

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR JUNE 30, 2020)

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, 2021, 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, 2021, 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 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 16, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 15, 2021

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021
(WITH FINANCIAL INFORMATION
FOR JUNE 30, 2020)

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,751,366	\$ 2,091,045
Short-term investments, at fair value	1,097,870	1,186,387
Grants and pledges receivable	80,503	99,447
Prepaid expenses and other current assets	54,068	62,313
TOTAL CURRENT ASSETS	6,983,807	3,439,192
Grants and pledges receivable	2,376,014	5,581,896
Property and equipment	29,258,245	30,642,280
Investments, at fair value	212,708,240	169,495,596
Cash surrender value of life insurance policies	1,910,877	2,055,779
Other assets	60,407	181,221
TOTAL ASSETS	\$ 253,297,590	\$ 211,395,964
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 220,666	\$ 253,463
Accrued salaries and benefits	721,395	812,766
Current portion of note payable - bank	-	351,457
Conference Center deposits	85,703	82,303
TOTAL CURRENT LIABILITIES	1,027,764	1,499,989
Bonds payable	16,527,707	16,524,834
Note payable - bank	-	878,643
Other long-term liabilities	5,781	7,656
TOTAL LIABILITIES	17,561,252	18,911,122
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	6,358,936	4,662,743
Board designated reserves	21,676,879	16,151,404
Net investment in property and equipment	12,660,450	14,047,360
	40,696,265	34,861,507
NET ASSETS WITH DONOR RESTRICTIONS	195,040,073	157,623,335
TOTAL NET ASSETS	235,736,338	192,484,842
TOTAL LIABILITIES AND NET ASSETS	\$ 253,297,590	\$ 211,395,964

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, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Investment return designated for current operations	\$ 499,352	\$ 8,276,775	\$ 8,776,127	\$ 8,678,056
Allocation of endowment income	6,915,326	(6,915,326)	-	-
Contributions	577,602	714,358	1,291,960	878,865
Conference center revenue	-	-	-	642,851
Program income	148,851	-	148,851	196,763
Forgiveness of note payable - bank (see Note 5)	1,230,100	-	1,230,100	-
Net assets released from restrictions				
Satisfaction of donor stipulation	1,538,963	(1,538,963)	-	-
Acquisition of long-lived assets	10,231	(10,231)	-	-
TOTAL SUPPORT AND REVENUE	10,920,425	526,613	11,447,038	10,396,535
EXPENSES				
Program services				
Library and special collections	3,211,667	-	3,211,667	3,499,195
Outreach	3,614,542	-	3,614,542	4,786,452
Research	1,058,355	-	1,058,355	2,089,818
Total program services	7,884,564	-	7,884,564	10,375,465
Supporting services				
Philanthropy	768,709	-	768,709	1,056,451
Management and general	1,712,925	-	1,712,925	2,274,530
Total supporting services	2,481,634	-	2,481,634	3,330,981
TOTAL EXPENSES	10,366,198	-	10,366,198	13,706,446
CHANGE IN NET ASSETS FROM OPERATIONS	554,227	526,613	1,080,840	(3,309,911)
NONOPERATING ACTIVITY				
Investment return	5,280,531	40,096,007	45,376,538	(9,913,175)
Uncollectible capital pledge (see Note 2)	-	(3,205,882)	(3,205,882)	-
	5,280,531	36,890,125	42,170,656	(9,913,175)
CHANGE IN NET ASSETS	5,834,758	37,416,738	43,251,496	(13,223,086)
NET ASSETS - BEGINNING OF YEAR	34,861,507	157,623,335	192,484,842	205,707,928
NET ASSETS - END OF YEAR	\$ 40,696,265	\$ 195,040,073	\$ 235,736,338	\$ 192,484,842

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, 2021
(WITH FINANCIAL INFORMATION FOR
THE YEAR ENDED JUNE 30, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 43,251,496	\$ (13,223,086)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Uncollectible capital pledge	3,205,882	-
Depreciation	1,790,119	1,797,885
Amortization of deferred financing costs	2,873	2,873
Forgiveness of note payable - bank	(1,230,100)	-
Contributions restricted for permanent investment	(7,100)	(43,000)
Net realized and unrealized (gain) loss on investments	(53,826,335)	2,215,611
Realized gain from life insurance policy	(144,194)	-
Decrease in assets		
Grants and pledges receivable	18,944	18,874
Prepaid expenses and other current assets	8,245	108,178
Other assets	120,814	120,814
Increase (decrease) in liabilities		
Accounts payable	(62,993)	102,488
Accrued salaries and benefits	(91,371)	269,960
Conference center deposits	3,400	(23,723)
	<u>(6,960,320)</u>	<u>(8,653,126)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cost of property and equipment	(375,888)	(469,506)
Proceeds from sales or maturities of investments	62,143,501	32,878,179
Purchases of investments	(49,621,813)	(24,722,805)
Net purchases of cash equivalents restricted to long-term investments	(1,819,480)	(294,500)
Proceeds from life insurance policy	393,057	-
Increase in cash surrender value of life insurance policies	(103,961)	(113,723)
	<u>10,615,416</u>	<u>7,277,645</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	7,100	43,000
Proceeds from issuance of note payable - bank	-	1,230,100
Repayments on promissory note	-	(90,300)
Decrease in other liabilities	(1,875)	(1,875)
	<u>5,225</u>	<u>1,180,925</u>
Net cash provided by financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,660,321	(194,556)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,091,045</u>	<u>2,285,601</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,751,366</u>	<u>\$ 2,091,045</u>

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

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2021
(WITH FINANCIAL INFORMATION FOR
THE YEAR ENDED JUNE 30, 2020)

	2021	2020
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid (received) during the year for:		
Interest	\$ 807,079	\$ 809,666
Income tax refunds	\$ (4,106)	\$ (11,244)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY		
Property and equipment accrued in accounts payable	\$ 30,196	\$ -

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

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

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 is a library and museum that expands knowledge and challenges perspectives in the history of science, reveals how the scientific past is embedded in our daily lives, and catalyzes the reimagining of our scientific and technological future. The Institute fulfills its mission in the following ways: It serves as the repository of record for the histories of chemistry, chemical engineering, and the life sciences. It preserves, grows, and provides access to its world-class collections. The Institute fosters and creates innovative historical research. It builds vibrant communities of scholars and the scientifically curious, locally, nationally, and globally. It interprets the history of science using multiple storytelling methods and places the interests of its audiences at the center of its work. The Institute creates a work environment that is diverse in its people and perspectives, inclusive and supportive in its culture, and equitable in its policies and practices.

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

Cash equivalents consist of cash, money market funds, and certificate of deposits 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.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

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 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 FASB ASC 350-50.

Paycheck Protection Program

The Institute entered into a note payable pursuant to the Paycheck Protection Program (the Program) under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) during the year ended June 30, 2020. The proceeds from the note payable were recorded as debt in accordance with FASB ASC 470 (see Note 5). The interest charged per the note payable was treated in accordance with FASB ASC 835-30. The Institute applied for and received forgiveness of the note during the year ended June 30, 2021 (see Note 5).

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue Recognition

In accordance with FASB ASC 606, *Revenue from Contracts with Customers*, the Institute recognizes revenue upon transfer of promised goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of FASB ASC 606, the Institute performs the following five steps:

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue as (or when) the performance obligations are satisfied.

Conference center revenue and program income are recognized at a point in time when the event or program occurs.

There are no contract assets or contract liabilities and therefore no unsatisfied performance obligations.

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. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions. There were no such proceeds for the year ended June 30, 2021.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collections (Continued)

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.

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. The Institute is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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, 2020, from which the summarized information was derived. Certain reclassifications have been made to the 2020 financial statements in order to conform to the 2021 financial statement presentation.

Recently Issued Accounting Pronouncements

In May 2014 the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as modified by ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* and other subsequently issued related ASUs. 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. The Institute adopted the new standard on July 1, 2020 under the modified retrospective method. The adoption of this standard did not have a material impact on the Institute's consolidated financial statements.

Amounts for periods beginning on or after July 1, 2020 are presented in accordance with FASB ASC 606; however, prior period amounts have not been adjusted and continue to be reported in accordance with FASB ASC 605, *Revenue Recognition*, which was in effect for those periods.

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 Institute adopted the new standard on July 1, 2020 on a prospective basis. The adoption of this standard did not have a material impact on the Institute's consolidated financial statements.

In February 2016, the FASB issued 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, which were originally extended by ASU No. 2019-10 and further extended by ASU No. 2020-05, are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Institute is currently assessing the impact this Update will have on its consolidated financial statements when adopted.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

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 15, 2021, 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, 2021:

Total unconditional promises to give before before unamortized discount	\$ 2,580,503
Unamortized discount, weighted average rate of 1.71%	<u>(123,986)</u>
	<u><u>\$ 2,456,517</u></u>
Amounts due in	
Less than one year	\$ 80,503
One to ten years	<u>2,376,014</u>
	<u><u>\$ 2,456,517</u></u>

During the year ended June 30, 2021, the Institute determined that collection of a pledge receivable was doubtful. The pledge, net of discount, in the amount of \$3,205,882 is included in nonoperating activity in the consolidated statement of activities.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2021:

Land	\$ 1,973,803
Buildings and improvements	53,576,694
Permanent exhibition space	4,172,149
Furniture and equipment	3,821,485
Construction in progress	<u>292,271</u>
	63,836,402
Less: Accumulated depreciation	<u>(34,578,157)</u>
	<u><u>\$ 29,258,245</u></u>

Construction in progress consists of costs related to a freight elevator replacement project.

Depreciation expense was \$1,790,119 for the year ended June 30, 2021.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021.

Money market funds: Valued at the daily closing price as reported by the fund.

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.

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.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

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.

The following table sets forth by level, within the fair value hierarchy, the Institute's investments at fair value as of June 30, 2021:

	Investments at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 2,492,426	\$ -	\$ -	\$ 2,492,426
Mutual funds, equity	39,615,262	-	-	39,615,262
Mutual funds, fixed income	16,681,207	-	-	16,681,207
Equities	4,134,055	-	-	4,134,055
Hedge funds, absolute return	-	-	494,158	494,158
Total assets in the fair value hierarchy	62,922,950	-	494,158	63,417,108
Investments measured at net asset value ^(a)				150,389,002
Investments at fair value				\$ 213,806,110

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

Investments are shown in the consolidated statement of financial position as:

Short-term investments	\$ 1,097,870
Investments	212,708,240
	\$ 213,806,110

There were no purchases of Level 3 investments and no transfers into or out of Level 3 during the year ended June 30, 2021. Sales of Level 3 investments for the year ended June 30, 2021 are as follows:

	Hedge funds	
	Limited Partnerships - United States	Limited Partnerships - International
Sales	\$ 72,500	\$ 87,038

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following table represents the Institute’s level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs.

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs
Hedge funds Limited Partnerships - United States	\$ 370,502	Cost approach Common stock Discounted cash flow	Underlying net assets Stock price Cost of capital Operating margin Growth assumptions Exit assumptions
Hedge funds Limited Partnerships - International	\$ 123,656	Cost approach Common stock Discounted cash flow	Underlying net assets Stock price Cost of capital Operating margin Growth assumptions Exit assumptions

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, 2021:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds, equity	\$ 74,376,356	None	Monthly	6-30 days
Commingled funds, fixed income	7,712,873	None	Monthly	1-22 days
Hedge funds, absolute return	<u>68,299,773</u>	None	Quarterly	45-100 days
	<u>\$ 150,389,002</u>			

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2021:

	<u>Without Donor Restrictions - Undesignated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 86,481	\$ 706,325	\$ 792,806
Investment expenses	(46,830)	(419,646)	(466,476)
Net realized and unrealized gains	<u>5,740,232</u>	<u>48,086,103</u>	<u>53,826,335</u>
Total investment return	<u>\$ 5,779,883</u>	<u>\$ 48,372,782</u>	<u>\$ 54,152,665</u>

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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, 2021 as follows:

	Without Donor Restrictions - Undesignated	With Donor Restrictions	Total
Operating			
Investment return designated for current operations	\$ 499,352	\$ 8,276,775	\$ 8,776,127
Nonoperating			
Investment return	<u>5,280,531</u>	<u>40,096,007</u>	<u>45,376,538</u>
Total investment return	<u>\$ 5,779,883</u>	<u>\$ 48,372,782</u>	<u>\$ 54,152,665</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.

The following represents anticipated future repayments of bonds payable of the Institute as of June 30, 2021:

Years Ended June 30,	2009 Series	2007 Series	Total
2024	\$ 1,971,000	\$ -	\$ 1,971,000
2025	1,971,000	-	1,971,000
2026	1,971,000	-	1,971,000
Thereafter	<u>3,942,000</u>	<u>6,700,000</u>	<u>10,642,000</u>
Total	<u>\$ 9,855,000</u>	<u>\$ 6,700,000</u>	<u>\$ 16,555,000</u>

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NOTE 5 – DEBT (Continued)

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

2009 Series		\$ 9,855,000
2007 Series		6,700,000
Deferred financing costs, net of amortization		<u>(27,293)</u>
		<u>\$ 16,527,707</u>

Interest expense was \$807,079 for the year ended June 30, 2021.

Note Payable - Bank

On April 20, 2020, the Institute entered into a term note (the Note) with PNC Bank National Association (the Bank) that provided for a loan in the amount of \$1,230,100 pursuant to the Program under the CARES Act. Certain terms of the Note were modified by the Bank as of June 5, 2020 due to the Paycheck Protection Program Flexibility Act of 2020 (the PPPF Act).

The Note was set to mature on April 20, 2022 and bore interest at a rate of 1.0% per annum. Under the terms of the Program, certain amounts of the Note and accrued interest thereon could be forgiven if they were used for qualifying expenses within certain time parameters as described in the CARES Act and the PPPF Act. Interest and principal payments under the Note were deferred until the date of any forgiven amount of the Note has been remitted to the Bank by the Small Business Administration (the SBA) or the date that a final determination was made that no portion of the Note would be forgiven (the Deferral Expiration Date). Following the Deferral Expiration Date, any unforgiven portion of the Note would convert to an amortizing term loan under the terms noted above.

The Institute applied for and received forgiveness of the Note and accrued interest from the SBA effective December 11, 2020. The forgiveness of the Note of \$1,230,100 is reflected on the consolidated statement of activities.

Line of Credit

The Institute has a secured demand line of credit for \$750,000. As of June 30, 2021, 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, 2021:

Property and equipment - net		\$ 29,258,245
Bonds payable		(16,555,000)
Other		<u>(42,795)</u>
		<u>\$ 12,660,450</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.

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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, 2021 include:

Programs	
Library and Special Collections	\$ 507,468
Outreach	242,481
Research	694,999
Total programs	<u>1,444,948</u>
Capital - building improvements	<u>2,373,361</u>
Total	<u>\$ 3,818,309</u>

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, 2021 include:

Donald and Mildred Othmer Bequests	\$ 156,004,778
Betty Irene Moore Library Fund	10,012,835
Gordon Cain Fellowship and Conference Fund	4,608,372
Arnold Thackray Directorship of the Othmer Library	2,983,599
Ralph Landau and Laurie Landeau Collections Fund	2,592,899
T.T. Chao Conference on Innovation & Entrepreneurship	2,056,247
Haas Archive of Science & Business	1,643,461
Haas Public Understanding Fellowship	1,376,446
Endowment for General Program Support	1,360,081
Haas Fellowship in the History of Chemical Industries	1,267,968
Ned Brandt Oral History Fund	1,075,807
Allington Fellowship	902,166
Charles C. Price Fellowship in Polymer History	779,917
Herbert D. Doan Fellowship in the History of the Chemical Industries	774,967
Chemist Club Othmer Library Fund	771,140
Warren G. Schlinger Symposium	728,042
Richard J. Bolte Sr. Award	624,557
Dr. Sydney M. Edelstein Book Fund	301,515
Rohm & Haas Fellowship in Focus Lecture Fund	204,954
Glenn E. and Barbara H. Ulliot Scholarship Fund	191,399
The Herdegen Fellowship in the History of Scientific Information	141,813
Seidel Fellowship in the History of Intellectual Property	129,397
Mistry Fellowship in the History of Chemical Engineering	129,397
Paul Otlet Fellowship in the History of Information Science	129,397
JPS Program Fund	129,232
Ralph Connor Memorial Lecture Endowment	118,143
Wallace H. Carothers Fund	69,460
AIC Gold Medal Endowment	57,355
Peter Regna Scholarship Fund	56,420
Total	<u>\$ 191,221,764</u>

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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.

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, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total With Donor Restrictions	Total Funds
		Cost Value	Accumulated Gains (Losses) and Other		
Donor restricted funds	\$ -	\$ 126,802,992	\$ 64,418,772	\$ 191,221,764	\$ 191,221,764
Board designated funds	19,466,441	-	-	-	19,466,441
	<u>\$ 19,466,441</u>	<u>\$ 126,802,992</u>	<u>\$ 64,418,772</u>	<u>\$ 191,221,764</u>	<u>\$ 210,688,205</u>

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total With Donor Restrictions	Total Funds
		Cost Value	Accumulated Gains (Losses) and Other		
Endowment net assets, beginning of year	\$ 16,655,260	\$ 126,682,531	\$ 24,458,914	\$ 151,141,445	\$ 167,796,705
Investment return, net	4,940,411	-	48,349,994	48,349,994	53,290,405
Contributions/Additions	393,057	7,100	-	7,100	400,157
Income reinvestment	-	113,361	(113,361)	-	-
Amounts appropriated for expenditure	(500,315)	-	(8,276,775)	(8,276,775)	(8,777,090)
Transfers	(2,021,972)	-	-	-	(2,021,972)
Endowment net assets, end of year	<u>\$ 19,466,441</u>	<u>\$ 126,802,992</u>	<u>\$ 64,418,772</u>	<u>\$ 191,221,764</u>	<u>\$ 210,688,205</u>

The transfers in the above table represent withdrawals from board designated endowment funds which are deposited into a cash account that is included in board designated reserves on the consolidated statement of financial position as of June 30, 2021.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2021

NOTE 8 – ENDOWMENTS (Continued)

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. There were no such deficiencies as of June 30, 2021.

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, 2021:

Satisfaction of Donor Stipulation	
Library and Special Collections	\$ 571,432
Outreach	223,141
Research	<u>627,782</u>
Total programs	<u>1,422,355</u>
Planned Gifts	<u>116,608</u>
	<u><u>\$ 1,538,963</u></u>

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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.

Expenses for 2021 were incurred for:

Account Description	Program Services			Supporting Services		Total
	Library and Special Collections	Outreach	Research	Philanthropy	Management and General	
Salaries	\$ 1,049,494	\$ 1,496,232	\$ 472,485	\$ 494,823	\$ 1,174,880	\$ 4,687,914
Employee benefits	268,824	377,596	121,229	127,451	103,621	998,721
Fellowships	-	-	217,895	-	-	217,895
Publications and multimedia	1,050	57,354	7,545	20,451	40	86,440
Events, exhibits and conferences	2,057	86,200	12,415	440	1,079	102,191
Acquisitions	63,997	-	-	-	-	63,997
Program expenses	89,854	29,952	12,272	8,067	17,876	158,021
Professional services	140,535	141,491	53,088	40,770	161,071	536,955
Information processing	24,063	149,434	8,838	32,881	24,506	239,722
Telephone and internet	6,733	11,177	3,677	4,114	7,957	33,658
Mail and distribution	6,677	3,687	1,577	8,102	1,942	21,985
Travel	6,738	1,604	5,790	795	4,470	19,397
Building operations	189,730	178,863	19,800	4,202	33,422	426,017
Insurance	83,039	69,114	8,471	2,580	16,509	179,713
Interest and financing expense	358,988	343,170	38,417	8,151	51,854	800,580
Depreciation and amortization	919,888	668,668	74,856	15,882	113,698	1,792,992
	<u>\$ 3,211,667</u>	<u>\$ 3,614,542</u>	<u>\$ 1,058,355</u>	<u>\$ 768,709</u>	<u>\$ 1,712,925</u>	<u>\$ 10,366,198</u>

NOTE 11 – OPERATING LEASES

The Institute leases certain office equipment under noncancellable operating leases. Total lease expense was \$22,257 for the year ended June 30, 2021.

Future minimum lease payments on all noncancellable operating lease commitments are as follows at June 30, 2021:

YEARS ENDING JUNE 30,	AMOUNT
2022	\$ 9,716
2023	3,984
2024	3,984
2025	3,984
2026	1,992
	<u>\$ 23,660</u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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, 2021 totaled \$252,982.

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

NOTE 13 – 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	\$ 5,751,366
Short-term investments, at fair value	<u>1,097,870</u>
	<u>\$ 6,849,236</u>

As shown above the Institute has approximately \$6,800,000 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 with daily liquidity are approximately \$60,000,000. See Note 1 for the Institute's endowment spending policy.

NOTE 14 – COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to impact the United States and the world.

Beginning on June 15, 2020, and continuing through the date of the consolidated financial statements, the Institute has carefully reopened certain parts of its operations, following guidance issued by the Health Departments of the Commonwealth of Pennsylvania and the City of Philadelphia.

For the fiscal year ending June 30, 2021, the COVID-19 pandemic did not have a material impact on the change in net assets from operations or net cash flows. The Institute's museum and its public programming are free to the public or charge a nominal fee. The pandemic did significantly impact conference center revenue, as no external events were hosted during the fiscal year ending June 30, 2021. The impact of no conference center revenue was mitigated by lower fixed expenses and no variable event expenses.

While the conference center restarted operations in August 2021, revenue is expected to remain significantly lower than historical levels due to the ongoing impact of the pandemic and related corporate travel restrictions or travel hesitancy that will impact the ability to contract and hold certain events.