

SCIENCE HISTORY INSTITUTE (FORMERLY CHEMICAL
HERITAGE FOUNDATION) AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR JUNE 30, 2017)

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENT OF ACTIVITIES	4
CONSOLIDATED STATEMENT OF CASH FLOWS	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6 - 18

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 (formerly Chemical Heritage Foundation) and Subsidiary (nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2018, 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Morison Cogen LLP

October 19, 2018

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH FINANCIAL INFORMATION
FOR JUNE 30, 2017)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,754,306	\$ 1,770,480
Short-term investments, at fair value	2,307,520	2,308,053
Grants and pledges receivable	885,892	2,085,370
Prepaid expenses and other current assets	97,324	161,884
TOTAL CURRENT ASSETS	5,045,042	6,325,787
Grants and pledges receivable	4,975,381	4,898,400
Property and equipment	32,361,879	34,094,111
Investments, at fair value	180,782,485	179,624,553
Investments - other, certificates of deposit	249,648	500,818
Cash surrender value of life insurance policies	1,828,656	1,715,193
Other assets	422,849	543,663
TOTAL ASSETS	<u>\$ 225,665,940</u>	<u>\$ 227,702,525</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 418,898	\$ 351,530
Accrued salaries and benefits	673,831	690,122
Current portion of promissory note	90,300	90,300
Deferred program income	90,191	124,039
TOTAL CURRENT LIABILITIES	1,273,220	1,255,991
Bonds payable	16,519,088	16,516,215
Promissory note	90,300	180,600
Other long-term liabilities	11,406	13,281
TOTAL LIABILITIES	<u>17,894,014</u>	<u>17,966,087</u>
NET ASSETS		
UNRESTRICTED		
Undesignated	5,938,622	6,577,546
Board designated reserves	17,818,821	18,103,248
Net investment in property and equipment	15,592,105	17,236,910
TOTAL UNRESTRICTED	<u>39,349,548</u>	<u>41,917,704</u>
TEMPORARILY RESTRICTED		
Programs	2,261,710	2,980,179
Planned gifts	100,260	97,970
Capital - building improvements	5,627,671	6,068,737
TOTAL TEMPORARILY RESTRICTED	<u>7,989,641</u>	<u>9,146,886</u>
PERMANENTLY RESTRICTED		
	160,432,737	158,671,848
TOTAL NET ASSETS	<u>207,771,926</u>	<u>209,736,438</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 225,665,940</u>	<u>\$ 227,702,525</u>

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, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT AND REVENUE					
Investment return designated for current operations	\$ 675,165	\$ -	\$ 7,901,339	\$ 8,576,504	\$ 8,365,115
Allocation of endowment income	6,633,731	1,267,608	(7,901,339)	-	-
Contributions	369,450	1,795,774	63,000	2,228,224	1,568,713
Conference center revenue	1,139,339	-	-	1,139,339	912,784
Program income	87,986	-	-	87,986	120,547
Net assets released from restrictions					
Satisfaction of donor stipulation	3,727,608	(3,727,608)	-	-	-
Change in donor restrictions	-	(500,000)	500,000	-	-
TOTAL SUPPORT AND REVENUE	12,633,279	(1,164,226)	563,000	12,032,053	10,967,159
EXPENSES					
Program services					
Library and special collections	3,789,185	-	-	3,789,185	3,847,942
Outreach	6,660,238	-	-	6,660,238	5,681,302
Research	2,267,019	-	-	2,267,019	2,843,396
Total program services	12,716,442	-	-	12,716,442	12,372,640
Supporting services					
Development	1,154,141	-	-	1,154,141	1,210,462
Management and general	1,896,736	-	-	1,896,736	1,997,886
Total supporting services	3,050,877	-	-	3,050,877	3,208,348
TOTAL EXPENSES	15,767,319	-	-	15,767,319	15,580,988
CHANGE IN NET ASSETS FROM OPERATIONS	(3,134,040)	(1,164,226)	563,000	(3,735,266)	(4,613,829)
NONOPERATING ACTIVITY					
Investment return - nonoperating	565,884	6,981	1,197,889	1,770,754	12,247,809
CHANGE IN NET ASSETS	(2,568,156)	(1,157,245)	1,760,889	(1,964,512)	7,633,980
NET ASSETS - BEGINNING OF YEAR	41,917,704	9,146,886	158,671,848	209,736,438	202,102,458
NET ASSETS - END OF YEAR	\$ 39,349,548	\$ 7,989,641	\$ 160,432,737	\$ 207,771,926	\$ 209,736,438

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, 2018
(WITH FINANCIAL INFORMATION FOR
THE YEAR ENDED JUNE 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,964,512)	\$ 7,633,980
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	2,201,173	2,156,907
Amortization of deferred financing costs	2,873	2,873
Loss on disposal of fixed assets	-	30,346
Contributions restricted for permanent investment	(63,000)	(124,396)
Net realized and unrealized gain on investments	(10,052,387)	(20,521,789)
(Increase) decrease in assets		
Grants and pledges receivable	1,122,497	1,496,011
Prepaid expenses and other current assets	64,560	(86,529)
Other assets	120,814	(45,739)
Increase (decrease) in liabilities		
Accounts payable	67,368	19,435
Accrued salaries and benefits	(16,291)	(59,602)
Deferred program income	(33,848)	44,645
	<u>(8,550,753)</u>	<u>(9,453,858)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cost of property and equipment	(468,941)	(319,903)
Proceeds from sales or maturities of investments	33,968,150	6,148,742
Purchases of investments	(19,975,443)	(285,707)
Net sales (purchases) of cash equivalents restricted to long-term investments	(4,846,549)	2,622,659
Increase in cash surrender value of life insurance policies	(113,463)	(113,565)
	<u>8,563,754</u>	<u>8,052,226</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	63,000	124,396
Repayments on promissory note	(90,300)	(90,300)
Decrease in other liabilities	(1,875)	(1,875)
	<u>(29,175)</u>	<u>32,221</u>
Net cash provided by (used in) financing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,174)	(1,369,411)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,770,480</u>	<u>3,139,891</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,754,306</u>	<u>\$ 1,770,480</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 814,456	\$ 816,126
Income taxes	\$ 1,692	\$ -
	<u>\$ 816,148</u>	<u>\$ 816,126</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, 2018

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 (formerly Chemical Heritage Foundation) and its wholly controlled subsidiary, Science History Institute Support Company (formerly CHF, Inc.) (collectively, the Institute). All significant intercompany transactions have been eliminated in consolidation.

The Institute's staff and fellows study the past in order to understand the present and inform the future. The Institute focuses on the sciences and technologies of matter and materials and their effect on the modern world, in territory ranging from the physical sciences and industries, through the chemical sciences and engineering, to the life sciences and technologies. 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.

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.

The Chemical Heritage Foundation changed its name to the Science History Institute following the 2015 merger with the Life Sciences Foundation (LSF), an organization that focused on the history of the life sciences and biotechnology. The new organization focuses on the history of chemistry, chemical engineering, and the life sciences.

Basis of Presentation

The Institute's net assets and revenues, expenses, and investment gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

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

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

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that must be maintained permanently by the Institute. 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.

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

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 restricted to long-term 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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Institute reports gifts of cash and other assets as restricted support if the gifts are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Gifts received requiring perpetual investment for use by the Institute are classified as permanently restricted net assets. In the absence of specific donor restriction, contributions are considered available for unrestricted use.

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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (continued)

The Institute reports gifts of property and equipment as unrestricted support unless donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations regarding how long those long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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) temporarily restricted net assets for donor-restricted funds or b) board-designated reserves, which can be used for any purposes approved by the board, for unrestricted funds.

Collections

The Institute has a collection of books, manuscripts, archives, fine art, and artifacts that have been acquired through purchase or donation and accessioned through professional library, archival, and museum practices. The collections are used for research and educational purposes. The collection items are cataloged, stored securely, exhibited, and preserved, and 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 the 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, 2017, from which the summarized information was derived.

Income Taxes

The Institute is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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 19, 2018, 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, 2018:

Total unconditional promises to give before before unamortized discount	\$ 7,704,783
Unamortized discount, weighted average rate of 3.80%	<u>(1,843,510)</u>
	<u>\$ 5,861,273</u>
Amounts due in	
Less than one year	\$ 885,892
One to ten years	<u>4,975,381</u>
	<u>\$ 5,861,273</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2018:

Land	\$ 721,855
Buildings and improvements	53,507,598
Permanent exhibition space	4,172,149
Furniture and equipment	<u>3,593,015</u>
	61,994,617
Less: Accumulated depreciation	<u>(29,632,738)</u>
	<u>\$ 32,361,879</u>

Depreciation expense was \$2,201,173 for the year ended June 30, 2018.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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, 2018.

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, 2018

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.

Private equity: Private equity investments are generally investments and securities held in a partnership, with the Institute holding a limited partnership interest. The Institute generally uses the limited partnership valuations as reported by the general partner as a practical expedient to the fair value of the investments in private equity investments. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and the differences could be material. The Institute has reviewed the fair values reported by the fund managers and general partners and believes that the carrying value of its investments is a reasonable estimate of fair value.

Commodity funds: For public funds registered with the Securities and Exchange Commission, valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value and to transact at that price. For non-public funds, 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.

The following table sets forth by level, within the fair value hierarchy, the Institute's investments at fair value as of June 30, 2018:

	Investments at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 5,332,937	\$ -	\$ -	\$ 5,332,937
Mutual funds, equity	18,557,937	-	-	18,557,937
Mutual funds, fixed income	19,704,426	-	-	19,704,426
Equities	1,940,375	-	-	1,940,375
Hedge funds, absolute return	-	-	1,242,044	1,242,044
Total assets in the fair value hierarchy	<u>45,535,675</u>	<u>-</u>	<u>1,242,044</u>	<u>46,777,719</u>
Investments measured at net asset value ^(a)				<u>136,312,286</u>
Investments at fair value				<u><u>\$ 183,090,005</u></u>

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

Investments are shown in the consolidated financial statements as:

Short-term investments	\$ 2,307,520
Investments	<u>180,782,485</u>
	<u><u>\$ 183,090,005</u></u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018:

	Level 3 Investments Year Ended June 30, 2018
	Hedge Funds, Absolute Return
Balance, beginning of year	\$ 1,579,644
Unrealized gains relating to assets held during the year	74,400
Proceeds	(412,000)
Balance, end of year	\$ 1,242,044
The amount of total gains or losses for the period attributable to the unrealized gains relating to assets held during the year	
	\$ 74,400

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, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds, equity	\$ 60,991,868	None	Monthly	6-30 days
Commingled funds, fixed income	6,800,818	None	Monthly	1-22 days
Municipal and agency bonds	68,563	None	Daily	1 day
Commodity funds	731,445	None	Monthly	22 days
Hedge funds, absolute return	67,719,592	None	Quarterly	45-100 days
	\$ 136,312,286			

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2018:

	Unrestricted Undesignated	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 136,022	\$ 7,162	\$ 887,270	\$ 1,030,454
Investment expenses	(81,725)	(6,366)	(647,492)	(735,583)
Net realized and unrealized gains	1,186,752	6,185	8,859,450	10,052,387
Total investment return	\$ 1,241,049	\$ 6,981	\$ 9,099,228	\$ 10,347,258

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

The total investment return is reflected in the consolidated statement of activities for the year ended June 30, 2018 as follows:

	Unrestricted Undesignated	Temporarily Restricted	Permanently Restricted	Total
Operating				
Investment return designated for current operations	\$ 675,165	\$ -	\$ 7,901,339	\$ 8,576,504
Nonoperating				
Investment return	565,884	6,981	1,197,889	1,770,754
Total investment return	<u>\$ 1,241,049</u>	<u>\$ 6,981</u>	<u>\$ 9,099,228</u>	<u>\$ 10,347,258</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 4.6% 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, 2018 was 4.50%. The promissory note is collateralized by certain investments of the Institute.

The following represents anticipated future repayments of bonds payable and promissory notes of the Institute as of June 30, 2018:

Years Ended June 30,	Promissory Note	2009 Series	2007 Series	Total
2019	\$ 90,300	\$ -	\$ -	\$ 90,300
2020	90,300	-	-	90,300
Thereafter	-	9,855,000	6,700,000	16,555,000
Total	<u>\$ 180,600</u>	<u>\$ 9,855,000</u>	<u>\$ 6,700,000</u>	<u>\$ 16,735,600</u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – DEBT (Continued)

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

Bonds payable	\$ 16,555,000
Deferred financing costs, net of amortization	<u>(35,912)</u>
	<u><u>\$ 16,519,088</u></u>

Interest expense was \$816,148 for the year ended June 30, 2018.

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 4.50% as of June 30, 2018. As of June 30, 2018, the Institute did not have a balance outstanding on the line of credit.

NOTE 6 – NET ASSETS

Included in unrestricted net assets, net investment in property and equipment is summarized as follows at June 30, 2018:

Property and equipment - net	\$ 32,361,879
Bonds payable	(16,555,000)
Promissory note	(180,600)
Other	<u>(34,174)</u>
	<u><u>\$ 15,592,105</u></u>

The Board of Directors has designated a portion of its unrestricted net assets as operating and capital reserves and to support certain activities and goals of the Institute. These amounts are classified as board designated reserves in unrestricted net assets.

Temporarily restricted net assets at June 30, 2018 include:

Programs	
Library and Special Collections	\$ 191,118
Outreach	44,668
Research	<u>2,025,924</u>
Total programs	2,261,710
Planned gifts	100,260
Capital - building improvements	<u>5,627,671</u>
Total temporarily restricted net assets	<u><u>\$ 7,989,641</u></u>

Permanently restricted net assets are included in investments and pledges receivable in the consolidated statement of financial position.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – NET ASSETS (Continued)

Permanently restricted net assets at June 30, 2018 include:

Donald and Mildred Othmer Bequests	\$ 131,238,549
Betty Irene Moore Library Fund	8,108,864
Gordon Cain Fellowship and Conference Fund	3,876,779
Arnold Thackray Directorship of the Othmer Library	2,509,944
Ralph Landau and Laurie Landeau Collections Fund	2,181,268
T.T. Chao Conference on Innovation & Entrepreneurship	1,729,812
Haas Archive of Science & Business	1,382,557
Haas Public Understanding Fellowship	1,157,931
Endowment for General Program Support	1,144,164
Haas Fellowship in the History of Chemical Industries	1,066,674
Ned Brandt Oral History Fund	905,019
Allington Fellowship	758,944
Charles C. Price Fellowship in Polymer History	656,003
Chemist Club Othmer Library Fund	648,719
Herbert D. Doan Fellowship in the History of the Chemical Industries	621,885
Warren G. Schlinger Symposium	612,463
Richard J. Bolte Sr. Award	480,093
Dr. Sydney M. Edelstein Book Fund	253,649
Glenn E. and Barbara H. Ulliot Scholarship Fund	159,768
Rohm & Haas Fellowship in Focus Lecture Fund	131,538
The Herdegen Fellowship in the History of Scientific Information	119,300
Seidel Fellowship in the History of Intellectual Property	108,855
Mistry Fellowship in the History of Chemical Engineering	108,855
Paul Otlet Fellowship in the History of Information Science	108,855
JPS Program Fund	108,716
Ralph Connor Memorial Lecture Endowment	99,387
Wallace H. Carothers Fund	58,433
AIC Gold Medal Endowment	48,250
Peter Regna Scholarship Fund	47,463
	<hr/>
Total permanently restricted net assets	<u><u>\$ 160,432,737</u></u>

NOTE 7 – 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, 2018

NOTE 7 – 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (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 unrestricted net assets. The following schedule represents the changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted (Board Designated Reserves)	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 18,103,248	\$ 158,671,848	\$ 176,775,096
Investment return			
Net gain (realized and unrealized)	1,057,326	9,099,228	10,156,554
Contributions	-	63,000	63,000
Transfers	-	500,000	500,000
Appropriation of endowment assets for expenditure	<u>(1,341,753)</u>	<u>(7,901,339)</u>	<u>(9,243,092)</u>
Endowment net assets, end of year	<u>\$ 17,818,821</u>	<u>\$ 160,432,737</u>	<u>\$ 178,251,558</u>

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.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – 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, 2018:

Satisfaction of Donor Stipulation		
Library and Special Collections	\$	587,344
Outreach		315,842
Research		2,824,422
		<u>3,727,608</u>
	\$	<u>3,727,608</u>

NOTE 9 – 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.

Expenses for 2018 were incurred for:

Account Description	Library and Special Collections	Outreach	Research	Development	Management and General	Total
Salaries	\$ 1,316,290	\$ 1,896,785	\$ 1,053,666	\$ 720,084	\$ 1,037,542	\$ 6,024,367
Employee benefits	351,459	439,892	284,929	183,870	189,594	1,449,744
Fellowships	-	-	289,750	-	-	289,750
Publications and multimedia	905	564,457	19,817	21,482	403	607,064
Events, exhibits and conferences	38,437	661,586	70,625	13,881	41,487	826,016
Acquisitions	133,440	-	-	-	-	133,440
Program expenses	80,798	134,039	22,532	6,827	14,106	258,302
Professional services	97,090	830,317	153,125	29,219	162,970	1,272,721
Information processing	106,375	288,688	103,381	61,003	86,607	646,054
Telephone and internet	7,924	18,639	9,158	3,909	7,348	46,978
Mail and distribution	4,633	34,760	5,589	12,582	2,152	59,716
Travel	53,167	73,619	109,406	70,278	88,957	395,427
Building operations	250,049	243,559	25,328	5,375	83,407	607,718
Insurance	62,190	49,703	6,984	1,712	9,239	129,828
Interest and financing expense	362,270	346,307	38,768	8,226	60,577	816,148
Depreciation and amortization	924,158	1,077,887	73,961	15,693	112,347	2,204,046
	<u>\$ 3,789,185</u>	<u>\$ 6,660,238</u>	<u>\$ 2,267,019</u>	<u>\$ 1,154,141</u>	<u>\$ 1,896,736</u>	<u>\$ 15,767,319</u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – OPERATING LEASES

The Institute leases certain office equipment under noncancellable operating leases. Total lease expense was \$44,580 for the year ended June 30, 2018.

Future minimum lease payments on all noncancellable operating lease commitments are as follows at June 30, 2018:

<u>YEARS ENDING JUNE 30,</u>	<u>AMOUNT</u>
2019	\$ 36,584
2020	31,866
2021	<u>10,280</u>
	<u>\$ 78,730</u>

NOTE 11 – 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, 2018 totaled \$305,514.

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

NOTE 12 – 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, 2018, three such gift annuity contracts were administered by the Philadelphia Foundation with a projected future residuum value of \$28,062. The value of the Science History Institute Endowment Fund of the Philadelphia Foundation as of June 30, 2018 was \$144,698.