurance company, as applicable.

Museum of Science and Industry

Notes to Financial Statements

Note 9. Retirement Plans (Continued)

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

	2018	2017
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 4,130,397	\$ 4,040,727
Interest cost	137,016	151,137
Benefits paid	(191,811)	(191,811)
Actuarial (gain) loss	(411,759)	130,344
Projected benefit obligation at end of year	<u>3,663,843</u>	<u>4,130,397</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	4,167,493	3,681,544
Actual return on plan assets	(69,956)	548,948
Employer contributions	-	128,812
Benefits paid	(191,811)	(191,811)
Fair value of plan assets at end of year	<u>3,905,726</u>	<u>4,167,493</u>
Funded status	<u>\$ 241,883</u>	<u>\$ 37,096</u>
Accumulated benefit obligation	<u>\$ 3,663,843</u>	<u>\$ 4,130,397</u>

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

	2018	2017
Net actuarial loss	\$ 573,811	\$ 647,707

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:

	2018	2017
Interest cost	\$ 137,016	\$ 151,137
Recognized actuarial loss	14,795	27,961
Expected return on plan assets	(282,702)	(228,845)
Net periodic pension benefit	<u>\$ (130,891)</u>	<u>\$ (49,747)</u>

Museum of Science and Industry

Notes to Financial Statements

Note 9. Retirement Plans (Continued)

The estimated net actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost within the next fiscal year is \$14,795.

The weighted-average assumptions for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Discount rate (benefit expense)	3.44%	3.88%
Discount rate (benefit obligations)	4.14%	3.44%
Expected long-term rate of return on plan assets	7.03%	6.47%
Rate of compensation increase	4.00%	4.00%

Weighted-average asset allocations by asset category for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Short-term investments	100%	0%
Equity funds:		
Domestic	0%	33%
International	0%	21%
Natural resources	0%	6%
Real estate	0%	7%
Fixed income	0%	33%
	<u>100%</u>	<u>100%</u>

The long-term expected rate of return on plan assets is based on the Current 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.

Plan assets are managed through the trustee, The Northern Trust Company. The Museum has set a target asset allocation of 100% money market funds, in anticipation of the distribution of benefits due to termination of the Current Plan. In 2017, the target asset allocation of 20% domestic public equities, 25% international public equities, 7% real estate equities, 6% natural resources equities, and 42% fixed-income securities was meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed-income investments.

Museum of Science and Industry

Notes to Financial Statements

Note 9. Retirement Plans (Continued)

Plan assets consisted of the following at December 31:

	2018	2017
Short-term investment fund	\$ 3,905,726	\$ 1,660
Equity funds:		
Domestic	-	1,361,695
International	-	854,288
Natural resources	-	261,052
Real estate	-	295,098
Fixed income	-	1,393,700
Total plan assets	<u>\$ 3,905,726</u>	<u>\$ 4,167,493</u>

The following table summarizes plan assets by fair value levels as of December 31, 2018:

	Level 1	Valued Using NAV	Total
Short-term investment fund	\$ -	\$ 3,905,726	\$ 3,905,726
Total plan assets	<u>\$ -</u>	<u>\$ 3,905,726</u>	<u>\$ 3,905,726</u>

The following table summarizes plan assets by fair value levels as of December 31, 2017:

	Level 1	Valued Using NAV	Total
Short-term investment fund	\$ -	\$ 1,660	\$ 1,660
Equity funds:			
Domestic	746,400	615,295	1,361,695
International	432,656	421,632	854,288
Natural resources	261,052	-	261,052
Real estate	295,098	-	295,098
Fixed income	1,214,795	178,905	1,393,700
Total plan assets	<u>\$ 2,950,001</u>	<u>\$ 1,217,492</u>	<u>\$ 4,167,493</u>

Museum of Science and Industry

Notes to Financial Statements

Note 9. Retirement Plans (Continued)

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

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Short-term investment fund (a)	\$ 3,905,726	\$ -	Daily	2 days
	<u>\$ 3,905,726</u>	<u>\$ -</u>		

Investments valued at net asset value using the practical expedient as of December 31, 2017, consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Short-term investment fund (a)	\$ 1,660	\$ -	Daily	2 days
Equity funds:				
Domestic (b)	615,295	-	Daily	2 days
International (c)	421,632	-	Daily	2 days
Fixed income funds (d)	178,905	-	Daily	2 days
	<u>\$ 1,217,492</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, medium 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.

A total of \$3,457,715 was paid through May 14, 2019 for benefit payments and to purchase annuities to satisfy all future benefit payments. Accordingly, future annual benefit payments beyond 2019 are expected to be \$0.

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 \$18,500 and \$18,000 for 2018 and 2017, 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 \$631,059 and \$585,862 in 2018 and 2017, 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:

	2018	2017
Building improvements	\$ 104,047,518	\$ 104,013,326
Henry Crown Space Center	12,228,264	12,234,684
Exhibits	163,967,500	167,852,645
Underground garage	54,667,365	54,667,365
Equipment, furniture and fixtures	17,704,440	19,614,867
Construction in progress	5,591,144	6,387,008
Total properties	358,206,231	364,769,895
Less accumulated depreciation	(238,401,104)	(231,590,219)
Properties, net	<u>\$ 119,805,127</u>	<u>\$ 133,179,676</u>

Depreciation expense was \$12,895,371 and \$13,166,765 for the years ended December 31, 2018 and 2017, respectively. Loss on disposal of fixed assets totaling \$6,355,726 and \$12,443 for the years ending December 31, 2018 and 2017, respectively, relate to replacement and disposition of obsolete exhibits and equipment.

Museum of Science and Industry

Notes to Financial Statements

Note 11. Other Assets

Other assets balances at December 31:

	2018	2017
Inventories	\$ 79,792	\$ 409,528
Prepaid expenses	1,007,582	1,198,438
Accounts receivable	2,379,422	1,457,663
Charitable remainder trusts	540,590	601,840
Life insurance policy	141,213	119,204
Film consortium investment	179,536	302,828
Flexible spending account deposit	4,501	17,916
Total other assets	<u>\$ 4,332,636</u>	<u>\$ 4,107,417</u>

Other assets consists of: (1) inventories, primarily for items held for resale, (2) prepaid expenses for insurance and other agreements whose economic benefits extend into future fiscal years, (3) trade accounts receivable arising through the normal course of business, (4) the Museum's irrevocable interest in donors' charitable trusts, (5) a life insurance policy that was purchased by a donor for the Museum and recorded at its surrender value, (6) 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, and (7) security deposit with flexible spending account vendor.

Note 12. Other Liabilities

Other liabilities balances at December 31:

	2018	2017
Deferred revenue	\$ 819,145	\$ 862,559
Funds on deposit	22,603	215,790
Interest payable	142,285	110,066
Asset retirement obligation	927,254	1,015,669
Purchase agreement	1,406,630	1,334,852
Interest rate swap	306,172	570,613
Total other liabilities	<u>\$ 3,624,089</u>	<u>\$ 4,109,549</u>

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

	2018	2017
Cash and investments held by the Museum	\$ 104,864,776	\$ 109,385,638
Investments held by the Pension Plan	3,905,726	4,167,493
Debt held by the Museum	23,641,000	24,341,000
Interest and Bank fees	638,794	355,465
Utilities	1,920,493	1,566,611
Other	308,650	88,639
Outstanding pledges	49,495,433	29,242,001
Contributions	34,155,637	8,229,414
Amounts due under purchase agreements	1,406,630	1,334,852

Note 14. Bonds Payable and Lines of Credit

Following is a summary of bonds payable and lines of credit as of December 31:

	2018	2017
Illinois Finance Authority (IFA) secured bonds:		
Series 2017A - PNC Bank, N.A.	\$ 33,097,000	\$ 34,075,000
Series 2017B - BMO Harris Bank	23,641,000	24,341,000
Total	56,738,000	58,416,000
Less unamortized financing fees	(405,228)	(424,602)
Bonds payable, per statements of financial position:	<u>\$ 56,332,772</u>	<u>\$ 57,991,398</u>

Aggregate maturities of bonds payable at December 31, 2018, are as follows:

2019	\$ 1,738,000
2020	1,818,000
2021	1,898,000
2021	1,978,000
2022	2,058,000
2023 and thereafter	47,248,000
Total	<u>\$ 56,738,000</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 the Series 2009 variable revenue demand bonds. The bonds have a variable interest rate based on 68-70% of one-month LIBOR plus 55-70 basis points (2017A – 2.68%; 2017B – 2.82% at December 31, 2018). Certain expenses incurred in connection with the bond issue were deferred and are being amortized over the period the bonds are outstanding. As a result of the Series 2009 redemption, the Museum recognized a loss on extinguishment of debt of \$666,894 for the year ended December 31, 2017, which represents the write-off of unamortized bond issuance costs associated with the extinguished debt.

Interest Rate Swap Agreement:

The Museum has entered into an interest rate swap agreement to convert \$15,000,000 of notional principal from floating-rate to fixed-rate instruments on previously issued bonds. The agreement, which expires in May 2021, has monthly settlement and a fixed interest rate of 2.54%. The fair value of the swap for 2018 and 2017 changed due to unrealized gains of \$264,441 and \$239,730, respectively. As of December 31, 2018 and 2017, the cumulative unrealized loss was \$306,172 and \$570,613, 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 the one-month LIBOR plus 65 basis points on outstanding amounts, which expires in May 2019. The Museum intends to renew the line of credit upon expiration. The agreement replaces a \$10,000,000 line of credit that expired in 2017. In June 2017, the Museum entered into a \$25,000,000 pledge-backed project line of credit with an interest rate of the one-month LIBOR plus 70 basis points on outstanding amounts, which expires in May 2022. The agreement replaces a \$10,000,000 project line of credit, which expired in 2017. There were no outstanding borrowings on the lines of credits at December 31, 2018 and 2017.

Note 15. Functional Classification of Expenses

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	\$ 3,773,446	\$ 28,910,259
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	\$ 5,991,060	\$ 68,081,683

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, 2017 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	\$ 10,626,997	\$ 8,117,246	\$ 1,969,493	\$ 879,135	\$ 216,578	\$ 3,183,932	\$ 3,494,473	\$ 28,487,854
Facilities operations	4,284,881	212,586	186,828	1,346,459	153	13,906	656,702	6,701,515
Supplies, services, and other	8,256,002	2,208,043	849,972	823,770	690,292	1,740,527	1,533,639	16,102,245
Depreciation	10,661,287	127,627	1,453,419	629,229	-	-	295,203	13,166,765
Interest	1,343,515	-	-	-	-	-	-	1,343,515
Total	<u>\$ 35,172,682</u>	<u>\$ 10,665,502</u>	<u>\$ 4,459,712</u>	<u>\$ 3,678,593</u>	<u>\$ 907,023</u>	<u>\$ 4,938,365</u>	<u>\$ 5,980,017</u>	<u>\$ 65,801,894</u>

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

Note 16. 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, 2018, the total commitments under those contracts are approximately \$5,650,000.

The Museum is a defendant in legal proceedings arising out of the ordinary course of its business. Although the outcome of these proceedings cannot presently 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 17. Subsequent Events

The Museum evaluated its December 31, 2018 financial statements for subsequent events through May 14, 2019, the date the financial statements were issued. The Museum is not aware of any subsequent events that would require recognition or disclosure in the financial statements.