

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR JUNE 30, 2018)

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Science History Institute and Subsidiary
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Science History Institute and Subsidiary (nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Science History Institute and Subsidiary as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Science History Institute and Subsidiary
(Continued)

Report on Summarized Comparative Information

We have previously audited the Science History Institute and Subsidiary's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "Morrison Cogen LLP". The signature is written in a cursive, flowing style.

October 18, 2019

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(WITH FINANCIAL INFORMATION
FOR JUNE 30, 2018)

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,285,601	\$ 1,754,306
Short-term investments, at fair value	1,359,997	2,307,520
Grants and pledges receivable	1,433,030	885,892
Prepaid expenses and other current assets	170,491	97,324
TOTAL CURRENT ASSETS	5,249,119	5,045,042
Grants and pledges receivable	4,267,187	4,975,381
Property and equipment	31,970,659	32,361,879
Investments, at fair value	179,398,471	180,782,485
Investments - other, certificates of deposit	-	249,648
Cash surrender value of life insurance policies	1,942,056	1,828,656
Other assets	302,035	422,849
TOTAL ASSETS	\$ 223,129,527	\$ 225,665,940
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 150,975	\$ 418,898
Accrued salaries and benefits	542,806	673,831
Current portion of promissory note	90,300	90,300
Deferred program income	106,026	90,191
TOTAL CURRENT LIABILITIES	890,107	1,273,220
Bonds payable	16,521,961	16,519,088
Promissory note	-	90,300
Other long-term liabilities	9,531	11,406
TOTAL LIABILITIES	17,421,599	17,894,014
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	6,224,197	5,938,622
Board designated reserves	16,741,183	17,818,821
Net investment in property and equipment	15,288,312	15,592,105
	38,253,692	39,349,548
NET ASSETS WITH DONOR RESTRICTIONS	167,454,236	168,422,378
TOTAL NET ASSETS	205,707,928	207,771,926
TOTAL LIABILITIES AND NET ASSETS	\$ 223,129,527	\$ 225,665,940

The accompanying notes are an integral part of these consolidated financial statements.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Investment return designated for current operations	\$ 635,451	\$ 8,036,319	\$ 8,671,770	\$ 8,576,504
Allocation of endowment income	6,732,957	(6,732,957)	-	-
Contributions	491,847	911,208	1,403,055	2,228,224
Conference center revenue	1,275,926	-	1,275,926	1,139,339
Program income	102,692	-	102,692	87,986
Net assets released from restrictions				
Satisfaction of donor stipulation	3,107,183	(3,107,183)	-	-
TOTAL SUPPORT AND REVENUE	12,346,056	(892,613)	11,453,443	12,032,053
EXPENSES				
Program services				
Library and special collections	3,900,610	-	3,900,610	3,789,185
Outreach	5,028,226	-	5,028,226	6,660,238
Research	2,061,815	-	2,061,815	2,267,019
Total program services	10,990,651	-	10,990,651	12,716,442
Supporting services				
Development	952,660	-	952,660	1,154,141
Management and general	1,937,131	-	1,937,131	1,896,736
Total supporting services	2,889,791	-	2,889,791	3,050,877
TOTAL EXPENSES	13,880,442	-	13,880,442	15,767,319
CHANGE IN NET ASSETS FROM OPERATIONS	(1,534,386)	(892,613)	(2,426,999)	(3,735,266)
NONOPERATING ACTIVITY				
Investment return - nonoperating	438,530	(75,529)	363,001	1,770,754
CHANGE IN NET ASSETS	(1,095,856)	(968,142)	(2,063,998)	(1,964,512)
NET ASSETS - BEGINNING OF YEAR	39,349,548	168,422,378	207,771,926	209,736,438
NET ASSETS - END OF YEAR	\$ 38,253,692	\$ 167,454,236	\$ 205,707,928	\$ 207,771,926

The accompanying notes are an integral part of these consolidated financial statements.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019
(WITH FINANCIAL INFORMATION FOR
THE YEAR ENDED JUNE 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,063,998)	\$ (1,964,512)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,713,767	2,201,173
Amortization of deferred financing costs	2,873	2,873
Contributions restricted for permanent investment	(20,000)	(63,000)
Net realized and unrealized gain on investments	(7,761,468)	(10,052,387)
(Increase) decrease in assets		
Grants and pledges receivable	161,056	1,122,497
Prepaid expenses and other current assets	(73,167)	64,560
Other assets	120,814	120,814
Increase (decrease) in liabilities		
Accounts payable	(267,923)	67,368
Accrued salaries and benefits	(131,025)	(16,291)
Deferred program income	15,835	(33,848)
	<u>(8,303,236)</u>	<u>(8,550,753)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cost of property and equipment	(1,322,547)	(468,941)
Proceeds from sales or maturities of investments	26,486,518	33,968,150
Purchases of investments	(7,529,862)	(19,975,443)
Net purchases of cash equivalents restricted to long-term investments	(8,614,003)	(4,846,549)
Increase in cash surrender value of life insurance policies	(113,400)	(113,463)
	<u>8,906,706</u>	<u>8,563,754</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	20,000	63,000
Repayments on promissory note	(90,300)	(90,300)
Decrease in other liabilities	(1,875)	(1,875)
	<u>(72,175)</u>	<u>(29,175)</u>
Net cash used in financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	531,295	(16,174)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,754,306</u>	<u>1,770,480</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,285,601</u>	<u>\$ 1,754,306</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 811,832	\$ 814,456
Income taxes	<u>\$ 26,982</u>	<u>\$ 1,692</u>

The accompanying notes are an integral part of these consolidated financial statements.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

The accompanying consolidated financial statements present the consolidated financial position, changes in net assets and cash flows of the Science History Institute and its wholly controlled subsidiary, Science History Institute Support Company (collectively, the Institute). All significant intercompany transactions have been eliminated in consolidation.

The Institute's mission is to preserve and celebrate its scientific and technological culture and to make it accessible for investigation and knowledge creation. The Institute believes that access to the past empowers individuals to build better futures. As the natural repository for the history of chemistry, chemical engineering, and the life sciences, the Institute makes the rapidly expanding collection of rare books and early manuscripts, modern library, archives, and manuscripts, audiovisual materials, artifacts, art, and oral histories readily available to the scientifically curious public, scientists and engineers, and historical researchers alike. The Institute collects, preserves, and exhibits historical artifacts; engages communities of historians, scientists and engineers; and tells the stories of the people behind breakthroughs and innovations through its museum, library, public programs, and Distillations, its digital platform of articles, podcasts, and videos.

Science History Institute Support Company was organized to be operated for the benefit of, to perform the functions of, or to carry out the mission of the Science History Institute.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles in the United States of America.

Financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Institute 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.

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received requiring perpetual investment for use by the Institute are classified as net assets with donor restrictions. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment or on assets restricted to acquiring property or equipment expire when the property or equipment is placed in service.

Use of Estimates

The preparation of the Institute's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents and Investments – Other

Cash equivalents consist of cash and money market funds with maturities of three months or less in Federal Deposit Insurance Corporation (FDIC) member depository institutions, which are generally in excess of federally insured limits. Money market funds included in endowment investments are not considered cash equivalents. Certificates of deposit with a maturity of greater than three months are shown as investments – other.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term Investments

Short-term investments consist of a mutual fund that is not part of endowment investments.

Concentration of Credit Risk

Financial instruments that potentially subject the Institute to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and receivables. The investments are managed by professional investment managers. The degree and concentration of credit risk varies by the type of investment. Receivables result primarily from unconditional promises to give.

The Institute maintains cash balances in major financial institutions in excess of the \$250,000 federally insured limit by the FDIC. The Institute has not experienced any losses and believes it is not exposed to any significant credit risk.

Investment Valuation

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Institute's investments in fixed income and marketable equity securities with readily determinable and non-determinable fair values are reported at fair values determined based upon quoted market prices or by management in conjunction with external investment managers. Alternative investments are valued by management based on information provided by valuation committees and are subject to an annual independent audit. Net realized and unrealized gains and losses are reflected in the consolidated statement of activities.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

Management's policy is to capitalize property and equipment acquisitions having a cost or estimated fair value at date of contribution exceeding \$2,500. Repairs and maintenance are expensed as incurred.

Cash Surrender Value

The Institute is the beneficiary of insurance policies on the lives of certain current and former officers and employees of the Institute. The amounts reported represent the cash proceeds the Institute would receive if it were to surrender the policies.

Other Assets

Other assets consist of certain website design costs that are capitalized in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350-50.

Contributions

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, which approximates fair value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, which approximates fair value. The discounts on unconditional promises to give have been computed using an estimated rate that approximates the rate of return expected to be earned over the period which the unconditional promises to give will be received by the Institute. Amortization of the discounts is included in contribution revenue in the net asset category in which the original promise was recorded. Conditional promises to give are not included as support until the conditions are substantially met.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Spending Policy

The Institute's endowment spending policy determines the annual flow of funds from endowment assets to the operating budget. The Institute follows a spending policy to deal with market volatility through a quantitative formula that has a "stability" component – the prior year's spending adjusted for inflation – and a "market" component – 5.0% of the average of the fair value of the endowment fund at the end of each of the previous 36 months. By selecting the weighting between these two components (currently 70% stability and 30% market), the Institute can determine the pace at which market variations are incorporated into spending.

Investment return, including net investment gains, in excess of amounts designated to support current operations is classified as a nonoperating activity. Any amounts from the endowment fund that are not expended during the current fiscal year are classified as a) net assets with donor restrictions or b) board-designated reserves, which can be used for any purposes approved by the board, for funds without donor restrictions.

Collections

The Institute has a collection of rare books and early manuscripts, modern library, archives, and manuscripts, audiovisual materials, artifacts, art, and oral histories that have been acquired through purchase or donation and accessioned through professional library, archival, and museum practices. The collections are used for research, educational, and public programming purposes. The collection items are cataloged, preserved, stored securely, and exhibited. Activities verifying their presence and assessing their condition are performed regularly. The collections are subject to a policy that requires proceeds from their sales, if any, to be used for additional collections acquisition or care.

The collections are not recognized as assets on the accompanying consolidated statement of financial position. Purchases of collection items are recorded as program services expenses in the year in which the items are acquired.

Functional Expense Allocation

Certain expenses, such as utilities, building maintenance and repairs, depreciation and amortization, and interest and financing expenses are allocated by the Institute's management among program and supporting services on various bases, such as square footage and headcount.

Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived. Certain amounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. The reclassifications have no effect on the classes of net assets or the change in net assets for the prior year.

Income Taxes

The Institute is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Institute is subject to unrelated business income tax on certain investment income and transit fringe benefits. The Institute is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The amendments improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The amendments in this Update should be applied on a retrospective basis in the year that the Update is first applied. However, if presenting comparative financial statements, a not-for-profit entity has the option to omit certain information for any periods presented before the period of adoption. The Institute adopted the amendments in this Update effective July 1, 2018. The adoption of the ASU will not change total net assets, but it will change the classification by combining restricted net assets into a single class.

The Institute is currently assessing the impact the following Updates will have on its financial statements when adopted. ASU 2016-08 and ASU 2018-08 will affect the June 30, 2020 financial statements, ASU 2019-03 will affect the June 30, 2021 financial statements, and ASU 2016-02 will affect the June 30, 2022 financial statements.

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The amendments in this Update specify the accounting for leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

In May 2014 and April 2016, the FASB issued ASU No. 2014-09 and ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies certain aspects of the principal versus agent guidance in the new revenue recognition standard. The effective date and transition requirement for this ASU are the same as the effective date and transition requirements of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date to annual reporting periods beginning after December 15, 2018.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this Update should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal transactions) subject to Topic 606, and determining whether a contribution is conditional. The amendments in this Update for nonpublic entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958), Updating the Definition of Collections*. The ASU modifies the definition of the term "collections" and requires that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

FASB ASC 855-10 establishes general standards of accounting and disclosure of events that occur after the consolidated statement of financial position date but before the date the consolidated financial statements are available to be issued. Subsequent events have been evaluated through October 18, 2019, the date that the consolidated financial statements were available to be issued.

NOTE 2 – GRANTS AND PLEDGES RECEIVABLE

The Institute has included the following unconditional promises to give in its grants and pledges receivable at June 30, 2019:

Total unconditional promises to give before before unamortized discount	\$ 7,428,030
Unamortized discount, weighted average rate of 3.85%	<u>(1,727,813)</u>
	<u><u>\$ 5,700,217</u></u>
Amounts due in	
Less than one year	\$ 1,433,030
One to ten years	<u>4,267,187</u>
	<u><u>\$ 5,700,217</u></u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2019:

Land	\$ 1,913,974
Buildings and improvements	53,507,598
Permanent exhibition space	4,172,149
Furniture and equipment	<u>3,515,229</u>
	63,108,950
Less: Accumulated depreciation	<u>(31,138,291)</u>
	<u><u>\$ 31,970,659</u></u>

Depreciation expense was \$1,713,767 for the year ended June 30, 2019.

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS

Investments are exposed to various risks such as market, interest rate and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in values of investments could occur in the near term and that such change could materially affect the investment balances and activity included in the consolidated financial statements.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

The Institute accounts for its investments at fair value. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

Money market funds: Valued at the daily closing price as reported by the fund and are classified as level 1 of the fair value hierarchy.

Mutual funds (equity and fixed income): Valued at the daily closing price as reported by the fund. Mutual funds held by the Institute are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Institute are deemed to be actively traded and are classified as level 1 of the fair value hierarchy.

Commingled funds (equity and fixed income): Valued at the net asset value using the fair value of underlying assets less the liabilities of the fund as determined by the investment manager.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Municipal and agency bonds: Valued using recently executed transactions, market price quotations, and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads, and volatility.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

Absolute return and hedge funds: The Institute generally uses unadjusted net asset value per share as reported by fund managers as a practical expedient to the fair value of the investments in hedge funds for which there is no readily determinable market value. Net asset values provided by hedge fund managers are based on the funds' underlying securities – closing prices for publicly traded securities and derivative contracts and for securities that do not have an official market closing price, values are based on estimates, appraisals, assumptions, and methods reviewed by funds' management. Hedge funds are either measured at net asset value or classified as level 3 of the fair value hierarchy based on liquidity. There are no unobservable inputs as valuations are provided by the funds' Valuation Committee or fund managers.

The following table sets forth by level, within the fair value hierarchy, the Institute's investments at fair value as of June 30, 2019:

	Investments at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 390,015	\$ -	\$ -	\$ 390,015
Mutual funds, equity	22,121,445	-	-	22,121,445
Mutual funds, fixed income	24,724,222	-	-	24,724,222
Equities	2,257,180	-	-	2,257,180
Hedge funds, absolute return	-	-	617,121	617,121
Total assets in the fair value hierarchy	49,492,862	-	617,121	50,109,983
Investments measured at net asset value ^(a)				130,648,485
Investments at fair value				\$ 180,758,468

^(a)Assets measured at NAV are excluded from the fair value hierarchy.

Investments are shown in the consolidated financial statements as:

Short-term investments	\$ 1,359,997
Investments	179,398,471
	\$ 180,758,468

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

The following table sets forth a summary of changes in the fair value of the Institution’s level 3 investments for the year ended June 30, 2019:

	Level 3 Investments Year Ended June 30, 2019
	Hedge Funds, Absolute Return
Balance, beginning of year	\$ 1,242,044
Realized gains	378,805
Unrealized losses relating to assets held during the year	(167,192)
Proceeds	(836,536)
Balance, end of year	\$ 617,121
The amount of total gains or losses for the period attributable to the unrealized losses relating to assets held during the year	\$ (167,192)

Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAV) per share as of June 30, 2019:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds, equity	\$ 60,473,022	None	Monthly	6-30 days
Commingled funds, fixed income	6,847,781	None	Monthly	1-22 days
Municipal and agency bonds	64,309	None	Daily	1 day
Hedge funds, absolute return	63,263,373	None	Quarterly	45-100 days
	\$ 130,648,485			

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2019:

	Without Donor Restrictions - Undesignated	With Donor Restrictions	Total
Interest and dividends	\$ 228,103	\$ 1,682,551	\$ 1,910,654
Investment expenses	(66,639)	(570,712)	(637,351)
Net realized and unrealized gains	912,517	6,848,951	7,761,468
 Total investment return	 <u>\$ 1,073,981</u>	 <u>\$ 7,960,790</u>	 <u>\$ 9,034,771</u>

The total investment return is reflected in the consolidated statement of activities for the year ended June 30, 2019 as follows:

	Without Donor Restrictions - Undesignated	With Donor Restrictions	Total
Operating Investment return designated for current operations	\$ 635,451	\$ 8,036,319	\$ 8,671,770
Nonoperating Investment return	438,530	(75,529)	363,001
 Total investment return	 <u>\$ 1,073,981</u>	 <u>\$ 7,960,790</u>	 <u>\$ 9,034,771</u>

NOTE 5 – DEBT

Bonds Payable

2007 Series:

On December 27, 2007, the Institute issued Economic Development Revenue Refunding Bonds in connection with the Montgomery Township Industrial Development Authority and Brown Brothers Harriman & Co., the Science History Institute Series 2007. The interest rate is 4.60% fixed and the bond matures on December 21, 2031. The bond is payable in five equal annual installments of \$1,340,000 commencing December 21, 2027.

2009 Series:

On July 31, 2009, the Institute issued Economic Development Revenue Refunding Bonds in connection with the Montgomery Township Industrial Development Authority and Brown Brothers Harriman & Co., the Science History Institute Series 2009. The interest rate is 4.95% fixed and the bond matures on July 1, 2027. The bond is payable in five equal annual installments of \$1,971,000 commencing July 1, 2023.

Promissory Note

In connection with the retirement of a prior bond series, the Institute entered into a promissory note of \$903,000. The note is payable in ten equal annual installments commencing July 31, 2010, and carries a variable interest rate, which as of June 30, 2019 was 5.00%. The promissory note is collateralized by certain investments of the Institute.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 – DEBT (Continued)

The following represents anticipated future repayments of bonds payable and promissory notes of the Institute as of June 30, 2019:

Years Ended June 30,	Promissory Note	2009 Series	2007 Series	Total
2020	\$ 90,300	\$ -	\$ -	\$ 90,300
2024	-	1,971,000	-	1,971,000
Thereafter	-	7,884,000	6,700,000	14,584,000
Total	<u>\$ 90,300</u>	<u>\$ 9,855,000</u>	<u>\$ 6,700,000</u>	<u>\$ 16,645,300</u>

The presentation on the consolidated statement of financial position is as follows:

Bonds payable	\$ 16,555,000
Deferred financing costs, net of amortization	<u>(33,039)</u>
	<u>\$ 16,521,961</u>

Interest expense was \$838,814 for the year ended June 30, 2019.

Line of Credit

The Institute has a secured demand line of credit for \$750,000. The line of credit is payable on demand and carries an interest rate of 5.00% as of June 30, 2019. As of June 30, 2019, the Institute did not have a balance outstanding on the line of credit.

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Included in net assets without donor restrictions, net investment in property and equipment is summarized as follows at June 30, 2019:

Property and equipment - net	\$ 31,900,572
Bonds payable	(16,555,000)
Promissory note	(90,300)
Other	<u>33,040</u>
	<u>\$ 15,288,312</u>

The Board of Directors has designated a portion of its net assets without donor restrictions as operating, capital, and debt reserves and to support certain activities and goals of the Institute. These amounts are classified as board designated reserves in net assets without donor restrictions.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Institute and/or the passage of time at June 30, 2019 include:

Programs	
Library and Special Collections	\$ 254,902
Outreach	157,534
Research	<u>1,026,687</u>
Total programs	<u>1,439,123</u>
Planned gifts	100,081
Capital - building improvements	<u>5,551,926</u>
Total	<u><u>\$ 7,091,130</u></u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets subject to donor-imposed stipulations that must be maintained permanently by the Institute are included in investments and pledges receivable in the consolidated statement of financial position. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes subject to restrictions imposed by state law. Net assets with permanent donor restrictions at June 30, 2019 include:

Donald and Mildred Othmer Bequests	\$ 131,059,899
Betty Irene Moore Library Fund	8,200,056
Gordon Cain Fellowship and Conference Fund	3,871,502
Arnold Thackray Directorship of the Othmer Library	2,506,527
Ralph Landau and Laurie Landeau Collections Fund	2,178,299
T.T. Chao Conference on Innovation & Entrepreneurship	1,727,457
Haas Archive of Science & Business	1,380,675
Haas Public Understanding Fellowship	1,156,354
Endowment for General Program Support	1,142,607
Haas Fellowship in the History of Chemical Industries	1,065,223
Ned Brandt Oral History Fund	903,787
Allington Fellowship	757,911
Charles C. Price Fellowship in Polymer History	655,110
Chemist Club Othmer Library Fund	647,836
Herbert D. Doan Fellowship in the History of the Chemical Industries	621,039
Warren G. Schlinger Symposium	611,630
Richard J. Bolte Sr. Award	504,726
Dr. Sydney M. Edelstein Book Fund	253,303
Glenn E. and Barbara H. Ulliot Scholarship Fund	159,963
Rohm & Haas Fellowship in Focus Lecture Fund	152,189
The Herdegen Fellowship in the History of Scientific Information	119,138
Seidel Fellowship in the History of Intellectual Property	108,706
Mistry Fellowship in the History of Chemical Engineering	108,706
Paul Otlet Fellowship in the History of Information Science	108,706
JPS Program Fund	108,568
Ralph Connor Memorial Lecture Endowment	99,252
Wallace H. Carothers Fund	58,354
AIC Gold Medal Endowment	48,184
Peter Regna Scholarship Fund	47,399
	<hr/>
Total	<u><u>\$ 160,363,106</u></u>

NOTE 8 – ENDOWMENTS

The Institute's endowments consist of various individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 – ENDOWMENTS (Continued)

Interpretation of Relevant Law

The Institute's endowment is generally governed by Commonwealth of Pennsylvania law. As a result of this policy, the Institute classifies as net assets with donor restrictions that must be maintained permanently (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (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 and (d) all investment gains and losses related to the fund, unless the investment losses reduce the fair value of the fund below the original gift amount(s). In this case, the amount of the deficiency is recorded in net assets without donor restrictions.

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	With Donor Restrictions				Total Funds
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses and Other	Total With Donor Restrictions	
Donor-restricted funds	\$ -	\$ 126,050,635	\$ 34,312,471	\$ 160,363,106	\$ 160,363,106
Board-designated funds	16,741,183	-	-	-	16,741,183
	<u>\$ 16,741,183</u>	<u>\$ 126,050,635</u>	<u>\$ 34,312,471</u>	<u>\$ 160,363,106</u>	<u>\$ 177,104,289</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	With Donor Restrictions				Total Funds
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses and Other	Total With Donor Restrictions	
Endowment net assets, beginning of year	\$ 17,818,821	126,030,635	34,402,102	\$ 160,432,737	\$ 178,251,558
Investment return, net	948,319	-	7,946,688	7,946,688	8,895,007
Contributions/Additions	445,008	20,000	-	20,000	465,008
Amounts appropriated for expenditure	<u>(2,470,965)</u>	<u>-</u>	<u>(8,036,319)</u>	<u>(8,036,319)</u>	<u>(10,507,284)</u>
Endowment net assets, end of year	<u>\$ 16,741,183</u>	<u>\$ 126,050,635</u>	<u>\$ 34,312,471</u>	<u>\$ 160,363,106</u>	<u>\$ 177,104,289</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Institute to retain as a fund of perpetual duration. Deficiencies of this nature exist in three donor restricted funds, which together have an original gift value of \$941,261, a current value of \$924,833, and a deficiency of \$16,428. These deficiencies resulted from unfavorable market conditions compared with market conditions when the gifts were received and invested, and continued appropriation to support important programs as determined by the board.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 – ENDOWMENTS (Continued)

Investment Objectives

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the long-term purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for a donor-specified period(s) and certain board-designated reserves. The Institute's long-term investment objective for the investment pool is to attain a 5% inflation adjusted total return (net of investment management fees). It is recognized that the inflation-adjusted return objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods. Given the reliance of the Institute on its annual investment income to fund its programs, an additional objective is to reduce volatility through portfolio diversification at the asset class, manager and security level.

Investment Strategies

The Institute 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 Institute targets a diversified asset allocation that places an emphasis on equity-based investments balanced with fixed income investments and alternative investments within prudent risk constraints.

NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of other events specified by donors or by the passage of time and are as follows for the year ended June 30, 2019:

Satisfaction of Donor Stipulation	
Library and Special Collections	\$ 1,030,411
Outreach	228,167
Research	<u>1,848,605</u>
	<u>\$ 3,107,183</u>

NOTE 10 – FUNCTIONAL ALLOCATION OF EXPENSES

The Institute's costs of providing programs and activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 – FUNCTIONAL ALLOCATION OF EXPENSES (Continued)

Expenses for 2019 were incurred for:

Account Description	Library and Special Collections	Outreach	Research	Development	Management and General	Total
Salaries	\$ 1,206,495	\$ 1,715,791	\$ 927,127	\$ 558,850	\$ 1,116,062	\$ 5,524,325
Employee benefits	317,156	416,238	252,525	184,482	189,273	1,359,674
Fellowships	-	-	211,773	-	-	211,773
Publications and multimedia	840	258,083	97,479	17,568	300	374,270
Events, exhibits and conferences	7,088	627,836	76,510	2,230	27,020	740,684
Acquisitions	551,343	-	-	-	-	551,343
Program expenses	78,078	54,594	14,894	11,039	19,283	177,888
Professional services	88,518	386,179	156,758	19,488	162,939	813,882
Information processing	73,646	237,484	60,897	69,578	72,415	514,020
Telephone and internet	6,493	16,665	5,579	4,999	5,878	39,614
Mail and distribution	7,100	18,516	6,253	7,264	2,253	41,386
Travel	43,257	63,979	114,313	47,222	49,999	318,770
Building operations	202,277	201,897	21,254	4,510	88,479	518,417
Insurance	66,208	53,458	7,024	2,210	10,042	138,942
Interest and financing expense	361,103	345,191	38,643	8,200	85,677	838,814
Depreciation and amortization	891,008	632,315	70,786	15,020	107,511	1,716,640
	<u>\$ 3,900,610</u>	<u>\$ 5,028,226</u>	<u>\$ 2,061,815</u>	<u>\$ 952,660</u>	<u>\$ 1,937,131</u>	<u>\$ 13,880,442</u>

NOTE 11 – OPERATING LEASES

The Institute leases certain office equipment under noncancellable operating leases. Total lease expense was \$36,996 for the year ended June 30, 2019.

Future minimum lease payments on all noncancellable operating lease commitments are as follows at June 30, 2019:

YEARS ENDING JUNE 30,	AMOUNT
2020	\$ 32,163
2021	20,832
2022	5,732
	<u>\$ 58,727</u>

NOTE 12 – RETIREMENT PLAN

Tax Deferred Annuity Plan

The Institute has a qualified 403(b) tax deferred annuity plan which covers substantially all employees. The plan provides for voluntary pre-tax employee contributions up to the applicable dollar limits imposed by the IRS. The Institute matches employee contributions up to 6% of the employees' salary.

The Institute's contributions for the year ended June 30, 2019 totaled \$274,062.

Employees are 100% vested in their contributions to the defined contribution plan described above.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 – ASSETS HELD TO BENEFIT THE SCIENCE HISTORY INSTITUTE

In July 2004, the Institute entered into an agreement with the Philadelphia Foundation, a community foundation organized under IRC Section 501(c)(3), whereby the Philadelphia Foundation would undertake to issue and administer charitable gift annuities to Foundation donors. Such gift annuities, when matured, will fund a permanent endowment fund (the “Science History Institute Endowment Fund”) of the Philadelphia Foundation to provide a perpetual income stream to the Institute. As of June 30, 2019, five such gift annuity contracts were administered by the Philadelphia Foundation with a projected future residuum value of \$36,901. The value of the Science History Institute Endowment Fund of the Philadelphia Foundation as of June 30, 2019 was \$143,143.

NOTE 14 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Institute’s financial assets available within one year of the consolidated statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 2,285,601
Short-term investments, at fair value	<u>1,359,997</u>
	<u>\$ 3,645,598</u>

As shown above the Institute has over \$3,600,000 of assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditures. The Institute has a goal to maintain financial assets to be liquid with minimal market risk. The Institute has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Institute also has a committed line of credit in the amount of \$750,000, which it could draw upon in the event of an unanticipated liquidity need.

The Institute structures its endowment assets to ensure it has sufficient liquidity to meet its annual spending policy. Endowment investments include money market funds of \$8,304,079 for this purpose. See Note 1 for the Institute’s endowment spending policy.