

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR JUNE 30, 2021)

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY

C O N T E N T S

	<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 - 6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7 - 20

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Science History Institute and Subsidiary
Philadelphia, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of the Science History Institute and Subsidiary (nonprofit organizations), which comprise the statement of financial position as of June 30, 2022, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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, 2022, and the changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Science History Institute and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Science History Institute and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on consolidated the financial statements.

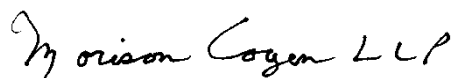
In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Science History Institute and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Science History Institute and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Science History Institute and Subsidiary's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



October 14, 2022

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(WITH FINANCIAL INFORMATION
FOR JUNE 30, 2021)

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,658,848	\$ 5,751,366
Short-term investments, at fair value	4,546,260	1,097,870
Grants and pledges receivable	298,425	80,503
Prepaid expenses and other current assets	107,733	54,068
TOTAL CURRENT ASSETS	7,611,266	6,983,807
Grants and pledges receivable	2,494,309	2,376,014
Property and equipment	28,195,981	29,258,245
Investments, at fair value	175,049,673	212,708,240
Cash surrender value of life insurance policies	2,002,196	1,910,877
Other assets	-	60,407
TOTAL ASSETS	\$ 215,353,425	\$ 253,297,590
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 230,804	\$ 220,666
Accrued salaries and benefits	638,538	721,395
Conference center deposits	75,352	85,703
TOTAL CURRENT LIABILITIES	944,694	1,027,764
Bonds payable	16,530,580	16,527,707
Other long-term liabilities	3,906	5,781
TOTAL LIABILITIES	17,479,180	17,561,252
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	6,189,500	6,358,936
Board designated reserves	18,725,465	21,676,879
Net investment in property and equipment	11,595,313	12,660,450
	36,510,278	40,696,265
NET ASSETS WITH DONOR RESTRICTIONS	161,363,967	195,040,073
TOTAL NET ASSETS	197,874,245	235,736,338
TOTAL LIABILITIES AND NET ASSETS	\$ 215,353,425	\$ 253,297,590

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, 2022
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Investment return designated for current operations	\$ 501,570	\$ 8,130,706	\$ 8,632,276	\$ 8,776,127
Allocation of endowment income	6,765,811	(6,765,811)	-	-
Contributions	573,131	1,011,318	1,584,449	1,291,960
Conference center revenue	202,729	-	202,729	-
Program income	199,244	-	199,244	148,851
Forgiveness of note payable - bank	-	-	-	1,230,100
Net assets released from restrictions				
Satisfaction of donor stipulation	2,337,292	(2,337,292)	-	-
TOTAL SUPPORT AND REVENUE	10,579,777	38,921	10,618,698	11,447,038
EXPENSES				
Program services				
Library and special collections	3,538,951	-	3,538,951	3,211,667
Outreach	4,084,523	-	4,084,523	3,614,542
Research	1,281,070	-	1,281,070	1,058,355
Total program services	8,904,544	-	8,904,544	7,884,564
Supporting services				
Philanthropy	682,752	-	682,752	768,709
Management and general	1,784,179	-	1,784,179	1,712,925
Total supporting services	2,466,931	-	2,466,931	2,481,634
TOTAL EXPENSES	11,371,475	-	11,371,475	10,366,198
CHANGE IN NET ASSETS FROM OPERATIONS	(791,698)	38,921	(752,777)	1,080,840
NONOPERATING ACTIVITY				
Investment return	(3,394,289)	(33,715,027)	(37,109,316)	45,376,538
Uncollectible capital pledge	-	-	-	(3,205,882)
	<u>(3,394,289)</u>	<u>(33,715,027)</u>	<u>(37,109,316)</u>	<u>42,170,656</u>
CHANGE IN NET ASSETS	(4,185,987)	(33,676,106)	(37,862,093)	43,251,496
NET ASSETS - BEGINNING OF YEAR	40,696,265	195,040,073	235,736,338	192,484,842
NET ASSETS - END OF YEAR	\$ 36,510,278	\$ 161,363,967	\$ 197,874,245	\$ 235,736,338

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, 2022
(WITH FINANCIAL INFORMATION FOR
THE YEAR ENDED JUNE 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (37,862,093)	\$ 43,251,496
Adjustments to reconcile change in net assets to net cash used in operating activities		
Uncollectible capital pledge	-	3,205,882
Depreciation	1,820,730	1,790,119
Amortization of deferred financing costs	2,873	2,873
Forgiveness of note payable - bank	-	(1,230,100)
Contributions restricted for permanent investment	(9,950)	(7,100)
Net realized and unrealized (gain) loss on investments	30,512,040	(53,826,335)
Realized gain from life insurance policy	-	(144,194)
(Increase) decrease in assets		
Grants and pledges receivable	(336,217)	18,944
Prepaid expenses and other current assets	(53,665)	8,245
Other assets	60,407	120,814
Increase (decrease) in liabilities		
Accounts payable	10,138	(62,993)
Accrued salaries and benefits	(82,857)	(91,371)
Conference center deposits	(10,351)	3,400
	<u>(5,948,945)</u>	<u>(6,960,320)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cost of property and equipment	(758,466)	(375,888)
Proceeds from sales or maturities of investments	64,852,729	62,143,501
Purchases of investments	(47,595,127)	(49,621,813)
Net purchases of cash equivalents restricted to long-term investments	(13,559,465)	(1,819,480)
Proceeds from life insurance policy	-	393,057
Increase in cash surrender value of life insurance policies	(91,319)	(103,961)
	<u>2,848,352</u>	<u>10,615,416</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	9,950	7,100
Decrease in other liabilities	(1,875)	(1,875)
	<u>8,075</u>	<u>5,225</u>
Net cash provided by financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(3,092,518)</u>	<u>3,660,321</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,751,366</u>	<u>2,091,045</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,658,848</u>	<u>\$ 5,751,366</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, 2022
(WITH FINANCIAL INFORMATION FOR
THE YEAR ENDED JUNE 30, 2021)

	2022	2021
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid (received) during the year for:		
Interest	\$ 807,079	\$ 807,079
Income tax refunds	\$ -	\$ (4,106)
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, 2022

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 generally accepted 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 consolidated 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, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term Investments

Short-term investments consist of mutual funds that are 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.

Contributions

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

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022.

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.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021, from which the summarized information was derived.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The amendments in this Update specify the accounting for leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The amendments in this Update, 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.

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 14, 2022, 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, 2022:

Total unconditional promises to give before before unamortized discount		\$ 2,935,894
Unamortized discount, weighted average rate of 1.71%		<u>(143,160)</u>
		<u>\$ 2,792,734</u>
Amounts due in		
Less than one year		\$ 298,425
One to five years		<u>2,494,309</u>
		<u>\$ 2,792,734</u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2022:

Land	\$ 1,973,803
Buildings and improvements	54,576,036
Permanent exhibition space	4,172,149
Furniture and equipment	<u>3,622,785</u>
	64,344,773
Less: Accumulated depreciation	<u>(36,148,792)</u>
	<u><u>\$ 28,195,981</u></u>

Depreciation expense was \$1,820,730 for the year ended June 30, 2022.

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.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

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, 2022.

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: 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.

Hedge funds, absolute return: 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, 2022:

	Investments at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 1,062,091	\$ -	\$ -	\$ 1,062,091
Mutual funds, equity	35,427,870	-	-	35,427,870
Mutual funds, fixed income	21,524,864	-	-	21,524,864
Equities	3,158,854	-	-	3,158,854
Hedge funds, absolute return	-	-	473,198	473,198
Total assets in the fair value hierarchy	<u>61,173,679</u>	<u>-</u>	<u>473,198</u>	<u>61,646,877</u>
Investments measured at net asset value ^(a)				<u>117,949,056</u>
Investments at fair value				<u><u>\$ 179,595,933</u></u>

^(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	\$ 4,546,260
Investments	<u>175,049,673</u>
	<u><u>\$ 179,595,933</u></u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

There were no purchases of Level 3 investments and no transfers into or out of Level 3 during the year ended June 30, 2022. Sales of Level 3 investments for the year ended June 30, 2022 are as follows:

	Hedge funds	
	Limited Partnerships - United States	Limited Partnerships - International
Sales	<u>\$ 14,555</u>	<u>\$ -</u>

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	\$ 384,212	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	\$ 88,986	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, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds, equity	\$ 60,748,767	None	Monthly	6-30 days
Hedge funds, absolute return	<u>57,200,289</u>	None	Quarterly	45-100 days
	<u>\$ 117,949,056</u>			

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 – FAIR VALUE MEASUREMENTS – INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2022:

	Without Donor Restrictions - Undesignated	With Donor Restrictions	Total
Interest and dividends	\$ 267,312	\$ 2,264,827	\$ 2,532,139
Investment expenses	(49,774)	(447,365)	(497,139)
Net realized and unrealized losses	<u>(3,110,257)</u>	<u>(27,401,783)</u>	<u>(30,512,040)</u>
Total investment return	<u>\$ (2,892,719)</u>	<u>\$ (25,584,321)</u>	<u>\$ (28,477,040)</u>

The total investment return is reflected in the consolidated statement of activities for the year ended June 30, 2022 as follows:

	Without Donor Restrictions - Undesignated	With Donor Restrictions	Total
Operating Investment return designated for current operations	\$ 501,570	\$ 8,130,706	\$ 8,632,276
Nonoperating Investment return	<u>(3,394,289)</u>	<u>(33,715,027)</u>	<u>(37,109,316)</u>
Total investment return	<u>\$ (2,892,719)</u>	<u>\$ (25,584,321)</u>	<u>\$ (28,477,040)</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.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 5 – DEBT (Continued)

The following represents anticipated future repayments of bonds payable of the Institute as of June 30, 2022:

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>

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>(24,420)</u>
	<u>\$ 16,530,580</u>

Interest expense was \$807,079 for the year ended June 30, 2022.

Line of Credit

The Institute has a secured demand line of credit for \$750,000. As of June 30, 2022, 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, 2022:

Property and equipment - net	\$ 28,195,981
Bonds payable	(16,555,000)
Other	<u>(45,668)</u>
	<u>\$ 11,595,313</u>

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

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022 include:

Programs	
Library and Special Collections	\$ 434,091
Outreach	356,309
Research	<u>702,690</u>
Total programs	1,493,090
Capital - building improvements	<u>2,347,471</u>
Total	<u>\$ 3,840,561</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, 2022 include:

Donald and Mildred Othmer Bequests	\$ 128,443,536
Betty Irene Moore Library Fund	8,323,223
Gordon Cain Fellowship and Conference Fund	3,794,215
Arnold Thackray Directorship of the Othmer Library	2,456,489
Ralph Landau and Laurie Landeau Collections Fund	2,134,814
T.T. Chao Conference on Innovation & Entrepreneurship	1,692,972
Haas Archive of Science & Business	1,353,112
Haas Public Understanding Fellowship	1,133,270
Endowment for General Program Support	1,119,797
Haas Fellowship in the History of Chemical Industries	1,043,957
Ned Brandt Oral History Fund	885,745
Allington Fellowship	742,781
Herbert D. Doan Fellowship in the History of the Chemical Industries	642,995
Charles C. Price Fellowship in Polymer History	642,130
Chemist Club Othmer Library Fund	634,903
Warren G. Schlinger Symposium	599,420
Richard J. Bolte Sr. Award	514,217
Dr. Sydney M. Edelstein Book Fund	248,247
Rohm & Haas Fellowship in Focus Lecture Fund	168,745
Glenn E. and Barbara H. Ulliyot Scholarship Fund	157,936
The Herdegen Fellowship in the History of Scientific Information	116,759
Seidel Fellowship in the History of Intellectual Property	106,536
Mistry Fellowship in the History of Chemical Engineering	106,536
Paul Otlet Fellowship in the History of Information Science	106,536
JPS Program Fund	106,401
Ralph Connor Memorial Lecture Endowment	97,271
Wallace H. Carothers Fund	57,189
AIC Gold Medal Endowment	47,222
Peter Regna Scholarship Fund	<u>46,452</u>
Total	<u>\$ 157,523,406</u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022 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	\$ -	\$ 126,906,439	\$ 30,616,967	\$ 157,523,406	\$ 157,523,406
Board designated funds	15,863,114	-	-	-	15,863,114
	<u>\$ 15,863,114</u>	<u>\$ 126,906,439</u>	<u>\$ 30,616,967</u>	<u>\$ 157,523,406</u>	<u>\$ 173,386,520</u>

Changes in endowment net assets for the year ended June 30, 2022 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	\$ 19,466,441	\$ 126,802,992	\$ 64,418,772	\$ 191,221,764	\$ 210,688,205
Investment return, net	(2,909,355)	-	(25,577,602)	(25,577,602)	(28,486,957)
Contributions/Additions	-	9,950	-	9,950	9,950
Income reinvestment	-	93,497	(93,497)	-	-
Amounts appropriated for expenditure	(503,972)	-	(8,130,706)	(8,130,706)	(8,634,678)
Transfers	(190,000)	-	-	-	(190,000)
Endowment net assets, end of year	<u>\$ 15,863,114</u>	<u>\$ 126,906,439</u>	<u>\$ 30,616,967</u>	<u>\$ 157,523,406</u>	<u>\$ 173,386,520</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, 2022.

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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. Deficiencies of this nature as of June 30, 2022 exist in four donor restricted funds, which together have an original gift value of \$1,111,361, a current value of \$1,075,116, and a deficiency of \$36,245. These deficiencies resulted from unfavorable market conditions compared with market conditions when the gifts were received and invested, and continued appropriation to support important programs as determined by the board.

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, 2022:

Satisfaction of Donor Stipulation	
Library and Special Collections	\$ 724,236
Outreach	600,210
Research	1,012,846
Total programs	<u>\$ 2,337,292</u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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 2022 were incurred for:

Account Description	Program Services			Supporting Services		Total
	Library and Special Collections	Outreach	Research	Philanthropy	Management and General	
Salaries	\$ 1,285,122	\$ 1,706,042	\$ 468,650	\$ 380,019	\$ 1,024,705	\$ 4,864,538
Employee benefits	326,796	413,766	121,440	95,789	199,639	1,157,430
Fellowships	-	4,000	364,416	-	-	368,416
Publications and multimedia	-	104,713	18,651	24,428	5,792	153,584
Events, exhibits and conferences	2,272	155,269	41,079	974	25,601	225,195
Acquisitions	98,965	-	514	-	-	99,479
Program expenses	96,169	32,783	13,512	8,155	18,243	168,862
Professional services	109,357	247,080	35,085	76,990	207,554	676,066
Information processing	38,975	101,425	8,073	34,233	34,240	216,946
Telephone and internet	7,563	14,183	2,327	2,909	8,144	35,126
Mail and distribution	9,317	7,364	2,511	8,328	2,510	30,030
Travel	10,351	39,049	63,806	20,841	36,013	170,060
Building operations	201,558	186,571	20,886	4,432	33,102	446,549
Insurance	60,015	47,425	5,390	1,311	14,371	128,512
Interest and financing expense	358,988	343,170	38,417	8,151	58,353	807,079
Depreciation and amortization	933,503	681,683	76,313	16,192	115,912	1,823,603
	<u>\$ 3,538,951</u>	<u>\$ 4,084,523</u>	<u>\$ 1,281,070</u>	<u>\$ 682,752</u>	<u>\$ 1,784,179</u>	<u>\$ 11,371,475</u>

NOTE 11 – OPERATING LEASES

The Institute leases certain office equipment under noncancellable operating leases. Total lease expense was \$13,107 for the year ended June 30, 2022.

Future minimum lease payments on all noncancellable operating lease commitments are as follows at June 30, 2022:

YEARS ENDING JUNE 30,	AMOUNT
2023	\$ 8,568
2024	8,568
2025	8,568
2026	6,576
	<u>\$ 32,280</u>

SCIENCE HISTORY INSTITUTE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022 totaled \$257,769.

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	\$ 2,658,848
Short-term investments, at fair value	<u>4,546,260</u>
	<u>\$ 7,205,108</u>

As shown above the Institute has approximately \$7,200,000 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 \$56,000,000. See Note 1 for the Institute's endowment spending policy.