

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Financial Statements

For the Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. Our opinion is not modified with respect to these matters

Clark Nuber P.S.

Certified Public Accountants
February 7, 2020

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 212,605	\$ 1,079,519
Accounts receivable, net	611,378	664,285
Pledges receivable, net	537,836	296,109
Prepaid expenses and other current assets	404,509	597,868
Total Current Assets	1,766,328	2,637,781
Property held for sale (Notes 6 and 16)	4,808,752	
Long-term pledges receivable, net	500,058	324,856
Other long-term assets	406,212	506,436
Land, building and equipment, net	26,829,115	33,409,105
Investments	994,482	1,092,120
Long-term receivables, net	1,353,774	1,308,895
Note receivable	368,834	385,429
Beneficial interest in trust	7,525,287	7,686,747
Total Assets	\$ 44,552,842	\$ 47,351,369
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 988,339	\$ 1,121,578
Accrued expenses	960,202	990,024
Line of credit (Notes 7 and 16)	2,157,703	
Deferred revenue	2,031,061	2,294,336
Current portion of long-term debt (Notes 8 and 16)	315,179	304,814
Current portion of trademark license obligations	105,567	111,392
Current portion of capital lease obligations	37,866	
Total Current Liabilities	6,595,917	4,822,144
Line of credit (Notes 7 and 16)		655,708
Long-term debt, net of current portion (Notes 8 and 16)	5,609,978	5,865,419
Trademark license obligations, net of current portion	300,645	406,212
Capital lease obligations, net of current portion	98,332	
Total Liabilities	12,604,872	11,749,483
Net Assets:		
Without donor restrictions	21,372,604	25,388,841
With donor restrictions	10,575,366	10,213,045
Total Net Assets	31,947,970	35,601,886
Total Liabilities and Net Assets	\$ 44,552,842	\$ 47,351,369

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Activities
For the Years Ended June 30, 2019 and 2018

	2019	2018
Revenue:		
Federal, state and local government	\$ 864,826	\$ 1,809,332
Corporate, foundation and individual support	2,178,640	2,477,082
Contributions released from restriction	1,679,283	1,453,864
Endowment earnings released from restriction	200,000	
Membership	2,289,201	2,564,174
Special exhibit revenue		2,104,221
General exhibit revenue	4,160,645	5,553,201
Theater ticket sales	2,391,086	3,910,032
Camps and programs	3,279,731	3,135,691
Earned ancillary revenue	2,321,897	2,285,173
Total Revenue	19,365,309	25,292,770
Direct Costs of Revenues:		
Federal, state and local government	607,743	1,284,373
Corporate, foundation and individual fundraising	1,075,873	1,315,837
Memberships	599,088	844,579
Special exhibit direct costs		1,965,322
General exhibit direct costs	4,803,433	4,915,784
Theater operations	2,094,679	3,034,141
Camps and programs	2,810,384	3,003,698
Direct costs for earned ancillary revenue	1,178,980	1,191,954
Total Program and Operating Expenses	13,170,180	17,555,688
Indirect Operating Expenses:		
General and administration	3,639,279	4,124,206
Marketing	2,173,441	2,104,988
Facilities	1,656,514	1,711,937
Total Indirect Operating Expenses	7,469,234	7,941,131
Total Operating Loss	(1,274,105)	(204,049)
Depreciation	2,196,598	2,606,909
Financing costs	545,534	524,283
Total Depreciation and Financing Costs	2,742,132	3,131,192
Change in Net Assets Without Donor Restrictions	\$ (4,016,237)	\$ (3,335,241)

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Changes in Net Assets
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions:		
Total revenue without donor restrictions	\$ 17,486,026	\$ 23,838,906
Contributions and endowment earnings released from donor restrictions	1,879,283	1,453,864
Total expenses without donor restrictions	<u>(23,381,546)</u>	<u>(28,628,011)</u>
Change in Net Assets Without Donor Restrictions	(4,016,237)	(3,335,241)
Net Assets With Donor Restrictions:		
Contributions	2,299,696	2,183,172
Contributions released from restriction	(1,679,283)	(1,453,864)
Endowment fund earnings released from restriction	(200,000)	
Change in value of beneficial interest in trust	(161,460)	73,715
Endowment fund earnings	<u>103,368</u>	<u>77,230</u>
Change in Net Assets With Donor Restrictions	<u>362,321</u>	<u>880,253</u>
Total Change in Net Assets	(3,653,916)	(2,454,988)
Net assets, beginning of year	<u>35,601,886</u>	<u>38,056,874</u>
Net Assets, End of Year	<u>\$ 31,947,970</u>	<u>\$ 35,601,886</u>

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Science Education and Exhibits	Guest Services	Development	Administration	2019 Consolidated Total	2018 Consolidated Total
Personnel	\$ 5,118,492	\$ 4,780,021	\$ 807,570	\$ 2,384,620	\$ 13,090,703	\$ 13,906,996
Depreciation	733,482	991,814	120,202	351,100	2,196,598	2,606,909
Services	1,080,293	456,189	209,758	448,573	2,194,813	3,072,633
Advertising	5,923	1,126,064	4,441		1,136,428	1,117,039
Occupancy	29,420	1,014,812	27,925	40,305	1,112,462	1,389,644
License and royalty fees	63,316	1,048,672			1,111,988	3,446,893
Supplies	382,577	249,982	38,416	44,188	715,163	948,335
Cost of goods sold		460,622			460,622	517,799
Interest	148,697	201,068	24,368	71,177	445,310	366,463
Bank fees	51,470	213,870	23,875	31,371	320,586	432,606
Insurance				265,236	265,236	262,491
Travel	176,786	8,524	6,608	26,561	218,479	312,978
Other	17,019	5,618	16,319	74,202	113,158	247,225
Totals for 2019	<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>	<u>\$ 28,628,011</u>
Totals for 2018	<u>\$ 10,695,287</u>	<u>\$ 12,066,926</u>	<u>\$ 1,582,577</u>	<u>\$ 4,283,221</u>	<u>\$ 28,628,011</u>	

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	\$ (3,653,916)	\$ (2,454,988)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities-		
Depreciation and amortization	2,213,103	2,615,890
Contributions restricted for capital projects and endowment	(4,000)	(5,000)
Change in value of beneficial interest in trust	161,460	(73,715)
Unrealized and realized gains on investments	19,146	(17,943)
Changes in operating assets and liabilities:		
Accounts receivable	52,907	653,416
Pledges receivable	(442,419)	(353,893)
Prepaid expenses and other assets	148,480	1,137,190
Accounts payable and accrued expenses	(138,712)	(136,146)
Trademark license assets and liabilities	(11,168)	(31,952)
Deferred revenue	(263,275)	(357,616)
Net Cash (Used) Provided by Operating Activities	(1,918,394)	975,243
Cash Flows From Investing Activities:		
Net change in restricted cash		20,410
Purchase of building improvements and equipment	(313,511)	(598,541)
Purchase of investments	(153,030)	(315,002)
Proceeds from sales of investments	248,117	30,084
Net Cash Used by Investing Activities	(218,424)	(863,049)
Cash Flows From Financing Activities:		
Proceeds from contributions restricted to endowment and capital projects	29,490	96,659
Net borrowings on lines of credit	1,501,995	655,708
Repayments on long-term debt	(261,581)	(329,050)
Net Cash Provided by Financing Activities	1,269,904	423,317
Net Change in Cash and Cash Equivalents	(866,914)	535,511
Cash and cash equivalents, beginning of year	1,079,519	544,008
Cash and Cash Equivalents, End of Year	\$ 212,605	\$ 1,079,519
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 445,310	\$ 366,436
Equipment acquired with capital leases	\$ 136,198	\$ -

See accompanying notes.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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 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.

Basis of Presentation - The financial statements of Pacific Science Center (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.

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.

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.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 1 - Continued

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.

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.

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 \$20,708 and \$9,882, for the years ended June 30, 2019 and 2018, respectively.

Advertising - The Center expenses advertising as incurred. Advertising and marketing expenses totaled \$1,136,428 and \$1,117,039, for the years ended June 30, 2019 and 2018, 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 statement 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, both of which are allocated to each functional category based on the proportion of expenses in each functional category.

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 1 - Continued

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.

Adoption of New Accounting Pronouncement - For the year ended June 30, 2019, the Center adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14-Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for composition of net assets without donor restrictions, liquidity, and expenses by both their national and functional classification.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is presented below:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without Donor Restriction	With Donor Restriction	Total Net Assets
As previously presented-			
Unrestricted	\$ 23,776,673	\$ -	\$ 23,776,673
Temporarily restricted		9,638,344	9,638,344
Permanently restricted		2,186,869	2,186,869
Net assets as previously presented	23,776,673	11,825,213	35,601,886
Reclassifications to implement ASU 2016-14-			
Underwater endowments (Note 13)	1,612,168	(1,612,168)	
Net Assets, As Reclassified, at June 30, 2018	\$ 25,388,841	\$ 10,213,045	\$ 35,601,886

Reclassification of Prior Year Balances - Certain reclassifications have been made to prior year accounts to conform to the presentation of current year financial statements. The reclassifications have no effect on the previously reported total assets, total liabilities, total net assets or change in net assets.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 2 - Pledges Receivable

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

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 547,837	\$ 306,109
Due in one to five years	<u>539,598</u>	<u>360,231</u>
Gross pledges receivable	1,087,435	666,340
Less present value discount (2019 - 6.25% and 2018 - 4.5%)	(39,541)	(35,375)
Less allowance for uncollectible balances	(10,000)	(10,000)
Less current portion of pledges receivable	<u>(537,836)</u>	<u>(296,109)</u>
Noncurrent Portion of Pledges Receivable	<u>\$ 500,058</u>	<u>\$ 324,856</u>

Note 3 - Investments

Investments consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 909,209	\$ 983,764
Common stock	39,716	65,350
Mutual funds - fixed income	26,012	25,275
Mutual funds - equities	<u>19,545</u>	<u>17,731</u>
	<u>\$ 994,482</u>	<u>\$ 1,092,120</u>

All investments are restricted for the endowment funds (Note 13). Investment return totaled a loss of \$7,079 and a gain of \$21,485 for the years ended June 30, 2019 and 2018, 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 \$7,525,287 and \$7,686,747 at June 30, 2019 and 2018, 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 \$161,460 and an increase of \$73,715 for the years ended June 30, 2019 and 2018, respectively.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

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, 2019 and 2018.

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 are as follows:

	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>

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 5 - Continued

	Fair Value Measurements as of June 30, 2018		
	Level 1	Level 2	Level 3
Investments-			
Common stock	\$ 65,350	\$ -	\$ -
Mutual funds - fixed income	25,275		
Mutual funds - equities	17,731		
Beneficial interest in trust			7,686,747
	<u>\$ 108,356</u>	<u>\$ -</u>	<u>\$ 7,686,747</u>

Note 6 - Land, Building and Equipment

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

	2019	2018
Building and improvements	\$ 47,532,897	\$ 54,416,837
Land	2,830,000	4,230,000
Furniture, equipment and vehicles	5,951,659	6,093,648
Construction in progress	9,664	88,559
	56,324,220	64,829,044
Accumulated depreciation	(29,495,105)	(31,419,939)
	<u>\$ 26,829,115</u>	<u>\$ 33,409,105</u>

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. See Note 16 for disclosure of sale subsequent to year end.

Note 7 - Line of Credit

The Center holds an operating line of credit with a maximum credit limit of \$3,000,000. The line matures on November 1, 2019 and bears a variable interest rate which was 6.25% and 5.75% on June 30, 2019 and 2018, respectively. The Operating Line had a balance of \$2,157,703 and \$655,708 at June 30, 2019 and 2018, respectively.

There are certain financial and nonfinancial covenants required under this agreement. See further discussion in Note 8.

Subsequent to year end, the balance was repaid and the line of credit was not renewed. See further discussion in Note 16.

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 8 - Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
<p><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.</p>	\$ 4,022,576	\$ 4,098,942
<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.</p>	1,885,282	2,019,050
<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.</p>	96,353	133,316
<p>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 was paid in full during the year ended June 30, 2019.</p>		<u>14,484</u>
Total long-term debt	6,004,211	6,265,792
Less unamortized financing costs	(79,054)	(95,559)
Less current portion	<u>(315,179)</u>	<u>(304,814)</u>
Noncurrent Portion of Long-Term Debt	<u>\$ 5,609,978</u>	<u>\$ 5,865,419</u>

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 8 - Continued

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 \$445,310 and \$366,463 for the years ended June 30, 2019 and 2018, respectively.

There are certain financial and nonfinancial covenants required under these long-term debt agreements for the Garage Note, the Bond, Campaign Note and the line of credit agreements described in Note 7. The Center was not in compliance with a financial ratio debt covenant at June 30, 2019, and the lender has provided a waiver for the instance of noncompliance.

Principal payments required on long-term debt for the next five years are described in the table below.

For the Year Ending June 30,

2020	\$	315,179
2021		229,380
2022		239,676
2023		250,437
2024		261,065
Due thereafter		<u>4,708,474</u>
	\$	<u><u>6,004,211</u></u>

Subsequent to June 30, 2019, all of the debt described in this Note was repaid in full (Note 16).

Note 9 - 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 \$406,212 and \$517,604 at June 30, 2019 and 2018, 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 10 - Employee Benefit Plans

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. During the years ended June 30, 2019 and 2018, the Center elected to not match employee contributions.

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 10 - Continued

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 \$1,353,774 and \$1,308,895, net of a discount of \$1,185,383 and \$1,230,262, and are included in long-term receivables on the statement of financial position at June 30, 2019 and 2018, 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, 2019 and 2018, totaled \$39,439 and \$21,521, respectively, 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, 2019 and 2018, the Center's management knew of no such determinations and believes it has complied with all grants and contracts.

Note 12 - Net Assets With Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Subject to the passage of time or expenditure for specified purposes-		
Program restricted grants	\$ 1,687,340	\$ 1,084,365
Time restricted grants	382,010	368,542
Beneficial interest in trust	<u>7,525,287</u>	<u>7,686,747</u>
	9,594,637	9,139,654
Endowment funds-		
Original gifts to endowment:		
Income to support science education and leadership training	1,614,542	1,610,542
Income to support repair and maintenance of fixed assets	576,327	576,327
Unappropriated endowment earnings	337,493	498,690
Endowment loan (Note 13)	<u>(1,547,633)</u>	<u>(1,612,168)</u>
	<u>980,729</u>	<u>1,073,391</u>
Total Net Assets With Donor Restrictions	<u>\$ 10,575,366</u>	<u>\$ 10,213,045</u>

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 13 - 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.

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, 2019 and 2018, were as follows:

	Net Assets With Donor Restrictions			Total
	Endowment Corpus	Accumulated Earnings	Endowment Loan	
Endowment funds, June 30, 2017	\$ 2,160,699	\$ 421,460	\$ (1,832,454)	\$ 749,705
Endowment investment return		21,390		21,390
Contributions	5,000			5,000
Repayment of loan to operations		55,840	220,286	276,126
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

PACIFIC SCIENCE CENTER FOUNDATION

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 13 - Continued

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 funds to fund operating costs. 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. As of June 30, 2019 and 2018, a total of \$1,547,633 and \$1,612,168, respectively, was outstanding on the Endowment Loan.

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 14 - 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>2019</u>	<u>2018</u>
Corporate and foundation support	\$ 2,545,740	\$ 1,902,923
Individual support	<u>1,932,596</u>	<u>2,757,331</u>
Total Contribution Revenue	<u>\$ 4,478,336</u>	<u>\$ 4,660,254</u>

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 15 - 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 effectively being implemented and mitigating these conditions, primarily include its ability to control the timing and spending on programs and raising additional funds through contributions.

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 212,605	\$ 1,079,519
Accounts receivable, net	611,378	664,285
Pledges receivable, net	1,037,894	620,965
Investments	994,482	1,092,120
Long-term receivables, net	1,353,774	1,308,895
Note receivable	368,834	385,429
Beneficial interest in trust	<u>7,525,287</u>	<u>7,686,747</u>
Total financial assets	12,104,254	12,837,960
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	(500,058)	(324,856)
Long-term receivables	(1,353,774)	(1,308,895)
Note receivable	(368,834)	(385,429)
Beneficial interest in trust	(7,525,287)	(7,686,747)
Donor-imposed restrictions-		
Investments held for endowment funds	<u>(994,482)</u>	<u>(1,092,120)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,361,819</u>	<u>\$ 2,039,913</u>

PACIFIC SCIENCE CENTER FOUNDATION

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 16 - Subsequent Events

The Center has evaluated subsequent events through February 7, 2020, the date on which the financial statements were available to be issued.

On October 7, 2019 the Center completed the sale of the parking garage (Note 6) for total consideration of approximately \$13.9 million. A portion of the proceeds were used to repay all outstanding long-term debt and lines of credit described in Notes 7 and 8.