

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Financial Statements

For the Years Ended June 30, 2020 and 2019

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Independent Auditor's Report

**To the Board of Directors
Pacific Science Center Foundation
Seattle, Washington**

We have audited the accompanying consolidated financial statements of Pacific Science Center Foundation (the Center), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2020 and 2019, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effects of Adopting New Accounting Standards

As discussed in Note 1, the Center adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and related ASUs, for the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

Clark Nuber P.S.

Certified Public Accountants
May 6, 2021

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Financial Position
June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 2,836,775 | \$ 212,605 |
| Accounts receivable, net | 496,672 | 611,378 |
| Pledges receivable, net | 442,340 | 537,836 |
| Current portion of note receivable | 351,074 | |
| Prepaid expenses and other current assets | 289,204 | 404,509 |
| Total Current Assets | 4,416,065 | 1,766,328 |
| Property held for sale (Note 6) | | 4,808,752 |
| Long-term pledges receivable, net | 113,301 | 500,058 |
| Other long-term assets | 300,645 | 406,212 |
| Land, building and equipment, net | 25,097,022 | 26,829,115 |
| Investments | 831,647 | 994,482 |
| Long-term receivables, net | 1,394,922 | 1,353,774 |
| Note receivable, net of current portion | | 368,834 |
| Beneficial interest in trust | 7,094,676 | 7,525,287 |
| Total Assets | \$ 39,248,278 | \$ 44,552,842 |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Accounts payable | \$ 831,062 | \$ 988,339 |
| Accrued expenses | 1,333,260 | 960,202 |
| Line of credit (Note 7) | | 2,157,703 |
| Deferred revenue | 3,227,125 | 3,108,895 |
| Current portion of long-term debt (Note 8) | | 315,179 |
| Current portion of trademark license obligations | 105,567 | 105,567 |
| Current portion of capital lease obligations | 57,734 | 37,866 |
| Total Current Liabilities | 5,554,748 | 7,673,751 |
| Long-term debt, net of current portion (Note 8) | | 5,609,978 |
| Paycheck Protection Program loan (Note 9) | 2,177,700 | |
| Trademark license obligations, net of current portion | 195,078 | 300,645 |
| Capital lease obligations, net of current portion | 69,650 | 98,332 |
| Total Liabilities | 7,997,176 | 13,682,706 |
| Net Assets: | | |
| Without donor restrictions | 22,307,747 | 20,294,770 |
| With donor restrictions | 8,943,355 | 10,575,366 |
| Total Net Assets | 31,251,102 | 30,870,136 |
| Total Liabilities and Net Assets | \$ 39,248,278 | \$ 44,552,842 |

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Activities
For the Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------|-----------------------|
| Revenue: | | |
| Federal, state and local government | \$ 324,318 | \$ 864,826 |
| Corporate, foundation and individual support | 1,966,874 | 2,178,640 |
| Contributions released from restriction | 2,780,335 | 1,679,283 |
| Endowment earnings released from restriction | 300,000 | 200,000 |
| Membership | 1,534,528 | 2,315,675 |
| General exhibit revenue | 2,737,311 | 4,160,645 |
| Theater ticket sales | 1,511,892 | 2,391,086 |
| Camps and programs | 2,617,884 | 3,279,731 |
| Earned ancillary revenue | 1,232,325 | 2,321,897 |
| Total Revenue | 15,005,467 | 19,391,783 |
| Direct Costs of Revenues: | | |
| Federal, state and local government | 243,211 | 607,743 |
| Corporate, foundation and individual fundraising | 929,451 | 1,075,873 |
| Memberships | 567,472 | 599,088 |
| General exhibit direct costs | 5,528,155 | 5,806,482 |
| Theater operations | 1,831,875 | 2,223,795 |
| Camps and programs | 3,422,870 | 3,072,052 |
| Direct costs for earned ancillary revenue | 728,645 | 1,271,009 |
| Total Program and Operating Expenses | 13,251,679 | 14,656,042 |
| Indirect Operating Expenses: | | |
| General and administration | 3,813,913 | 3,639,279 |
| Marketing | 692,410 | 687,579 |
| Facilities | 1,538,003 | 1,656,514 |
| Total Indirect Operating Expenses | 6,044,326 | 5,983,372 |
| Total Operating Loss | (4,290,538) | (1,247,631) |
| Gains, Losses, Depreciation and Financing Costs: | | |
| Gain on disposal of assets, net of costs | 8,693,789 | |
| Depreciation | (2,032,295) | (2,196,598) |
| Financing costs | (357,979) | (545,534) |
| Total Gains, Losses, Depreciation and Financing Costs | 6,303,515 | (2,742,132) |
| Change in Net Assets Without Donor Restrictions | \$ 2,012,977 | \$ (3,989,763) |

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-----------------------------|
| Net Assets Without Donor Restrictions: | | |
| Total revenue without donor restrictions | \$ 11,925,132 | \$ 17,512,500 |
| Contributions and endowment earnings released from donor restrictions | 3,080,335 | 1,879,283 |
| Gain on disposal of assets, net of costs | 8,693,789 | |
| Total expenses without donor restrictions | <u>(21,686,279)</u> | <u>(23,381,546)</u> |
| Change in Net Assets Without Donor Restrictions | 2,012,977 | (3,989,763) |
| Net Assets With Donor Restrictions: | | |
| Contributions | 1,738,048 | 2,299,696 |
| Contributions released from restriction | (2,780,335) | (1,679,283) |
| Endowment fund earnings released from restriction | (300,000) | (200,000) |
| Change in value of beneficial interest in trust | (430,611) | (161,460) |
| Endowment fund earnings | <u>140,887</u> | <u>103,368</u> |
| Change in Net Assets With Donor Restrictions | <u>(1,632,011)</u> | <u>362,321</u> |
| Total Change in Net Assets | 380,966 | (3,627,442) |
| Net assets, beginning of year | <u>30,870,136</u> | <u>34,497,578</u> |
| Net Assets, End of Year | <u>\$ 31,251,102</u> | <u>\$ 30,870,136</u> |

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2020

| | Science Education and Exhibits | Guest Services | Development | Administration | 2020 Consolidated Total |
|--------------------------|--------------------------------------|----------------------------|----------------------------|----------------------------|-------------------------------|
| Personnel | \$ 5,810,043 | \$ 4,320,702 | \$ 772,190 | \$ 2,425,436 | \$ 13,328,371 |
| Depreciation | 996,231 | 838,728 | 44,710 | 152,626 | 2,032,295 |
| Services | 622,218 | 369,080 | 132,821 | 526,452 | 1,650,571 |
| Occupancy | 41,744 | 894,270 | 392 | 19,169 | 955,575 |
| Advertising | 94,775 | 841,410 | 7,037 | 1,250 | 944,472 |
| License and royalty fees | 114,036 | 662,988 | 13,430 | | 790,454 |
| Supplies | 295,609 | 204,124 | 22,388 | 51,717 | 573,838 |
| Cost of goods sold | | 235,512 | | | 235,512 |
| Interest | 93,536 | 100,141 | 13,244 | 45,490 | 252,411 |
| Bank fees | 47,330 | 150,915 | 16,582 | 38,230 | 253,057 |
| Insurance | | | | 269,866 | 269,866 |
| Travel | 126,228 | 5,219 | 12,785 | 27,780 | 172,012 |
| Other | 37,687 | 13,079 | 40,410 | 136,669 | 227,845 |
| Totals | <u>\$ 8,279,437</u> | <u>\$ 8,636,168</u> | <u>\$ 1,075,989</u> | <u>\$ 3,694,685</u> | <u>\$ 21,686,279</u> |

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019

| | Science Education and Exhibits | Guest Services | Development | Administration | 2019 Consolidated Total |
|--------------------------|--------------------------------------|-----------------------------|----------------------------|----------------------------|-------------------------------|
| Personnel | \$ 5,118,492 | \$ 4,780,021 | \$ 807,570 | \$ 2,384,620 | \$ 13,090,703 |
| Depreciation | 733,482 | 991,814 | 120,202 | 351,100 | 2,196,598 |
| Services | 1,080,293 | 456,189 | 209,758 | 448,573 | 2,194,813 |
| Advertising | 5,923 | 1,126,064 | 4,441 | | 1,136,428 |
| Occupancy | 29,420 | 1,014,812 | 27,925 | 40,305 | 1,112,462 |
| License and royalty fees | 63,316 | 1,048,672 | | | 1,111,988 |
| Supplies | 382,577 | 249,982 | 38,416 | 44,188 | 715,163 |
| Cost of goods sold | | 460,622 | | | 460,622 |
| Interest | 148,697 | 201,068 | 24,368 | 71,177 | 445,310 |
| Bank fees | 51,470 | 213,870 | 23,875 | 31,371 | 320,586 |
| Insurance | | | | 265,236 | 265,236 |
| Travel | 176,786 | 8,524 | 6,608 | 26,561 | 218,479 |
| Other | 17,019 | 5,618 | 16,319 | 74,202 | 113,158 |
| Totals | <u>\$ 7,807,475</u> | <u>\$ 10,557,256</u> | <u>\$ 1,279,482</u> | <u>\$ 3,737,333</u> | <u>\$ 23,381,546</u> |

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------|--------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 380,966 | \$ (3,627,442) |
| Adjustments to reconcile change in net assets to net cash used in operating activities- | | |
| Gain on sale of fixed assets | (9,135,170) | |
| Depreciation and amortization | 2,032,295 | 2,213,103 |
| Contributions restricted for endowment | | (4,000) |
| Change in value of beneficial interest in trust | 430,611 | 161,460 |
| Unrealized and realized gains on investments | 14,175 | 19,146 |
| Accounts receivable | 114,706 | 52,907 |
| Pledges receivable | 429,646 | (442,419) |
| Prepaid expenses and other assets | 74,157 | 148,480 |
| Accounts payable and accrued expenses | 216,904 | (138,712) |
| Trademark license assets and liabilities | | (11,168) |
| Deferred revenue | 118,230 | (289,749) |
| Net Cash Used in Operating Activities | (5,323,480) | (1,918,394) |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of fixed assets | 13,891,500 | |
| Purchase of building improvements and equipment | (178,485) | (313,511) |
| Purchase of investments | (956,336) | (153,030) |
| Proceeds from sales of investments | 1,122,756 | 248,117 |
| Net Cash Provided by (Used in) Investing Activities | 13,879,435 | (218,424) |
| Cash Flows From Financing Activities: | | |
| Repayments on long-term debt | (8,082,860) | (261,581) |
| Proceeds from Paycheck Protection Program loan | 2,177,700 | |
| Proceeds from contributions restricted to endowment and capital projects | 52,607 | 29,490 |
| Repayments on capital lease obligations | (79,232) | |
| Net borrowings on lines of credit | | 1,501,995 |
| Net Cash (Used in) Provided by Financing Activities | (5,931,785) | 1,269,904 |
| Net Change in Cash and Cash Equivalents | 2,624,170 | (866,914) |
| Cash and cash equivalents, beginning of year | 212,605 | 1,079,519 |
| Cash and Cash Equivalents, End of Year | \$ 2,836,775 | \$ 212,605 |
| Supplementary Disclosure of Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 252,411 | \$ 445,310 |
| Equipment acquired with capital leases | \$ 70,418 | \$ 136,198 |

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

Note 1 - Description of the Center and Summary of Significant Accounting Policies

Description of the Center - Pacific Science Center's mission is to ignite curiosity and fuel a passion for discovery, experimentation, and critical thinking. We are focusing on four strategic initiatives: to enable access to science education for everyone, to serve as a platform for innovation, to be a community laboratory and living room for conversations about science and technology topics relevant to our region, and to utilize our iconic real estate to serve the community in innovative ways.

Pacific Science Center (the Center) began as the United States Science Pavilion during the 1962 Seattle World's Fair. Our award-winning, interactive programs serve nearly 1 million people each year throughout the state of Washington in their communities, in classrooms, at the Mercer Slough Environmental Education Center in Bellevue, and at our seven-acre campus at Seattle Center.

Impacts of the COVID-19 Pandemic - In March 2020, the World Health Organization categorized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result of the spread of COVID-19 and at the government's direction, the Center closed to the public effective March 12, 2020 and remains closed as of the date these financial statements were issued. As a result of the pandemic, the Center has experienced negative impacts to its operating revenues. It is not clear when authorities will allow the operation of the museum at full capacity. Therefore, the full financial impact and duration of the impacts of the COVID-19 pandemic cannot be reasonably estimated as of the date of issuance of these financial statements.

To mitigate the effects of the pandemic, the Center applied for and received a Paycheck Protection Program loan totaling \$2.18 million (Note 9). The Center has worked to significantly reduce operating expenses and payroll costs by implementing a combination of shared-work, furloughs and layoffs. The Center is also self-insured for unemployment and is facing uncertainty on the relief opportunities by federal and state benefit programs.

Basis of Presentation - The financial statements of the Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Center reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of the Center and/or the passage of time or that they be maintained in perpetuity by the Center. The donors of the endowment assets permit the Center to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restriction unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and 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 by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as releases between the applicable classes of net assets.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

Note 1 - Continued

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Principles of Consolidation - The consolidated financial statements include the accounts of the Pacific Science Center Foundation and its wholly-owned limited liability company (collectively referred to as the Center). Inter-organization balances and transactions have been eliminated in consolidation.

Revenue Recognition - The Center earns revenues from the sale of admissions for general exhibits and its theaters. Admissions are generally purchased by customers in advance or on the date of entry to the Center and are nonrefundable. Revenues from admissions are recognized when the performance obligation of providing access to the Center is met on the date of entry to the Center. The Center also earns revenues from camps and programs and revenues are recognized on the date the camp or program occurs. The Center also earns revenues from the sales of memberships, which are nonrefundable, and provides the member access to the Center during the annual membership period. The Center recognizes memberships ratably as the performance obligation is met over the membership period.

The Center recognizes contributions as revenues when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. Government contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Deferred revenue consists of payments received in advance for memberships, admissions, educational programs, and events.

Cash and Cash Equivalents - The Center considers all short-term investments with an original maturity of three months or less to be cash equivalents, except for cash balances held for investment purposes. At times the Center holds cash in a bank in excess of the available federal deposit insurance.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position based on quoted market prices. Unrealized gains and losses are recorded as a change in net assets.

Receivables - Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or pledges receivable. Changes in the valuation allowance have not been material to the financial statements.

Land, Building and Equipment - Purchased assets are recorded at cost and donated assets are recorded at fair value when received. Depreciation is computed on a straight-line basis over the estimated useful life of the asset, which is 10 to 40 years for buildings and improvements, 7 years for vehicles and 3 to 10 years for furniture and equipment except the IMAX projection systems, which is 20 years. The Center capitalizes assets of \$2,000 or more with useful lives over one year.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

Note 1 - Continued

Financing Costs - Financing costs are recorded as a deduction to the related debt liability on the statements of financial position. Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Noncash Donations - A substantial number of volunteers donate significant amounts of time to support the Center's objectives. However, the value of these services is not recognized in these financial statements as the services do not meet the recognition criteria under U.S. GAAP. The Center also received donated goods and services, which are included in the statements of unrestricted activities at the estimated fair market value of \$19,895 and \$20,708, for the years ended June 30, 2020 and 2019, respectively.

Advertising - The Center expenses advertising as incurred. Advertising and marketing expenses totaled \$944,472 and \$1,136,428, for the years ended June 30, 2020 and 2019, respectively, including donated advertising.

Allocation of Expenses - The consolidated statements of activities present revenues summarized by various sources and present expenses summarized by direct or indirect categories. The consolidated statements of functional expenses reports expenses by both function and nature in as required by U.S. GAAP. The functional categories of expenses are primarily derived by directly charging expenses to specific functional categories. There are certain categories of expenses that are attributable to one or more program or supporting services of the Center that must be allocated. Those expenses include depreciation and interest. Depreciation expense is allocated to each functional category based on square footage, and interest expense is allocated based on the proportion of expenses in each functional category.

Use of Estimates - The preparation of consolidated financial statements in conformity with 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 could differ from those estimates.

Income Tax Status - The Center has been notified by the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) with the exception of income from any activities that are not related to the Center's tax-exempt purpose. The Center is further classified as an organization that is not a private foundation under Section 509(a)(1) of the Code. No provision for income taxes has been recorded.

Reclassifications - Certain reclassifications have been made to the 2019 financial statements to conform to the presentation of in the 2020 financial statements. The reclassifications have no effect on the previously reported total assets, total liabilities, total net assets or change in net assets.

Adoption of New Accounting Pronouncements - During the year ended June 30, 2020, the Center adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The primary effect of adoption of these ASUs for the Center is that memberships are now recognized over the membership period, whereas previously they were recognized on the date of sale.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 1 - Continued

The Center elected to adopt the changes from these ASUs using the full retrospective method, which required the Center to restate the 2019 financial statements. The effect of this change is presented in the tables below:

| | 2019 | | |
|--|---------------------------|--------------|--------------|
| | As Previously Reported | Restatements | As Restated |
| Impacted Lines - Statement of Financial Position: | | | |
| Current Liabilities- | | | |
| Deferred revenue | \$ 2,031,061 | \$ 1,077,834 | \$ 3,108,895 |
| Net Assets: | | | |
| Beginning net assets | 35,601,886 | (1,104,308) | 34,497,578 |
| Ending net assets | 31,947,970 | (1,077,834) | 30,870,136 |
| Impacted Lines - Statement of Activities: | | | |
| Membership revenue | 2,289,201 | 26,474 | 2,315,675 |
| Change in net assets | (3,653,916) | 26,474 | (3,627,442) |

Note 2 - Pledges Receivable

Pledges receivable at June 30 are expected to be received as follows:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Due in less than one year | \$ 454,840 | \$ 547,837 |
| Due in one to five years | 121,000 | 539,598 |
| Gross pledges receivable | 575,840 | 1,087,435 |
| Less present value discount (2020 and 2019 - 6.25%) | (7,699) | (39,541) |
| Less allowance for uncollectible balances | (12,500) | (10,000) |
| Less current portion of pledges receivable | (442,340) | (537,836) |
| Noncurrent Portion of Pledges Receivable | \$ 113,301 | \$ 500,058 |

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

Note 3 - Investments

Investments consisted of the following at June 30:

| | 2020 | 2019 |
|-----------------------------|-------------------|-------------------|
| Cash equivalents | \$ 760,191 | \$ 909,209 |
| Common stock | 23,628 | 39,716 |
| Mutual funds - fixed income | 26,854 | 26,012 |
| Mutual funds - equities | 20,974 | 19,545 |
| | <u>\$ 831,647</u> | <u>\$ 994,482</u> |

Almost all of the investments are restricted for the endowment funds (Note 13). Investment return totaled a loss of \$9,367 and \$7,079 for the years ended June 30, 2020 and 2019, respectively.

Note 4 - Beneficial Interest in Trust

The Center is named the irrevocable remainder beneficiary of a charitable remainder unitrust that is administered by a third-party trustee. Under the terms of the trust agreement, two income beneficiaries are to receive a total annuity each year equal to a percentage of the net fair value of the trust assets as of the first day of the trust year. Upon the deaths of the beneficiaries, the remaining trust assets will be distributed to the Center. A noncurrent asset for the Center's beneficial interest in this charitable remainder unitrust of \$7,094,676 and \$7,525,287 at June 30, 2020 and 2019, respectively, has been recognized at management's estimate of its fair value. Change in the value of the trust has been reported in the statements of changes in net assets as an decrease in net assets with donor restrictions of \$430,611 and \$161,460 for the years ended June 30, 2020 and 2019, respectively.

Note 5 - Fair Value Measurements

U.S. GAAP defines fair value and establishes a framework for measuring fair value. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2020 and 2019.

Common Stock - Valued at the closing price reported on the active market on which the securities are traded.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Center at year end.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 5 - Continued

Beneficial Interest in Trust Agreements - Valued at the present value of the estimated future cash flow to the Center at the estimated termination of the trust based on the fair value of the underlying trust assets. Management currently estimates that the present value of the future cash flow approximates the current fair value of the trust assets. Based on inherent uncertainties in estimating future cash flows, it is at least reasonably possible that this estimate of the trust's fair value will change in the near term.

Fair values of assets measured on a recurring basis at June 30 are as follows:

| | Fair Value Measurements as of June 30, 2020 | | |
|------------------------------|---|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 |
| Investments- | | | |
| Common stock | \$ 23,628 | \$ - | \$ - |
| Mutual funds - fixed income | 26,854 | | |
| Mutual funds - equities | 20,974 | | |
| Beneficial interest in trust | | | 7,094,676 |
| | <u>\$ 71,456</u> | <u>\$ -</u> | <u>\$ 7,094,676</u> |

| | Fair Value Measurements as of June 30, 2019 | | |
|------------------------------|---|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 |
| Investments- | | | |
| Common stock | \$ 39,716 | \$ - | \$ - |
| Mutual funds - fixed income | 26,012 | | |
| Mutual funds - equities | 19,545 | | |
| Beneficial interest in trust | | | 7,525,287 |
| | <u>\$ 85,273</u> | <u>\$ -</u> | <u>\$ 7,525,287</u> |

Note 6 - Land, Building and Equipment

Land, building and equipment at June 30 are as follows:

| | 2020 | 2019 |
|-----------------------------------|----------------------|----------------------|
| Building and improvements | \$ 47,593,056 | \$ 47,532,897 |
| Land | 2,830,000 | 2,830,000 |
| Furniture, equipment and vehicles | 6,080,369 | 5,951,659 |
| Construction in progress | 68,575 | 9,664 |
| | 56,572,000 | 56,324,220 |
| Accumulated depreciation | <u>(31,474,978)</u> | <u>(29,495,105)</u> |
| | <u>\$ 25,097,022</u> | <u>\$ 26,829,115</u> |

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 6 - Continued

The Center's Seattle campus is designated as a City of Seattle landmark. As a result of this designation, changes to the exterior of the Center's facility, and certain parts of the facility's interior, must be approved by the City of Seattle's Landmarks Preservation Board.

As of June 30, 2019, the Center intended to sell the land and building assets that collectively make up the parking garage located at the southwest corner of the campus. These assets have been presented separately on the consolidated statement of financial position as 'held for sale' at June 30, 2019 at their net book value, and sold in the year ended June 30, 2020.

On October 7, 2019 the Center completed the sale of the parking garage for total consideration of \$13,891,500, resulting in a gain on sale of \$9,135,170. Costs incurred associated with the sale totaled \$441,381. A portion of the proceeds were used to repay all outstanding long-term debt and lines of credit described in Notes 7 and 8.

Note 7 - Line of Credit

The Center held an operating line of credit with a maximum credit limit of \$3,000,000. The balance of the Operating Line was paid in full on October 7, 2019. The line was not renewed upon its maturity on November 1, 2019.

Note 8 - Long-Term Debt

Long-term debt at June 30 consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|--|-------------|--------------|
| <u>Garage Note</u> - Bank term loan in the original amount of \$4,310,000, issued on April 28, 2015 to refinance prior debt. The note requires monthly payments of \$22,676 based on a 30 year amortization, bearing interest of 4.75%. The interest rate is fixed until May 2022, at which point it will be adjusted based on an index from the Federal Home Loan Bank of Seattle. The note matures on May 1, 2025, and will require a balloon payment of the remaining balance of principal and unpaid interest due. The loan is secured by property and assignment of rents and other fees collected from operations of the parking garage owned by the Center. Repaid in full in October 2019. | \$ - | \$ 4,022,576 |

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 8 - Continued

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|----------------------------|
| <p><u>The Bond</u> - Tax-exempt bond in the original amount of \$2,397,000, issued in April 2015, to refinance prior debt and provide funds for capital projects. Payable in monthly installments of \$17,931 based on a 15 year amortization of the balance, including interest at the tax-exempt rate of 4.10%, until maturity on May 1, 2030. Prepayment penalties apply during the first 9 years of the loan. Bond is secured by property and assignment of rents and other fees collected from the operation of the parking garage. Repaid in full in October 2019.</p> | | 1,885,282 |
| <p><u>Campaign Note</u> - Converted from a line of credit to a note payable on October 23, 2017. Original credit agreement was executed on April 28, 2015 in the original principal amount of \$1,500,000. Note is payable in monthly installments with an interest rate of 5.75% until maturity on November 1, 2019. Repaid in full in October 2019.</p> | | 96,353 |
| Total long-term debt | | 6,004,211 |
| Less unamortized financing costs | | (79,054) |
| Less current portion | | (315,179) |
| Noncurrent Portion of Long-Term Debt | <u>\$ -</u> | <u>\$ 5,609,978</u> |

Interest expense incurred on long-term debt, the trademark license obligations discussed in Note 9, the Paycheck Protection Loan described in Note 9, and the line of credit described in Note 7 totaled \$252,411 and \$445,310 for the years ended June 30, 2020 and 2019, respectively.

Note 9 - Paycheck Protection Program Loan

In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 24, 2020, the Center obtained a loan under the PPP with a principal balance of \$2,177,700 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning August 2021 through maturity on April 24, 2022.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2020 and 2019

Note 9 - Continued

All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met. The Center's accounting policy for recognition of revenue from forgiveness of the PPP loan is to recognize the gain from forgiveness when loan forgiveness is approved by the Small Business Administration (SBA). No such gain was recognized during the year ended June 30, 2020. The lender has recommended full forgiveness to the SBA and management expects to receive full forgiveness in the next fiscal year.

Future minimum principal payments on the PPP loan are as follows if the loan is not forgiven.

For the Year Ending June 30,

| | | |
|------|----|-------------------------|
| 2021 | \$ | - |
| 2022 | | <u>2,177,700</u> |
| | \$ | <u><u>2,177,700</u></u> |

Note 10 - Trademark License Obligations

The Center operates two IMAX theaters, the Boeing IMAX Theater and the PACCAR IMAX Theater. Equipment for the theaters was acquired from IMAX Corporation. The Center has agreements with IMAX Corporation for licenses to use the IMAX trademark for each theater. The agreement for the Boeing IMAX Theater expires in 2023 and the agreement for the PACCAR IMAX Theater expires in 2021. Both agreements include two potential five-year renewals. Under the terms of the agreements, the Center must have the trademark licenses to operate the IMAX theater system equipment. The agreements require the Center to pay annual royalty fees for the license equal to the greater of a percentage of net theater admissions or a minimum base amount of \$75,000 for the Boeing IMAX Theater and \$50,000 for the PACCAR IMAX Theater. A liability totaling \$300,645 and \$406,212 at June 30, 2020 and 2019, respectively, has been recorded for the minimum base trademark license payments through the end of the terms of the agreements. The agreement also requires the Center to make annual maintenance payments of \$75,000 for the Boeing IMAX Theater and \$40,000 for the PACCAR IMAX Theater.

Note 11 - Employee Benefit Plans

The Center has agreements with certain current and former employees to purchase life insurance for the employees. Under the arrangements, the Center paid the premiums of the life insurance and, upon the employees' deaths, will receive repayment of all premiums paid. These expected repayments are recorded as a noninterest bearing receivables totaling \$1,394,922 and \$1,353,774, net of a discount of \$1,144,235 and \$1,185,383, and are included in long-term receivables on the statement of financial position at June 30, 2020 and 2019, respectively. The receivables are secured by the respective insurance policies, are due upon the individuals' deaths and are discounted at 5% over the expected lives of the individuals.

The Center has a compensation deferral plan under Section 457 of the Code. Only employees specifically designated by the Board of Directors are eligible. Participation in the plan, in the form of compensation deferral by an eligible employee, is voluntary. The participant will be entitled to receive the aggregate amount of his or her account when the participant terminates employment with the Center. The plan is administered by the Center. Salary deferrals are unrestricted assets owned by the Center. The total participant deferrals, including accumulated investment earnings, in the plan at June 30, 2020 and 2019, totaled \$76,450 and \$39,439, respectively, and are recorded as an asset and a liability in the accompanying financial statements.

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 11 - Continued

The Center's employees are eligible to participate in a tax-deferred salary plan under Section 403(b) of the Internal Revenue Code. Employees may elect to defer a portion of their salary under this plan and are immediately vested in such deferrals. The Center provides a discretionary employer match. Consistent with prior years, the Center did not match employee contributions during the years ended June 30, 2020 and 2019.

Note 12 - Commitments and Contingencies

The Center's performance under grants and contracts with federal agencies and other grantors is subject to audit by those entities. If it is determined that the Center's performance under any of these grants and contracts was not in accordance with such agreements, the granting entities may require refunds of a portion or all of such amounts. As of June 30, 2020 and 2019, the Center's management knew of no such determinations and believes it has complied with all grants and contracts.

Note 13 - Net Assets With Donor Restrictions

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

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|-----------------------------|
| Subject to the passage of time or expenditure for specified purposes- | | |
| Program restricted grants | \$ 759,585 | \$ 1,687,340 |
| Time restricted grants | 267,447 | 382,010 |
| Beneficial interest in trust | <u>7,094,676</u> | <u>7,525,287</u> |
| | 8,121,708 | 9,594,637 |
| Endowment funds- | | |
| Original gifts to endowment: | | |
| Income to support science education and leadership training | 1,614,542 | 1,614,542 |
| Income to support repair and maintenance of fixed assets | 576,327 | 576,327 |
| Unappropriated endowment earnings | 95,181 | 337,493 |
| Endowment loan (Note 14) | <u>(1,464,403)</u> | <u>(1,547,633)</u> |
| | <u>821,647</u> | <u>980,729</u> |
| Total Net Assets With Donor Restrictions | <u>\$ 8,943,355</u> | <u>\$ 10,575,366</u> |

Note 14 - Endowment Funds

The Center's endowment consists of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 14 - Continued

Interpretation of Relevant Law - The Board of Directors of the Center has interpreted the Washington Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for the Center to track fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center considers the value of a fund to be deficient if the fair value of the fund is less than the sum of (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Center and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Center and the investment policies of the Center.

Endowment Fund Activity - Changes to endowment funds by net asset category for the years ended June 30, 2020 and 2019, were as follows:

| | Net Assets With Donor Restrictions | | | Total |
|---------------------------------------|------------------------------------|-------------------------|-----------------------|-------------------|
| | Endowment Corpus | Accumulated Earnings | Endowment Loan | |
| Endowment funds, June 30, 2018 | \$ 2,165,699 | \$ 498,690 | \$ (1,612,168) | \$ 1,052,221 |
| Endowment investment return | | (12,558) | | (12,558) |
| Contributions | 4,000 | | | 4,000 |
| Deposit of prior period contributions | 21,170 | | | 21,170 |
| Appropriation of earnings | | (200,000) | | (200,000) |
| Repayment of loan to operations | | 51,361 | 64,535 | 115,896 |
| Endowment Funds, June 30, 2019 | 2,190,869 | 337,493 | (1,547,633) | 980,729 |
| Endowment investment return | | (10,735) | | (10,735) |
| Appropriation of earnings | | (300,000) | | (300,000) |
| Repayment of loan to operations | | 68,423 | 83,230 | 151,653 |
| Endowment Funds, June 30, 2020 | \$ 2,190,869 | \$ 95,181 | \$ (1,464,403) | \$ 821,647 |

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 14 - Continued

Funds With Deficiencies - On September 26, 2012, the Center's Board authorized a loan of \$2,000,000 from the endowment to provide short-term operating funds. On September 16, 2013, the Center's Board authorized an additional loan of \$250,000. On June 17, 2015, the Center's Board adopted a formal repayment plan requiring full repayment of the endowment loan on or before June 30, 2025. Payments shall be made in monthly installments on the 15th of each month, beginning on July 15, 2015, with interest to be paid at 3% per annum from the time of borrowing. On June 27, 2018, the Center's Board extended the repayment schedule on the loan to June 30, 2038 and increased the interest rate to 4% per annum. As of June 30, 2020 and 2019, a total of \$1,465,403 and \$1,547,633, respectively, was outstanding on the endowment loan. On March 17, 2021, the Center repaid the endowment loan in full.

Return Objectives and Risk Parameters - The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that results in a reasonable "real" rate of return, consistent with risk levels established by the Investment Committee. The minimum target Total Return over a full market cycle (3 to 7 years) is that which equals or exceeds the assumed spending rate plus the rate of inflation as measured by the national Consumer Price Index. The endowment fund should also be invested to minimize the likelihood of low or negative total returns, defined as a one year nominal return no worse than negative 10%. The endowment fund should experience risk, as measured by volatility and variability of return, consistent with that of a custom index designed to match the asset allocation strategy then in effect.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Center has a policy of appropriating for distribution each year up to 4% of the average principal balance of the endowment fund for the prior three years and may be used for any portion of its annual budget including operating or capital. For purposes of these guidelines, the principal balance of the funds is defined as its fair market value. The Board may, by two-thirds majority vote, exceed the spending policy guidelines to the extent of accumulated earnings.

Note 15 - Contribution Revenue

Contribution revenue was received as support with and without donor restrictions from the following categories of donors for the years ended June 30:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|----------------------------|----------------------------|
| Corporate and foundation support | \$ 1,976,562 | \$ 2,545,740 |
| Individual support | <u>1,728,360</u> | <u>1,932,596</u> |
| Total Contribution Revenue | <u>\$ 3,704,922</u> | <u>\$ 4,478,336</u> |

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 16 - Liquidity and Availability of Financial Assets

As part of the Center’s liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Center’s working capital and cash flows have seasonal variations during the year attributable primarily to changes in attendance and the timing of grant funding. To manage liquidity the Center recently completed the sale of its parking garage to eliminate outstanding debt obligations and to create additional liquidity for the organization. The Center’s plans to alleviate the pressure on cash, which are probable of being implemented effectively and mitigating these conditions, primarily include its ability to control the timing and spending on programs and raising additional funds through contributions.

Beginning in March 2020 and continuing through the date these financials were available to be issued, the Center’s normal cash flow activities were disturbed by the COVID-19 pandemic, as further described in Note 1. As discussed in Note 1, this disturbance was mitigated by efforts to reduce expenses and obtain funding available under the CARES Act.

The following reflects the Center’s financial assets as of the date of the consolidated statements of financial position, reduced by amounts not available for general use within one year of the date of the consolidated statements of financial position because of the timing of scheduled collections or donor-imposed restrictions.

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|----------------------------|
| Cash and cash equivalents | \$ 2,836,775 | \$ 212,605 |
| Accounts receivable, net | 496,672 | 611,378 |
| Pledges receivable, net | 555,641 | 1,037,894 |
| Investments | 831,647 | 994,482 |
| Long-term receivables, net | 1,394,922 | 1,353,774 |
| Note receivable | 351,074 | 368,834 |
| Beneficial interest in trust | <u>7,094,676</u> | <u>7,525,287</u> |
| Total financial assets | 13,561,407 | 12,104,254 |
| Reductions for amounts not available to meet cash needs for general expenditures within on year: | | |
| Receivables scheduled to be collected in more than one year- | | |
| Pledges receivable | (113,301) | (500,058) |
| Long-term receivables | (1,394,922) | (1,353,774) |
| Note receivable | | (368,834) |
| Beneficial interest in trust | (7,094,676) | (7,525,287) |
| Donor-imposed restrictions- | | |
| Investments held for endowment funds | <u>(821,647)</u> | <u>(980,729)</u> |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | <u>\$ 4,136,861</u> | <u>\$ 1,375,572</u> |

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 17 - Subsequent Events

The Center has evaluated subsequent events through May 6, 2021, the date on which the financial statements were available to be issued.

The balance of the Center's note receivable at June 30, 2020 was fully collected as of December 20, 2020.

The Center has been notified that it will be the beneficiary of funding from the State of Washington (the State) associated with certain inflows to the State from sales and use taxes. The funding is scheduled for 2021 through 2030. In connection with this funding, on December 15, 2020, King County (the County) signed a loan agreement with the Center for \$11,600,000, which is to be repaid from the scheduled funding payments from the State. Repayments to the County will be at the rate of \$1,450,000 annually between December 15, 2022 and 2030. The loan is due in full if the Center receives a lump sum of expected funding from the State. Interest is calculated using the 12-month average King County Investment Pool's Monthly Gross Earnings Rate for the 12 months prior to the date of the payment. The funding from the State originally restricted the use of the funds to capital improvements in the facilities, technology and infrastructure that are essential to renewal and long-term service of the Center. As of May 3, 2021, the State approved an ordinance to remove this restriction effective July 2021, thereby allowing the use of the funds for operations.

In response to the ongoing COVID-19 pandemic, the U.S. Congress passed the Consolidated Appropriations Act, 2021, in December 2020. Included in this act was the Second Draw Program for Paycheck Protection Program loans. On March 16, 2021, the Center obtained a second PPP loan under the Second Draw Program with a principal balance of \$1,524,284 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning November 10, 2021 through maturity on March 16, 2023. All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met.