



REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

**OREGON MUSEUM OF SCIENCE AND INDUSTRY**

May 31, 2018 and 2017

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## **Report of Independent Auditors**

To the Board of Trustees  
Oregon Museum of Science and Industry

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Oregon Museum of Science and Industry (the Museum), which comprise the statement of financial position as of May 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Oregon Museum of Science and Industry, as of May 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Report on Summarized Comparative Information*

We have previously audited Oregon Museum of Science and Industry's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss Adams LLP

Portland, Oregon  
October 4, 2018

**Oregon Museum of Science and Industry**  
**Statement of Financial Position**  
**(with Summarized Financial Information for May 31, 2017)**

	May 31, 2018			May 31, 2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 2,070,442	\$ 1,997,869	\$ -	\$ 4,068,311	\$ 4,907,879
Accounts, pledges and contracts receivable, net of current portion	1,069,339	1,712,825	-	2,782,164	4,227,804
Investments	1,547,226	570,493	529,434	2,647,153	2,490,853
Inventories	22,655	-	-	22,655	23,072
Prepaid expenses and other assets	669,948	-	-	669,948	687,974
Due from other funds	543,909	-	-	543,909	228,742
<b>Total current assets</b>	<b>5,923,519</b>	<b>4,281,187</b>	<b>529,434</b>	<b>10,734,140</b>	<b>12,566,324</b>
<b>LONG-TERM ASSETS</b>					
Accounts, pledges and contracts receivable, net of current portion	51,875	658,351	-	710,226	989,133
Beneficial interest in perpetual trust	-	-	376,987	376,987	358,335
Land, buildings, exhibits and equipment, net	40,674,132	-	-	40,674,132	40,481,173
<b>Total long-term assets</b>	<b>40,726,007</b>	<b>658,351</b>	<b>376,987</b>	<b>41,761,345</b>	<b>41,828,641</b>
<b>TOTAL ASSETS</b>	<b>\$ 46,649,526</b>	<b>\$ 4,939,538</b>	<b>\$ 906,421</b>	<b>\$ 52,495,485</b>	<b>\$ 54,394,965</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 1,879,372	\$ -	\$ -	\$ 1,879,372	\$ 2,167,133
Due to other funds	-	543,909	-	543,909	228,742
Deferred revenues, current portion	2,294,400	-	-	2,294,400	2,196,159
Annuity agreement, current portion	9,250	-	-	9,250	7,400
Capital lease obligations, current portion	288,355	-	-	288,355	335,095
Long-term debt, current portion	-	-	-	-	265,862
Bonds payable, current portion	290,443	-	-	290,443	14,613
<b>Total current liabilities</b>	<b>4,761,820</b>	<b>543,909</b>	<b>-</b>	<b>5,305,729</b>	<b>5,215,004</b>
<b>LONG-TERM LIABILITIES</b>					
Deferred revenues, net of current portion	382,500	-	-	382,500	528,981
Annuity agreement, net of current portion	12,415	-	-	12,415	16,811
Capital lease obligations, net of current portion	5,615	-	-	5,615	323,011
Bonds payable, net of current portion	3,854,944	-	-	3,854,944	4,145,387
<b>Total long-term liabilities</b>	<b>4,255,474</b>	<b>-</b>	<b>-</b>	<b>4,255,474</b>	<b>5,014,190</b>
<b>Total liabilities</b>	<b>9,017,294</b>	<b>543,909</b>	<b>-</b>	<b>9,561,203</b>	<b>10,229,194</b>
<b>NET ASSETS</b>	<b>37,632,232</b>	<b>4,395,629</b>	<b>906,421</b>	<b>42,934,282</b>	<b>44,165,771</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 46,649,526</b>	<b>\$ 4,939,538</b>	<b>\$ 906,421</b>	<b>\$ 52,495,485</b>	<b>\$ 54,394,965</b>

**Oregon Museum of Science and Industry**  
**Statement of Activities**  
**(with Summarized Financial Information for the Year Ended May 31, 2017)**

	Year Ended May 31, 2018			Year Ended May 31, 2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenues</b>					
Admissions	\$ 6,183,441	\$ -	\$ -	\$ 6,183,441	\$ 5,894,681
Memberships	2,630,315	-	-	2,630,315	2,849,299
Educational programs	2,814,928	-	-	2,814,928	2,547,256
Auxiliary activities	1,301,167	-	-	1,301,167	1,155,392
Exhibit fees	1,095,284	-	-	1,095,284	1,472,621
Contributions and grants	1,675,597	3,324,192	-	4,999,789	5,698,812
Change in value of perpetual trust	-	-	18,652	18,652	20,455
Contributed services of volunteers and in-kind donations	607,913	-	-	607,913	687,525
Unrealized and realized gains on investments	48,627	-	50,861	99,488	168,343
Interest and other income	1,069,286	15,039	-	1,084,325	1,014,252
Gain on sale of land, buildings, exhibits and equipment	55,216	-	-	55,216	19,272
Net assets released from restriction	4,957,189	(4,957,189)	-	-	-
<b>Total revenues</b>	<b>22,438,963</b>	<b>(1,617,958)</b>	<b>69,513</b>	<b>20,890,518</b>	<b>21,527,908</b>
<b>Expenses</b>					
Program services:					
Museum activities	13,148,730	-	-	13,148,730	12,264,051
Educational programs	3,955,821	-	-	3,955,821	3,819,197
<b>Total program services</b>	<b>17,104,551</b>			<b>17,104,551</b>	<b>16,083,248</b>
Supporting services:					
Management and general	3,263,382	-	-	3,263,382	3,100,120
Fund-raising	1,374,494	-	-	1,374,494	1,253,279
<b>Total supporting services</b>	<b>4,637,876</b>			<b>4,637,876</b>	<b>4,353,399</b>
Auxiliary activities	379,580	-	-	379,580	380,860
<b>Total expenses</b>	<b>22,122,007</b>			<b>22,122,007</b>	<b>20,817,507</b>
<b>CHANGE IN NET ASSETS</b>	<b>316,956</b>	<b>(1,617,958)</b>	<b>69,513</b>	<b>(1,231,489)</b>	<b>710,401</b>
<b>NET ASSETS, beginning of year</b>	<b>37,315,276</b>	<b>6,013,587</b>	<b>836,908</b>	<b>44,165,771</b>	<b>43,455,370</b>
<b>NET ASSETS, end of year</b>	<b>\$ 37,632,232</b>	<b>\$ 4,395,629</b>	<b>\$ 906,421</b>	<b>\$ 42,934,282</b>	<b>\$ 44,165,771</b>

# Oregon Museum of Science and Industry Statement of Functional Expenses

	Year Ended May 31, 2018						
	Program Services		Management		Supporting Services		
	Museum Activities	Educational Programs	and General	Fund- Raising	Subtotal	Auxiliary Activities	
	Subtotal	Subtotal	Subtotal	Subtotal	Total		
Salaries, wages, and related expenses	\$ 5,040,456	\$ 2,540,872	\$ 1,798,412	\$ 937,545	\$ 2,735,957	\$ 212,303	\$ 10,529,588
Depreciation and amortization of capital assets	2,445,376	264,812	91,319	2,760	94,079	85,426	2,889,693
Professional services	1,020,125	225,168	241,180	142,346	383,526	-	1,628,819
Rentals	857,877	76,792	39,706	1,120	40,826	733	976,228
Supplies and subscriptions	470,368	184,102	175,183	5,053	180,236	26,807	861,513
Museum support services	649,493	14,678	122,675	8,351	131,026	12,317	807,514
Utilities	636,292	56,519	8,978	-	8,978	-	701,789
Publicity, printing, and postage	614,848	4,985	4,626	26,645	31,271	423	651,527
Contributed services of volunteers and in-kind donations	237,441	123,684	9,253	178,333	187,586	-	548,711
Bank fees and interest	268,935	642	206,052	11,382	217,434	7,900	494,911
Repairs and maintenance	342,434	14,901	20,865	12	20,877	10,804	389,016
Food	44,988	225,086	33,653	42,035	75,688	16,534	362,296
Insurance	993	5,696	330,738	-	330,738	-	337,427
Transportation	214,980	60,105	498	129	627	51	275,763
Equipment	122,666	63,062	52,916	-	52,916	3,385	242,029
Travel	132,919	46,488	21,069	6,422	27,491	112	207,010
Telephone	14,262	14,114	49,676	3,959	53,635	1,260	83,271
Taxes and other	28,485	12,399	29,696	4,399	34,095	1,468	76,447
Bad debt	-	-	26,887	2,990	29,877	-	29,877
Cost of merchandise sold	1,006	21,714	-	-	-	57	22,777
Miscellaneous	4,786	2	-	1,013	1,013	-	5,801
<b>Total functional expenses</b>	<b>\$ 13,148,730</b>	<b>\$ 3,955,821</b>	<b>\$ 3,263,382</b>	<b>\$ 1,374,494</b>	<b>\$ 4,637,876</b>	<b>\$ 379,580</b>	<b>\$ 22,122,007</b>

See accompanying notes.

# Oregon Museum of Science and Industry Statement of Functional Expenses

	Year Ended May 31, 2017						
	Program Services		Management		Supporting Services		Total
	Museum Activities	Educational Programs	and General	Fund- Raising	Subtotal	Auxiliary Activities	
Salaries, wages, and related expenses	\$ 4,741,692	\$ 2,449,839	\$ 1,657,947	\$ 872,851	\$ 2,530,798	\$ 182,726	\$ 9,905,055
Depreciation and amortization of capital assets	1,966,716	278,104	135,600	2,760	138,360	150,318	2,533,498
Professional services	911,376	190,220	349,123	143,312	492,435	187	1,594,218
Rentals	811,962	76,616	51,986	1,224	53,210	626	942,414
Supplies and subscriptions	483,192	171,069	31,009	5,890	36,899	10,308	701,468
Museum support services	593,554	17,260	124,406	7,585	131,991	9,454	752,259
Utilities	655,487	50,730	10,342	-	10,342	-	716,559
Publicity, printing, and postage	402,630	12,711	3,539	20,722	24,261	6,813	446,415
Contributed services of volunteers and in-kind donations	398,107	72,579	26,220	152,550	178,770	-	649,456
Bank fees and interest	248,022	1,525	242,788	10,159	252,947	6,797	509,291
Repairs and maintenance	455,007	19,036	2,062	-	2,062	-	476,105
Food	30,172	201,891	31,404	27,852	59,256	8,368	299,687
Insurance	963	15,279	317,673	-	317,673	-	333,915
Transportation	203,560	52,116	767	854	1,621	71	257,368
Equipment	181,850	7,428	53,047	1,177	54,224	1,233	244,735
Travel	89,194	52,579	15,197	1,776	16,973	609	159,355
Telephone	42,576	14,116	22,015	3,810	25,825	1,050	83,567
Taxes and other	30,688	118,748	18,272	757	19,029	2,300	170,765
Bad debt	-	112	120	-	120	-	232
Cost of merchandise sold	713	16,087	-	-	-	-	16,800
Miscellaneous	16,590	1,152	6,603	-	6,603	-	24,345
<b>Total functional expenses</b>	<b>\$ 12,264,051</b>	<b>\$ 3,819,197</b>	<b>\$ 3,100,120</b>	<b>\$ 1,253,279</b>	<b>\$ 4,353,399</b>	<b>\$ 380,860</b>	<b>\$ 20,817,507</b>

See accompanying notes.



## Oregon Museum of Science and Industry Statements of Cash Flows

	Years Ended May 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,231,489)	\$ 710,401
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized gains on investments	(99,488)	(168,343)
Contribution of land, exhibits and equipment	(59,202)	(38,069)
Depreciation and amortization expense	2,889,693	2,533,498
Present value adjustment to annuities payable	6,704	5,975
Fair value adjustment to perpetual trust	(18,652)	(20,455)
Gain on disposition of assets	(55,216)	(19,272)
 Changes in assets and liabilities:		
Accounts, pledges and contracts receivable	1,724,547	1,225,563
Inventories	417	13
Prepaid expenses and other assets	18,026	(212,990)
Accounts payable and accrued expenses	(287,761)	498,136
Deferred revenues	(48,240)	(148,492)
	<u>2,839,339</u>	<u>4,365,965</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(56,812)	(77,021)
Proceeds from sale of land, buildings, exhibits and equipment	54,763	69,546
Purchase of land, buildings, exhibits and equipment	(3,022,997)	(1,269,043)
	<u>(3,025,046)</u>	<u>(1,276,518)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of principal on bonds	(14,613)	-
Payments on long-term debt	(265,862)	(270,847)
Payments on capital lease obligations	(364,136)	(381,994)
Payments of annuities	(9,250)	(7,400)
	<u>(653,861)</u>	<u>(660,241)</u>
 (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(839,568)</u>	<u>2,429,206</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,907,879</u>	<u>2,478,673</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,068,311</u>	<u>\$ 4,907,879</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 188,553</u>	<u>\$ 255,366</u>

# Oregon Museum of Science and Industry

## Notes to Financial Statements

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### Note 1 – Organization and Summary of Significant Accounting Policies

**Organization** – Oregon Museum of Science and Industry (OMSI or the Museum) was founded in 1946 to provide the public with science and technology learning through relevant and entertaining exhibits, programs, and experiences. The Museum is located in Portland, Oregon.

**Financial statement presentation** – The accompanying financial statements of OMSI have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. The balances and activities of the Museum have been segregated into net asset classifications according to the nature of the activity and related restrictions imposed by donors. The principal classifications are as follows:

*Unrestricted* – This classification reflects revenues and activities primarily related to the operation and management of the Museum.

*Temporarily restricted* – This classification is used to account for contributions whose use by the Museum is limited by donor-imposed stipulations that expire either by the passage of time or can be fulfilled and removed by actions of the Museum pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

*Permanently restricted* – This classification is used to account for all contributions received with a donor stipulation that the principal be maintained intact in perpetuity and such stipulation neither expires by the passage of time nor can be fulfilled or otherwise removed by actions of the Museum. Such donations have been deposited in an investment account and the related investments consist primarily of mutual funds, stocks, and exchange traded funds.

**Cash and cash equivalents** – Cash and cash equivalents include cash on hand and amounts deposited in banks, money market accounts, commercial paper, and certificates of deposit, with an original maturity of less than 90 days. Certain amounts may exceed the limits of FDIC insurance coverage. However, the Museum has not incurred any credit related losses to date.

**Accounts, pledges, and contracts receivable** – Accounts receivable consist primarily of admissions and fees due to the Museum from various organizations. Pledges are considered unconditional commitments of the donors. Accordingly, recognition of these contributions is recognized when the pledge is made. Contracts receivable consist of amounts due to the Museum from various grantor agencies. Accounts, pledges, and contracts receivable are reported on the statement of financial position net of the allowance for doubtful accounts of \$20,000 at May 31, 2018 and 2017. The allowance for doubtful accounts is estimated by evaluating the credit worthiness of those from whom amounts are due as well as current economic trends. Receivables are considered delinquent if not paid by the due date. Accounts are charged off when all collection efforts have been exhausted.

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### **Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Investments** – Investments in securities with readily determinable fair values are measured at fair value in the statement of financial position. Investment income or loss (including gains or losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

**Inventories** – Inventories, principally retail merchandise, are recorded at the lower of average cost or net realizable value.

**Land, buildings, exhibits and equipment** – Land, buildings, exhibits and equipment are stated at cost or, for donated items, estimated fair value at the date of donation. Upon retirement or sale of such assets, the cost of the asset and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded. Depreciation of buildings, exhibits and equipment is recorded over the estimated useful lives of the respective assets on the straight-line basis with such lives ranging from 3 to 50 years.

New equipment and expenditures for major repairs and improvements exceeding \$5,000 are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. Costs related to the design, construction, and refurbishment of traveling exhibits are capitalized and depreciated over the period during which the exhibit is actively displayed, generally five years. Effective June 1, 2017, costs incurred on all non-traveling exhibits are capitalized and depreciated over their useful life, approximately 10-15 years. Prior to June 1, 2017, costs related to all other non-traveling exhibits were expensed during the period in which they were incurred.

**Collections** – During 1994, the U.S. Department of the Navy donated the use of the U.S.S. Blueback submarine to the Museum as a permanent exhibit. Additionally, during 2006, an anonymous donor contributed a neonatal exhibit to the Museum. It is not practicable to estimate the fair value of these collections and, as such, they have not been capitalized in the accompanying statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired and as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from de-accessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Deferred revenues** – OMSI owns certain traveling exhibits which have been contracted to other museums through fiscal year 2020. Revenues from these contracts, deferred initially, are recognized over the terms of the contracts upon delivery of the exhibit at each site. At May 31, 2018 and 2017, deferred revenue related to these contracts aggregated \$1,047,784 and \$1,279,289, respectively. OMSI also receives prepayments on certain camps, classes, and other events. Such prepayments are deferred and recognized as revenue when the event occurs. Deferred revenue relating to these prepayments aggregated \$1,629,116 and \$1,445,851 at May 31, 2018 and 2017, respectively.

**Admissions** – Revenues from admissions are recorded at the point of sale.

# Oregon Museum of Science and Industry

## Notes to Financial Statements

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### Note 1 – Organization and Summary of Significant Accounting Policies (continued)

**Memberships** – Revenues from memberships are recognized over the term of the membership.

**Auxiliary activities** – Revenues from auxiliary activities primarily include sales from the Museum’s science store and café and are recognized on receipt.

**Exhibit fees** – Revenues from exhibit fees are recognized ratably over the term of the exhibit.

**Contributions and grants** – Contributions and grants are reported as revenue, with a corresponding receivable, in the period in which the promise is received or the grant is awarded.

All contributions are considered to be available for OMSI’s unrestricted use unless specifically restricted by the donor. Contributions restricted by the donor are recorded as temporarily restricted or permanently restricted, as appropriate. Grants are restricted by the grantor for specific activities and are recorded as temporarily restricted. When the restrictions are satisfied, the temporarily restricted amounts are released to unrestricted net assets.

**Contributed services of volunteers and in-kind donations** – Donated materials are reported as contributions in the accompanying financial statements at their estimated fair values at the date of receipt. Donated services are similarly reported when specialized services are performed such as exhibit repair or production, or would otherwise be purchased or performed by salaried personnel, and when the Museum exercises control over the duties of the donor’s services. These services have been recorded as revenue and expense in the accompanying statements of activities as follows at May 31:

	<u>2018</u>	<u>2017</u>
Contributed services of volunteers and in-kind donations	\$ 548,711	\$ 649,456
Capitalized in-kind donations	<u>59,202</u>	<u>38,069</u>
	<u>\$ 607,913</u>	<u>\$ 687,525</u>

**Functional allocation of expenses** – The costs of the Museum’s various activities and programs have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs, supporting services, and auxiliary activities benefited. Auxiliary activities include the Museum’s science store and special events.

**Advertising expenses** – The Museum advertises primarily through publications, broadcasts, and outdoor media throughout the Portland metropolitan area. Advertising and development funding promotion costs are expensed as incurred and are included in publicity, printing, and postage in the statement of functional activities. Advertising expenses aggregated \$586,387 and \$368,462 for the years ended May 31, 2018 and 2017, respectively.

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### **Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Income taxes** – The Museum is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the Museum qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The Museum recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Museum recognizes interest and penalties related to income tax matters, if any, in management and general expenses.

The Museum had no unrecognized tax benefits at May 31, 2018 or 2017. The Museum files an exempt organization return in the U.S. federal jurisdiction and applicable unrelated business income tax returns for U.S. federal and Oregon purposes.

**Use of estimates** – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of public support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Museum recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Museum's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

The Museum has evaluated subsequent events through October 4, 2018, which is the date the financial statements were available to be issued.

**Reclassifications** – Certain reclassifications have been made to the 2017 financial statements to conform to the current year presentation. These reclassifications had no impact on total net assets or the change in net assets.

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 2 – Comparative Financial Information

The 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 Museum's financial statements for the year ended May 31, 2017, from which the summarized information was derived.

#### Note 3 – Accounts, Pledges and Contracts Receivable

Accounts, pledges and contracts receivable consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
Unrestricted accounts, pledges and contracts receivable:		
Trade and other receivables	\$ 452,818	\$ 588,579
Traveling exhibit and exhibit sales contracts	427,582	567,881
Pledges, net of discount	175,467	230,566
Grants	<u>85,347</u>	<u>183,434</u>
	1,141,214	1,570,460
Less allowance for doubtful accounts	<u>(20,000)</u>	<u>(20,000)</u>
Unrestricted accounts, pledges and contracts receivable, net of discount	<u>1,121,214</u>	<u>1,550,460</u>
Temporarily restricted pledges and grants receivable:		
Pledges, net of discount	1,628,197	2,150,432
Grants	<u>742,979</u>	<u>1,516,045</u>
Temporarily restricted pledges and grants receivable	<u>2,371,176</u>	<u>3,666,477</u>
Total accounts, pledges and contracts receivable	3,492,390	5,216,937
Less accounts, pledges and contracts receivable due within one year	<u>(2,782,164)</u>	<u>(4,227,804)</u>
Long-term accounts, pledges and contracts receivable	<u>\$ 710,226</u>	<u>\$ 989,133</u>

**Oregon Museum of Science and Industry**  
**Notes to Financial Statements**

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**Note 3 – Accounts, Pledges and Contracts Receivable (continued)**

Pledges receivable greater than one year are reflected at the present value of estimated future payments using an estimated discount rate of four percent. The discount totaled \$93,949 and \$99,675 for the years ended May 31, 2018 and 2017, respectively.

As of May 31, 2018, pledges receivable are due as follows:

Less than one year	\$ 1,145,313
One to five years	<u>752,300</u>
	1,897,613
Less: Discount to net present value	<u>(93,949)</u>
Pledges receivable, net of discount	<u><u>\$ 1,803,664</u></u>

**Note 4 – Beneficial Interest in Perpetual Trust**

OMSI is the sole beneficiary of a perpetual trust whereby the investment principal remains part of the trust and is not the property of the Museum. The trust is managed by a third-party trustee, Bank of America, N.A. Each year, OMSI receives annual income distributions from the trust in perpetuity, which is to be used for scholarship or educational purposes. The Museum has no right to the investment principal. The annual fluctuation in the fair value of the trust is included in the statement of activities as an increase or decrease in permanently restricted net assets. As of May 31, 2018 and 2017, the fair value of the trust assets totaled \$376,987 and \$358,335, respectively.

**Note 5 – Investments**

Investments are comprised of the following at May 31:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 1,713,978	\$ 1,567,584
Stocks and exchange traded funds	<u>933,175</u>	<u>923,269</u>
Total investments	<u><u>\$ 2,647,153</u></u>	<u><u>\$ 2,490,853</u></u>

# Oregon Museum of Science and Industry

## Notes to Financial Statements

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### Note 6 – Fair Value of Assets

The Museum accounts for financial instruments in accordance with the standard for *Fair Value Measurements*. This standard defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The Museum determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Museum's market assumptions. These two types of inputs create the following fair value hierarchy:

**Level 1** – Quoted prices in active markets for identical assets.

**Level 2** – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Museum's own data used to develop unobservable inputs is adjusted for market consideration when available.

The Museum used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

*Investments* – Investments are comprised of mutual funds, stocks, and exchange traded funds for which fair values are based on quoted market prices in an active market. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

*Beneficial interest in perpetual trust* – The Museum's beneficial interest in perpetual trust is recorded at fair value based on the fair value of the underlying trust assets as determined by the third-party trustee, which is based on quoted market prices. The third-party trustee controls the investments in the trust and makes all management and investment decisions.

The beneficial interest in perpetual trust classified as a Level 3 investment is based on the fair value of the underlying trust assets as determined by the third-party trustee. The Finance Committee monitors and analyzes the valuation of the beneficial interest in perpetual trust and investments on an annual basis. The Finance Committee reports to the Board of Trustees. The valuation considers variables such as financial performance of investments, recent sale prices of investments, and other pertinent information.



## Oregon Museum of Science and Industry Notes to Financial Statements

### Note 6 – Fair Value of Assets (continued)

The Museum has no liabilities that are required to be measured at fair value at May 31, 2018 or 2017. There were no changes in valuation methodologies or assumptions during the years ended May 31, 2018 or 2017. It is the Museum's policy to recognize transfers between levels in the fair value hierarchy as of the actual date of the event or circumstances that caused the transfer.

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2018 and 2017:

	Fair Value Measurement at Report Date Using:			
	Fair Value at May 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 1,713,978	\$ 1,713,978	\$ -	\$ -
Stocks and exchange traded funds	933,175	933,175	-	-
Beneficial interest in perpetual trust	376,987	-	-	376,987
	<b>\$ 3,024,140</b>	<b>\$ 2,647,153</b>	<b>\$ -</b>	<b>\$ 376,987</b>

  

	Fair Value Measurement at Report Date Using:			
	Fair Value at May 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 1,567,584	\$ 1,567,584	\$ -	\$ -
Stocks and exchange traded funds	923,269	923,269	-	-
Beneficial interest in perpetual trust	358,335	-	-	358,335
	<b>\$ 2,849,188</b>	<b>\$ 2,490,853</b>	<b>\$ -</b>	<b>\$ 358,335</b>

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 6 – Fair Value of Assets (continued)

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the years ended May 31, 2018 and 2017:

	<u>Beneficial Interest in Perpetual Trust</u>
Balance, May 31, 2017	\$ 358,335
Adjustment to fair value included in earnings	<u>18,652</u>
Balance, May 31, 2018	<u>\$ 376,987</u>
	<u>Beneficial Interest in Perpetual Trust</u>
Balance, May 31, 2016	\$ 337,880
Adjustment to fair value included in earnings	<u>20,455</u>
Balance, May 31, 2017	<u>\$ 358,335</u>

#### Note 7 – Land, Buildings, Exhibits and Equipment

Land, buildings, exhibits and equipment consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 9,683,547	\$ 9,683,547
Buildings and improvements	49,172,187	48,768,488
Exhibits	12,723,911	10,368,168
Equipment	<u>6,821,672</u>	<u>7,277,113</u>
Total land, buildings, exhibits and equipment	78,401,317	76,097,316
Less accumulated depreciation and amortization	<u>(38,339,748)</u>	<u>(36,964,418)</u>
Construction in progress	40,061,569	39,132,898
	<u>612,563</u>	<u>1,348,275</u>
Land, buildings, exhibits and equipment, net	<u>\$ 40,674,132</u>	<u>\$ 40,481,173</u>

Equipment includes assets purchased under capital leases with an aggregate cost of \$2,518,272 for both May 31, 2018 and 2017, and accumulated amortization of \$1,572,639 and \$1,258,937 at May 31, 2018 and 2017, respectively. Amortization expense for each of the years ended May 31, 2018 and 2017 totaled \$313,702 and \$285,105, respectively.

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 8 – Line of Credit

At May 31, 2018 and 2017, the Museum has an operating line of credit with an approved maximum borrowing limit of \$200,000 from a bank. The line is secured by a deed of trust, inventory, accounts receivable, general intangibles, and rights to payments and bears interest at the bank's prime rate plus 1.00% per annum, subject to a 5.00% floor (6.00% and 5.25% at May 31, 2018 and 2017, respectively). There was no outstanding balance on the line of credit at May 31, 2018 or 2017. The operating line will mature on December 10, 2018.

#### Note 9 – Long-Term Debt and Bonds Payable

In January 2015, the Museum issued Series A bonds to refinance the Museum's long-term debt with the Oregon Office of Energy. The bonds were issued and purchased by Wells Fargo as a private placement. To secure its 2015 bond obligations, the Museum granted a security interest in real property held by the Museum. The face value of the Series A bonds is \$4,160,000.

The loan agreement contains covenants which require the Museum to maintain a minimum liquidity of not less than \$1,000,000 as of the last day of the second and fourth quarter of each fiscal year.

Bonds payable consists of the following at May 31:

	<u>2018</u>	<u>2017</u>
Oregon Facilities Authority 2015 Series A Bonds – interest only payments through May 1, 2018 at an interest rate of 3.45%. Beginning May 1, 2018, monthly principal and interest payments of \$35,905, maturing February 1, 2030.	\$ 4,145,387	\$ 4,160,000
Less current portion	<u>(290,443)</u>	<u>(14,613)</u>
Bonds payable, net of current portion	<u>\$ 3,854,944</u>	<u>\$ 4,145,387</u>

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 9 – Long-Term Debt and Bonds Payable (continued)

The following is a summary of scheduled redemptions of bonds payable:

Years ending May 31,	2019	\$	290,443
	2020		300,418
	2021		311,445
	2022		322,516
	2023		333,981
	Thereafter		<u>2,586,584</u>
		\$	<u>4,145,387</u>

Total bond interest expense for the years ended May 31, 2018 and 2017 was \$161,260 and \$171,613, respectively.

#### Note 10 – Trust Funds Held by Others

Securities and cash with fair values of \$976,155 and \$957,038 at May 31, 2018 and 2017, respectively, are held in trust for the benefit of OMSI and various other charitable organizations. No portion of these assets held in trust for OMSI have been included in the accompanying financial statements. The principal is to remain in trust in perpetuity and investment income is distributed to OMSI at the discretion of the trustees. Such distributions are recorded as contributions when received.

In addition, an endowment fund was established on July 16, 1998, for the benefit of OMSI, for the maintenance or renovation of OMSI's buildings, and the construction or maintenance of exhibits. The endowment is subject to various conditions, including the continued support of state and local governments until the existing indebtedness to the ODOE is satisfied. Because the ODOE debt was satisfied in 2015, the endowment is no longer subject to these various conditions as of May 31, 2018 or 2017. No portion of these assets held in the endowment fund for the benefit of OMSI have been included in the accompanying financial statements.

A portion of the earnings on the endowment funds is distributed on an annual basis. The fair value of the endowment, including matching funds, totaled \$5,598,407 and \$5,592,408 at May 31, 2018 and 2017, respectively. OMSI recorded temporarily restricted contributions from the endowment of \$240,516 and \$246,084 for the years ended May 31, 2018 and 2017, respectively.

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 11 – Benefit Plans

*Defined contribution plan* – The Museum sponsors a 403(b) plan (the Plan) whereby eligible employees may defer a portion of their gross wages. Employees are eligible to participate in the Plan on the first day of employment. Employees are eligible to participate in the Plan match once they have completed one year of service. Employees may contribute a maximum of 100% of their compensation to the Plan (subject to annual limitations by the IRS). OMSI makes discretionary matching contributions to the Plan, the amount of which is determined at the end of the Plan year, December 31. Employer contributions vest over a period of five years. OMSI contributed \$85,945 and \$85,597 to the Plan for the years ended May 31, 2018 and 2017, respectively.

*457(b) deferred compensation plan* – Effective October 1, 2013, the Museum established a deferred compensation plan (the Plan) under the provisions of Section 457(b) of the Internal Revenue Code for selected employees at the Museum. Investments are owned by the Museum and managed individually by the participant. Participants are 100% vested in both employee and employer deferrals at all times. Payments will be made upon death, retirement, or unforeseeable emergency. Until such time, plan assets are subject to the claim of the Museum's creditors.

The Museum did not make discretionary contributions to the Plan during the years ended May 31, 2018 or 2017. The Museum recorded an asset and liability in the amount of \$142,406 as of May 31, 2018. The Museum recorded an asset and liability in the amount of \$98,388 as of May 31, 2017. The asset and liability are recorded in accounts, pledges and contracts receivable and accounts payable and accrued expenses, respectively, on the statement of financial position.

#### Note 12 – Commitments and Contingencies

**Capital leases** – As of May 31, 2018, the Museum leased certain equipment under capital lease obligations.

Future minimum payments associated with capital lease agreements for succeeding years are as follows:

2019	\$ 292,522
2020	<u>11,518</u>
Total minimum payments	304,040
Less amount representing interest	<u>(10,070)</u>
Present value of total minimum capital lease payments	293,970
Less current portion	<u>(288,355)</u>
Capital lease obligations, net of current portion	<u><u>\$ 5,615</u></u>

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 12 – Commitments and Contingencies (continued)

**Operating leases** – The Museum has entered into various leases under operating agreements expiring March 2023. One of these lease agreements include renewal periods at the Museum’s option for five years commencing on September 1, 2020.

Future minimum payments associated with the operating lease agreements for succeeding years are as follows:

2019	\$ 135,624
2020	135,624
2021	42,204
2022	11,064
2023	<u>8,298</u>
	<u>\$ 332,814</u>

Additionally, the Museum enters into various short-term operating leases for items such as equipment, exhibit rentals, facilities, and storage fees. Rent expense related to operating leases was \$976,228 and \$942,414 for the years ended May 31, 2018 and 2017, respectively.

**Grant revenues** – The grant revenues reported in the accompanying statement of activities are subject to audit and adjustment by grantor agencies. Grant revenues relating to costs, which may be ultimately questioned or disallowed by the grantor agencies, may become a liability of the Museum as a result of audit findings. However, management does not expect any significant liabilities related to grant revenues.

#### Note 13 – Net Assets Released from Restrictions

Net assets relating to restricted contributions and grants are released from temporarily restricted net assets to unrestricted net assets when the Museum incurs expenses satisfying the restricted purposes or when other events specified by donors occur. Such releases are summarized as follows at May 31:

	<u>2018</u>
Satisfaction of program restrictions for grants	\$ 1,317,089
Satisfaction of program restrictions for contributions	<u>3,640,100</u>
	<u>\$ 4,957,189</u>

**Oregon Museum of Science and Industry**  
**Notes to Financial Statements**

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**Note 14 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are restricted for the following purposes at May 31:

	<u>2018</u>	<u>2017</u>
Donations and grants restricted for various projects and exhibits	\$ 742,979	\$ 1,516,043
Donations and grants restricted for special operating purposes	3,159,950	3,706,114
Donations restricted by time for operations	366,769	548,394
Donations restricted for scholarships	<u>125,931</u>	<u>243,036</u>
	<u>\$ 4,395,629</u>	<u>\$ 6,013,587</u>

**Note 15 – Permanently Restricted Net Assets**

Permanently restricted net assets consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
General Education Endowment	\$ 492,939	\$ 442,602
Steere Education Endowment	26,282	26,282
Naftalin Education Endowment	8,818	8,294
Poulsen Education Endowment	<u>1,395</u>	<u>1,395</u>
Total endowments	529,434	478,573
Peterson Trust – Beneficial Interest in Trust	<u>376,987</u>	<u>358,335</u>
Total trusts held for endowment	<u>376,987</u>	<u>358,335</u>
Total permanently restricted net assets	<u>\$ 906,421</u>	<u>\$ 836,908</u>

**Note 16 – Endowments**

Unrestricted endowments represent quasi-endowments which are unrestricted net assets designated by the Board of Trustees to provide support and resources for Museum operations. A Board-designated endowment, which results from an internal Board designation, is not an outside donor-restricted endowment and is, therefore, classified as unrestricted net assets. The Board of Trustees of the Museum has the right to decide at any time to expend the designated portion of such funds. The Museum did not have any unrestricted endowments as of May 31, 2018 or 2017.

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 16 – Endowments (continued)

Temporarily restricted endowments are those funds resulting from earnings whose use by the Museum is restricted by donor-imposed stipulations that either expire by the passage of time or by fulfilling the specified purpose restriction.

Permanently restricted endowments have outside donor-imposed stipulations, which neither expire by the passage of time nor can be fulfilled by actions of the Museum. Income earned from permanently restricted endowments is generally temporarily restricted by donor-imposed stipulations.

Endowment dollars invested with growth in mind may have the fair value of assets, associated with individual donor restricted funds, fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. There were no such deficiencies as of May 31, 2018 and 2017.

The Museum follows the Uniform Prudent Management of Institutional Funds Act of 2007 (UPMIFA or the Act), the provisions of which apply to endowment funds existing on or established after the effective date of January 1, 2008. The Board of Trustees of the Museum has interpreted the Act as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (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.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Museum and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Museum
7. The investment policies of the Museum



**Oregon Museum of Science and Industry**  
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**Note 16 – Endowments (continued)**

The Museum's spending policy allows for allocation of 100% of the earnings from its endowment funds for expenditure each year. Not all of the earnings are spent each year as funds are expended depending on program activity, but earnings are transferred to temporarily restricted and available for spending until appropriated. The earnings are typically spent on financial assistance for participants in camps, classes, labs, and field trips.

Endowment net assets consist of the following at May 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 12,595</u>	<u>\$ 529,434</u>	<u>\$ 542,029</u>

Endowment net assets consist of the following at May 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 61,285</u>	<u>\$ 478,573</u>	<u>\$ 539,858</u>

Changes in endowment net assets for the year ended May 31, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2017	\$ -	\$ 61,285	\$ 478,573	\$ 539,858
Investment return				
Investment income	-	15,039	50,861	65,900
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(63,729)</u>	<u>-</u>	<u>(63,729)</u>
Endowment net assets, May 31, 2018	<u>\$ -</u>	<u>\$ 12,595</u>	<u>\$ 529,434</u>	<u>\$ 542,029</u>

## Oregon Museum of Science and Industry

### Notes to Financial Statements

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#### Note 16 – Endowments (continued)

Changes in endowment net assets for the year ended May 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2016	\$ -	\$ 65,174	\$ 478,573	\$ 543,747
Investment return				
Investment income	-	14,525	-	14,525
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(18,414)</u>	<u>-</u>	<u>(18,414)</u>
Endowment net assets, May 31, 2017	<u>\$ -</u>	<u>\$ 61,285</u>	<u>\$ 478,573</u>	<u>\$ 539,858</u>

