

**PACIFIC SCIENCE CENTER FOUNDATION**

Financial Statements

For the Years Ended June 30, 2017 and 2016

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## Independent Auditor's Report

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pacific Science Center Foundation (the Center), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of unrestricted activities, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2017 and 2016, 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.

## **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

*Clark Nuber P.S.*

Certified Public Accountants  
October 18, 2017

PACIFIC SCIENCE CENTER FOUNDATION

Statements of Financial Position  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 544,008	\$ 1,392,004
Accounts receivable, net	1,317,701	1,010,100
Pledges receivable, net	222,957	553,553
Prepaid expenses, inventory and other current assets	<u>1,773,581</u>	<u>861,521</u>
<b>Total Current Assets</b>	<b>3,858,247</b>	<b>3,817,178</b>
Restricted cash	76,336	180,355
Long-term pledges receivable, net	135,774	281,931
Other long-term assets	199,947	239,955
Land, building and equipment, net	35,488,864	37,180,119
Investments	774,688	1,366,662
Long-term receivables, net	1,270,372	1,228,324
Note receivable	400,000	
Beneficial interest in trust	<u>7,613,032</u>	<u>7,315,081</u>
<b>Total Assets</b>	<b><u>\$ 49,817,260</u></b>	<b><u>\$ 51,609,605</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,552,270	\$ 1,458,639
Accrued expenses	745,091	787,953
Lines-of-credit	239,688	518,118
Deferred revenue	2,673,730	2,397,438
Current portion of long-term debt	222,532	213,102
Current portion of trademark license obligations	<u>73,824</u>	<u>68,043</u>
<b>Total Current Liabilities</b>	<b>5,507,135</b>	<b>5,443,293</b>
Long-term debt, net of current portion	6,084,008	6,304,408
Trademark license obligations, net of current portion	<u>169,243</u>	<u>244,825</u>
<b>Total Liabilities</b>	<b>11,760,386</b>	<b>11,992,526</b>
<b>Net Assets:</b>		
Unrestricted	27,111,914	28,119,153
Temporarily restricted	8,763,091	9,322,057
Permanently restricted	<u>2,181,869</u>	<u>2,175,869</u>
<b>Total Net Assets</b>	<b><u>38,056,874</u></b>	<b><u>39,617,079</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 49,817,260</u></b>	<b><u>\$ 51,609,605</u></b>

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Statements of Unrestricted Activities  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Revenue:</b>		
Federal, state and local government	\$ 2,199,299	\$ 3,918,011
Corporate and foundation support	2,355,018	840,256
Individual support	741,420	892,715
Contributions released from restriction for operating activities	1,932,342	1,576,878
Contributions released from restriction for capital campaign		176,951
Membership	2,742,748	2,225,825
Special exhibit revenue	2,606,293	269,242
General exhibit revenue	5,310,925	3,781,671
Theater ticket sales	3,951,208	4,177,673
Camps and programs	3,301,671	3,040,124
Earned ancillary revenue	2,150,478	1,858,696
<b>Total Revenue</b>	<b>27,291,402</b>	<b>22,758,042</b>
<b>Direct Costs of Revenues:</b>		
Federal, state and local government	1,628,441	3,420,821
Corporate, foundation and individual fundraising	1,109,402	1,152,985
Memberships	803,169	809,060
Special exhibit direct costs	2,922,410	585,230
General exhibit direct costs	3,891,299	3,436,143
Theater operations	3,152,479	3,092,679
Camps and programs	3,770,368	2,848,196
Direct costs for earned ancillary revenue	999,644	897,776
<b>Total Program and Operating Expenses</b>	<b>18,277,212</b>	<b>16,242,890</b>
<b>Indirect Operating Expenses:</b>		
General and administration	3,506,845	2,933,717
Marketing	2,033,244	1,241,789
Facilities	1,534,011	1,380,217
<b>Total Indirect Operating Expenses</b>	<b>7,074,100</b>	<b>5,555,723</b>
<b>Total Operating Income</b>	<b>1,940,090</b>	<b>959,429</b>
Depreciation	2,476,354	2,485,814
Loss on disposal of assets	(31,700)	
Financing costs	502,675	455,764
<b>Total Depreciation, Losses and Financing Costs</b>	<b>2,947,329</b>	<b>2,941,578</b>
<b>Change in Unrestricted Net Assets</b>	<b>\$ (1,007,239)</b>	<b>\$ (1,982,149)</b>

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Statements of Changes in Net Assets  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Unrestricted Net Assets:</b>		
Total unrestricted revenue	\$ 25,359,060	\$ 21,004,213
Contributions released from restriction for operating activities	1,932,342	1,576,878
Contributions released from restriction for capital campaign		176,951
Total unrestricted expenses	<u>(28,298,641)</u>	<u>(24,740,191)</u>
<b>Change in Unrestricted Net Assets</b>	<b>(1,007,239)</b>	<b>(1,982,149)</b>
<b>Temporarily Restricted Net Assets:</b>		
Contributions for operating activities	978,810	1,298,377
Contributions released from restriction for operating activities	(1,932,342)	(1,576,878)
Contributions released from restriction for capital campaign		(176,951)
Change in value of beneficial interest in trust	297,951	(534,399)
Investment gain, net of appropriation on endowment	<u>96,615</u>	<u>57,247</u>
<b>Change in Temporarily Restricted Net Assets</b>	<b>(558,966)</b>	<b>(932,604)</b>
<b>Permanently Restricted Net Assets:</b>		
Contributions	<u>6,000</u>	<u>6,893</u>
<b>Change in Permanently Restricted Net Assets</b>	<b>6,000</b>	<b>6,893</b>
<b>Total Change in Net Assets</b>	<b>(1,560,205)</b>	<b>(2,907,860)</b>
Net assets, beginning of year	<u>39,617,079</u>	<u>42,524,939</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 38,056,874</u></b>	<b><u>\$ 39,617,079</u></b>

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (1,560,205)	\$ (2,907,860)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation and amortization	2,478,916	2,490,906
Contributions restricted for capital projects and endowment	(11,000)	(6,893)
Change in value of beneficial interest in trust	(297,951)	534,399
Unrealized and realized (gains) losses on investments	(27,883)	7,439
Loss on disposal of assets	31,700	
Changes in operating assets and liabilities:		
Accounts receivable	(307,601)	(362,146)
Pledges receivable	466,583	242,280
Prepaid expenses and other assets	(962,416)	(155,145)
Accounts payable and accrued expenses	74,466	(461,166)
Deferred revenue	276,292	403,277
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>160,901</b>	<b>(214,909)</b>
<b>Cash Flows From Investing Activities:</b>		
Net change in restricted cash	104,019	385,726
Purchase of building improvements and equipment	(760,480)	(569,600)
Purchase of investments	(343,625)	(297,441)
Proceeds from sales of investments	531,782	
<b>Net Cash Used by Investing Activities</b>	<b>(468,304)</b>	<b>(481,315)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from contributions restricted to endowment and capital projects	21,170	729,710
Payment of financing costs		(44,981)
Net payments on lines of credit	(278,430)	(878,529)
Proceeds from new borrowings		63,457
Repayments on long-term debt	(213,532)	(189,674)
Repayments on trademark license obligations	(69,801)	(66,007)
<b>Net Cash Used by Financing Activities</b>	<b>(540,593)</b>	<b>(386,024)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(847,996)</b>	<b>(1,082,248)</b>
Cash and cash equivalents, beginning of year	1,392,004	2,474,252
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 544,008</b>	<b>\$ 1,392,004</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 428,957	\$ 442,596
Note receivable received as proceeds from sale of investment	\$ 400,000	\$ -
Purchases of fixed assets in accounts payable	\$ 96,863	\$ 120,560

See accompanying notes.

## PACIFIC SCIENCE CENTER FOUNDATION

### Notes to Financial Statements For the Years Ended June 30, 2017 and 2016

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

**Description of the Center** - The Pacific Science Center Foundation (the Center) is an independent, not-for-profit educational organization. The Center's mission is to inspire a lifelong interest in science, mathematics, and technology by engaging diverse communities through interactive and innovative exhibits and programs.

The Center operates a Science Center and an environmental education center. Educational programming is provided on site at both locations, and community outreach programming is delivered through the Center's Science on Wheels and other outreach initiatives. The Center's programs are targeted towards education of students, families and adults in the Pacific Northwest and Washington State. The Center also occasionally develops and leases interactive science exhibits to museums, science centers, and other venues nationwide.

**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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that require the Center to maintain the assets in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. When the long-lived assets are acquired, the Center reflects the release of the donor-imposed restriction as a reclassification included in contributions released from restrictions.

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.

The statements of unrestricted revenues present revenues summarized by various sources and present expenses summarized by direct or indirect categories. The disclosure of expenses summarized according to functional categories is presented in Note 15.

## PACIFIC SCIENCE CENTER FOUNDATION

### Notes to Financial Statements For the Years Ended June 30, 2017 and 2016

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#### Note 1 - Continued

**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.

**Restricted Cash** - Restricted cash represents unspent loan proceeds held by the lender. The amounts become unrestricted as the Center incurs qualifying capital expenditures.

**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. The donated private equity was reported at fair value when received and is subsequently accounted for following the cost method of accounting.

**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.

**Inventory** - Inventory consisted primarily of retail goods and is valued at the lower of cost (first-in, first-out) or market value.

**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 \$5,000 or more with useful lives over one year.

**Deferred Revenue** - Deferred revenue consists of payments received in advance for admissions, educational programs, events, and exhibit rentals.

**Financing Costs** - Financing costs are recorded as a deduction to the related debt liability on the statement 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.

**Change in Accounting Principle** - During 2017, the Center implemented the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2015-03 - *Interest - Imputation of Interest (Subtopic 835-30: Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)*. ASU 2015-03 changes the accounting for debt issuance costs (financing costs) by requiring that such costs be reported on the statement of financial position as a direct deduction to the related debt liability. Previously, unamortized financing costs were reported as an asset on the statement of financial position. The Center has restated the 2016 financial statements to conform to the 2017 presentation, and as a result, \$51,282 of unamortized financing costs were reclassified from other long-term assets to debt on the statement of financial position as of June 30, 2016.

**PACIFIC SCIENCE CENTER FOUNDATION**

**Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**Note 1 - Continued**

**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 \$43,370 and \$166,002, for the years ended June 30, 2017 and 2016, respectively.

**Advertising** - The Center expenses advertising as incurred. Advertising and marketing expenses totaled \$1,118,850 and \$1,005,437, for the years ended June 30, 2017 and 2016, respectively, including donated advertising.

**Use of Estimates** - The preparation of 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.

**Subsequent Events** - The Center has evaluated subsequent events through October 18, 2017, the date on which the financial statements were available to be issued.

**Note 2 - Pledges Receivable**

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

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 235,155	\$ 563,552
Due in one to five years	148,992	296,593
Thereafter		<u>9,397</u>
Gross pledges receivable	384,147	869,542
Less present value discount (2017 and 2016 - 4.5%)	(10,718)	(24,058)
Less allowance for uncollectible balances	(14,698)	(10,000)
Less current portion of pledges receivable	<u>(222,957)</u>	<u>(553,553)</u>
<b>Noncurrent Portion of Pledges Receivable</b>	<b><u>\$ 135,774</u></b>	<b><u>\$ 281,931</u></b>

**PACIFIC SCIENCE CENTER FOUNDATION**

**Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**Note 3 - Investments**

Investments consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash equivalents	\$ 670,010	\$ 374,093
Common stock	14,978	
Mutual funds - fixed income	25,394	25,545
Mutual funds - equities	64,306	35,324
Private equity		931,700
	<u>\$ 774,688</u>	<u>\$ 1,366,662</u>

On October 1, 2014, the Center received a noncash donation of private equity member units in a single privately-owned limited liability company. The units were recorded at the estimated fair value of \$931,700 on the date received. During the year ending June 30, 2017, the Center sold their interest in the limited liability company for \$500,000 in cash and \$400,000 in a note receivable. All other investments are restricted for the endowment funds (Note 14).

Investment income consisted of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 1,123	\$ 803
Realized and unrealized gains	27,883	(7,439)
Private equity distributions	84,000	84,000
	<u>\$ 113,006</u>	<u>\$ 77,364</u>

**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 \$7,613,032 and \$7,315,081 at June 30, 2017 and 2016, 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 increase (decrease) in temporarily restricted net assets of \$297,951 and (\$534,399) for the years ended June 30, 2017 and 2016, respectively.

## PACIFIC SCIENCE CENTER FOUNDATION

### Notes to Financial Statements For the Years Ended June 30, 2017 and 2016

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#### 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, 2017 and 2016.

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.

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, 2017 and 2016, were as follows:

	Fair Value Measurements as of June 30, 2017		
	Level 1	Level 2	Level 3
Investments-			
Common stock	\$ 14,978	\$ -	\$ -
Mutual funds - fixed income	25,394		
Mutual funds - equities	64,306		
Beneficial interest in trust			7,613,032
	<u>\$ 104,678</u>	<u>\$ -</u>	<u>\$ 7,613,032</u>

  

	Fair Value Measurements as of June 30, 2016		
	Level 1	Level 2	Level 3
Investments-			
Mutual funds - fixed income	\$ 25,545	\$ -	\$ -
Mutual funds - equities	35,324		
Beneficial interest in trust			7,315,081
	<u>\$ 60,869</u>	<u>\$ -</u>	<u>\$ 7,315,081</u>

**PACIFIC SCIENCE CENTER FOUNDATION**

**Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**Note 5 - Continued**

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) is presented below:

	<u>Beneficial Interest in Trust</u>
Balance at June 30, 2015	\$ 7,849,480
Net loss in value	<u>(534,399)</u>
<b>Balance at June 30, 2016</b>	<b>7,315,081</b>
Net gain in value	<u>297,951</u>
<b>Balance at June 30, 2017</b>	<b><u>\$ 7,613,032</u></b>

**Note 6 - Land, Building and Equipment**

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

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 53,927,955	\$ 53,477,033
Land	4,230,000	4,230,000
Furniture, equipment and vehicles	5,905,275	4,747,803
Construction in progress	<u>238,664</u>	<u>1,110,276</u>
	64,301,894	63,565,112
Accumulated depreciation	<u>(28,813,030)</u>	<u>(26,384,993)</u>
	<b><u>\$ 35,488,864</u></b>	<b><u>\$ 37,180,119</u></b>

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.

**Note 7 - Lines-of-Credit**

The lines-of-credit held by the Center are as follows:

Operating Line - Maximum credit limit of \$3,000,000, matures on November 1, 2017 and bears a variable interest rate which was 5% and 4% on June 30, 2017 and 2016, respectively. There were no balances outstanding on the Operating Line at June 30, 2017 and 2016.

**PACIFIC SCIENCE CENTER FOUNDATION**

**Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**Note 7 - Continued**

Capital Campaign Line - Maximum credit limit of \$1,500,000, matures on November 1, 2017 and bears a variable interest rate which was 5% and 4% on June 30, 2017 and 2016, respectively. The Capital Campaign Line had balances of \$239,688 and \$518,118 outstanding at June 30, 2017 and 2016, respectively.

There are certain financial and nonfinancial covenants required under these agreements.

**Note 8 - Long-Term Debt**

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

	<u>2017</u>	<u>2016</u>
Garage Note - 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.	\$ 4,171,723	\$ 4,241,090
The Bond - 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.	2,147,381	2,270,495
Promissory note with a bank in the original amount of \$63,457, issued January 28, 2016 to finance the construction of the Planetarium. The note requires monthly payments of \$1,869 based on a 3 year amortization, bearing interest of 3.75%. The note matures February 1, 2019.	<u>36,156</u>	<u>57,207</u>
Total long-term debt	6,355,260	6,568,792
Less unamortized financing costs	(48,720)	(51,282)
Less current portion	<u>(222,532)</u>	<u>(213,102)</u>
<b>Noncurrent Portion of Long-Term Debt</b>	<b><u>\$ 6,084,008</u></b>	<b><u>\$ 6,304,408</u></b>

## PACIFIC SCIENCE CENTER FOUNDATION

### Notes to Financial Statements For the Years Ended June 30, 2017 and 2016

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#### Note 8 - Continued

There were certain financial and nonfinancial covenants required under these long-term debt agreements. The Center was in compliance with the debt covenants at June 30, 2017.

Principal payments required on long-term debt for the next five years ending June 30 are as follows:

For the Year Ending June 30,

2018	\$	222,532
2019		224,871
2020		218,826
2021		229,380
2022		239,676
Due thereafter		<u>5,219,975</u>
	\$	<u><u>6,355,260</u></u>

Interest expense incurred on long-term debt, the trademark license obligations discussed in Note 9, and the lines of credit described in Note 7 totaled \$428,957 and \$442,596 for the years ended June 30, 2017 and 2016, respectively.

#### Note 9 - Trademark License Obligations

The Center operates two IMAX theaters, the Boeing IMAX Theater and the PACCAR IMAX Theater. Equipment for the Boeing IMAX Theater was acquired from IMAX Corporation. The Center has an agreement with IMAX Corporation for a license to use the IMAX trademark through October 2018. Under the terms of the lease agreement, the Center must have the trademark license in order to operate the IMAX theater system equipment. The agreement requires 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 \$34,000. A liability totaling \$43,133 and \$72,913 at June 30, 2017 and 2016, respectively, has been recorded for the minimum base trademark license payments through the end of the term. The agreement also requires the Center to make annual maintenance payments of \$75,000 through the end of the term.

Equipment for the PACCAR IMAX Theater was purchased from IMAX Corporation. The Center entered into an agreement with IMAX Corporation to purchase an upgraded IMAX digital theater system for the PACCAR IMAX Theater. The purchase agreement also grants the Center a license to use the IMAX trademark for a term of ten years expiring in 2021, plus two potential five year renewals. Under the terms of the lease agreement, the Center must have the trademark license in order to operate the IMAX theater system equipment. The agreement requires 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 \$50,000. A liability was recorded during fiscal year 2012 upon the final installation of the theater system equipment by IMAX which equaled the minimum base trademark license payments to be paid during the term of the agreement. As of June 30, 2017 and 2016, respectively, the trademark license obligation was \$199,933 and \$239,955. The lease agreement also requires the Center to make annual maintenance payments of \$40,000 through the end of the lease term.

**PACIFIC SCIENCE CENTER FOUNDATION**

**Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**Note 10 - Employee Benefit Plans**

The Center's employees are eligible to participate in a tax-deferred salary plan under Section 403(b) of the 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. During the years ended June 30, 2017 and 2016, the Center elected to not match employee contributions.

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 \$1,270,372 and \$1,228,324, net of a discount of \$1,268,785 and \$1,310,833, and are included in long-term receivables on the statement of financial position at June 30, 2017 and 2016, 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, 2017 and 2016, totaled \$48,991 for both years, and are recorded as an asset and a liability in the accompanying financial statements.

**Note 11 - Commitments and Contingencies**

**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, 2017 and 2016, the Center's management knew of no such determinations and believes it has complied with all grants and contracts.

**Future Exhibit Commitments** - During the years ended June 30, 2017 and 2016, the Center entered into agreements with vendors for exhibits that open in the subsequent year. Under these agreements, the Center is obligated to pay fees for use of the exhibit and will pay exhibit related expenses such as shipping and insurance.

**Note 12 - Unrestricted Net Assets**

As of June 30, unrestricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Investment in property, plant and equipment, net of related debt	\$ 33,022,372	\$ 34,261,867
Undesignated	<u>(5,910,458)</u>	<u>(6,142,714)</u>
	<u><b>\$ 27,111,914</b></u>	<u><b>\$ 28,119,153</b></u>

**PACIFIC SCIENCE CENTER FOUNDATION**

**Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**Note 13 - Temporarily Restricted Net Assets**

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

	<u>2017</u>	<u>2016</u>
Program restricted grants	\$ 350,817	\$ 732,007
Facility improvements		160,107
Unappropriated endowment earnings	421,460	324,845
Donated use of software restricted to specific time period	377,782	790,017
Beneficial interest in trust	<u>7,613,032</u>	<u>7,315,081</u>
	<u><b>\$ 8,763,091</b></u>	<u><b>\$ 9,322,057</b></u>

**Note 14 - Permanently Restricted Net Assets**

Permanently restricted net assets were held for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Income to support science education and leadership training	\$ 1,605,542	\$ 1,599,542
Income to support repair and maintenance of fixed assets	<u>576,327</u>	<u>576,327</u>
	<u><b>\$ 2,181,869</b></u>	<u><b>\$ 2,175,869</b></u>

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.

**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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent 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 that is not classified in permanently restricted net assets is classified as temporarily 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.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016

Note 14 - Continued

**Endowment Fund Activity** - Changes to endowment funds by net asset category for the years ended June 30, 2017 and 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, June 30, 2015	\$ (2,250,000)	\$ 267,598	\$ 2,119,869	\$ 137,467
Endowment investment return-				
Interest and dividends, net of fees		1,002		1,002
Realized and unrealized losses		(12,408)		(12,408)
Repayment of loan to operations	207,473	68,653		276,126
Contributions and collections on outstanding endowment pledges receivable			40,830	40,830
Other changes in fund balance	<u>(21,776)</u>			<u>(21,776)</u>
<b>Endowment Funds, June 30, 2016</b>	<b>(2,064,303)</b>	<b>324,845</b>	<b>2,160,699</b>	<b>421,241</b>
Endowment investment return-				
Interest and dividends, net of fees		1,096		1,096
Realized and unrealized gains		28,233		28,233
Repayment of loan to operations	<u>231,849</u>	<u>67,286</u>		<u>299,135</u>
<b>Endowment Funds, June 30, 2017</b>	<b><u>\$ (1,832,454)</u></b>	<b><u>\$ 421,460</u></b>	<b><u>\$ 2,160,699</u></b>	<b><u>\$ 749,705</u></b>

A reconciliation of endowment funds to permanently restricted net assets is as follows at June 30:

	<u>2017</u>	<u>2016</u>
Endowment funds	\$ 2,160,699	\$ 2,160,699
Pledges and other funds not yet deposited into endowment fund	<u>21,170</u>	<u>15,170</u>
<b>Permanently Restricted Net Assets</b>	<b><u>\$ 2,181,869</u></b>	<b><u>\$ 2,175,869</u></b>

**Funds With Deficiencies** - The Center's Board approved a resolution to access short term operating cash, and borrow up to \$2.5 million from the endowment fund to fund operating costs. As of June 30, 2017 and 2016, a total of \$1,697,749 and \$1,973,874, respectively, was borrowed from the Endowment Fund. At the June 17, 2015 meeting of the Board of Directors, a formal repayment plan was adopted by the Board. The plan requires that the Endowment Loan shall be repaid in full 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. There shall be a priority payment of the Endowment Loan from the charitable remainder trust when disbursed (if prior to June 30, 2025). Additionally, the Board shall give strong consideration to early repayment (full or partial) in the event that a significant unrestricted surplus exists at the end of any fiscal year.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Financial Statements  
For the Years Ended June 30, 2017 and 2016

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**Note 14 - Continued**

**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 - Functional Expenses**

Expenses allocated on a functional basis were as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Science, education and exhibits	\$ 12,018,736	\$ 10,113,816
Guest services and public programs	11,030,526	9,821,914
Fundraising and development	1,339,081	1,496,414
Administrative	<u>3,941,998</u>	<u>3,308,047</u>
	<u>\$ 28,330,341</u>	<u>\$ 24,740,191</u>