



Report of Independent Auditors
and Financial Statements

Oregon Museum of Science and Industry

May 31, 2023 and 2022



MOSSADAMS

Table of Contents

| | Page |
|---------------------------------------|-------------|
| Report of Independent Auditors | 1 |
| Financial Statements | |
| Statement of Financial Position | 5 |
| Statement of Activities | 6 |
| Statement of Functional Expenses | 7 |
| Statements of Cash Flows | 9 |
| Notes to Financial Statements | 10 |

Report of Independent Auditors

The Board of Trustees
Oregon Museum of Science and Industry

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Oregon Museum of Science and Industry (the Museum), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Oregon Museum of Science and Industry as of May 31, 2023 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Museum'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum'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.

Other Matter

We have previously audited Oregon Museum of Science and Industry's May 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 6, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon
October 6, 2023

Financial Statements

Oregon Museum of Science and Industry
Statement of Financial Position
(with Summarized Financial Information for May 31, 2022)
May 31, 2023

| | May 31, 2023 | | | May 31, 2022 |
|-----------------------------------------------------------------------------------|-------------------------------|----------------------------|----------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 9,841,217 | \$ 1,977,249 | \$ 11,818,466 | \$ 12,522,522 |
| Accounts, pledges, and contracts receivable, current portion, net of allowance | 1,069,598 | 969,387 | 2,038,985 | 1,713,442 |
| Investments | 2,750,122 | 2,116,634 | 4,866,756 | 4,209,840 |
| Prepaid expenses and other assets | 1,302,911 | - | 1,302,911 | 655,387 |
| Due from other funds | 180,694 | - | 180,694 | 594,675 |
| Total current assets | 15,144,542 | 5,063,270 | 20,207,812 | 19,695,866 |
| LONG-TERM ASSETS | | | | |
| Accounts, pledges and contracts receivable, net of current portion | - | 202,734 | 202,734 | 69,956 |
| Beneficial interest in perpetual trust | - | 360,494 | 360,494 | 390,108 |
| Land, buildings, exhibits, and equipment, net | 40,352,300 | - | 40,352,300 | 41,707,512 |
| Right of use asset - operating | 352,152 | - | 352,152 | - |
| Total long-term assets | 40,704,452 | 563,228 | 41,267,680 | 42,167,576 |
| TOTAL ASSETS | \$ 55,848,994 | \$ 5,626,498 | \$ 61,475,492 | \$ 61,863,442 |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 2,464,044 | \$ - | \$ 2,464,044 | \$ 2,019,817 |
| Operating lease liability, current portion | 139,435 | - | 139,435 | - |
| Due to other funds | - | 180,694 | 180,694 | 594,675 |
| Deferred revenues, current portion | 4,444,825 | - | 4,444,825 | 3,235,447 |
| Bonds payable, current portion | 306,182 | - | 306,182 | 298,649 |
| Total current liabilities | 7,354,486 | 180,694 | 7,535,180 | 6,148,588 |
| LONG-TERM LIABILITIES | | | | |
| Deferred revenues, net of current portion | 215,991 | - | 215,991 | 121,501 |
| Operating lease liability, net of current portion | 212,717 | - | 212,717 | - |
| Bonds payable, net of current portion | 6,590,736 | - | 6,590,736 | 6,896,918 |
| Total long-term liabilities | 7,019,444 | - | 7,019,444 | 7,018,419 |
| Total liabilities | 14,373,930 | 180,694 | 14,554,624 | 13,167,007 |
| NET ASSETS | 41,475,064 | 5,445,804 | 46,920,868 | 48,696,435 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 55,848,994 | \$ 5,626,498 | \$ 61,475,492 | \$ 61,863,442 |

See accompanying notes.

Oregon Museum of Science and Industry
Statement of Activities
(with Summarized Financial Information for the Year Ended May 31, 2022)
Year Ended May 31, 2023

| | Year Ended May 31, 2023 | | | May 31, 2022 |
|--------------------------------------------------------------------|-------------------------------|----------------------------|----------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| REVENUES | | | | |
| Admissions | \$ 6,736,173 | \$ - | \$ 6,736,173 | \$ 4,511,547 |
| Memberships | 1,959,048 | - | 1,959,048 | 1,220,209 |
| Educational programs | 3,215,829 | - | 3,215,829 | 1,809,031 |
| Auxiliary activities | 2,059,255 | - | 2,059,255 | 1,295,727 |
| Exhibit fees | 680,418 | - | 680,418 | 773,572 |
| Contributions and grants | 1,934,674 | 4,875,617 | 6,810,291 | 11,528,902 |
| Change in value of perpetual trust | - | (29,614) | (29,614) | (64,894) |
| Contributions of nonfinancial assets | 249,170 | - | 249,170 | 139,789 |
| Investment return, net | (53,466) | 82,083 | 28,617 | (106,231) |
| Other income | 1,636,758 | - | 1,636,758 | 491,221 |
| Gain on extinguishment of debt | - | - | - | 2,000,000 |
| (Loss) gain on sale of land, buildings, exhibits, and equipment | (76,422) | - | (76,422) | 15,325 |
| Net assets released from restriction | 4,281,879 | (4,281,879) | - | - |
| Total revenues | 22,623,316 | 646,207 | 23,269,523 | 23,614,198 |
| EXPENSES | | | | |
| Program services | | | | |
| Museum activities | 13,952,600 | - | 13,952,600 | 11,728,440 |
| Educational programs | 4,541,580 | - | 4,541,580 | 3,209,503 |
| Total program services | 18,494,180 | - | 18,494,180 | 14,937,943 |
| Supporting services | | | | |
| Management and general | 4,192,873 | - | 4,192,873 | 3,753,274 |
| Fundraising | 1,294,682 | - | 1,294,682 | 1,107,117 |
| Total supporting services | 5,487,555 | - | 5,487,555 | 4,860,391 |
| Auxiliary activities | 1,063,355 | - | 1,063,355 | 829,830 |
| Total expenses | 25,045,090 | - | 25,045,090 | 20,628,164 |
| CHANGE IN NET ASSETS | (2,421,774) | 646,207 | (1,775,567) | 2,986,034 |
| NET ASSETS, beginning of year | 43,896,838 | 4,799,597 | 48,696,435 | 45,710,401 |
| NET ASSETS, end of year | \$ 41,475,064 | \$ 5,445,804 | \$ 46,920,868 | \$ 48,696,435 |

See accompanying notes.

Oregon Museum of Science and Industry
Statement of Functional Expenses
Year Ended May 31, 2023

| | Program Services | | | Supporting Services | | | Auxiliary Activities | Total |
|---------------------------------------|----------------------|-------------------------|----------------------|---------------------------|---------------------|---------------------|-------------------------|----------------------|
| | Museum Activities | Educational Programs | Subtotal | Management and General | Fundraising | Subtotal | | |
| Salaries, wages, and related expenses | \$ 5,410,667 | \$ 2,796,738 | \$ 8,207,405 | \$ 1,755,811 | \$ 902,226 | \$ 2,658,037 | \$ 188,162 | \$ 11,053,604 |
| Depreciation and amortization of | | | | | | | | |
| capital assets | 2,796,231 | 529,270 | 3,325,501 | 33,549 | - | 33,549 | 341,091 | 3,700,141 |
| Professional services | 2,135,006 | 579,384 | 2,714,390 | 647,584 | 151,417 | 799,001 | 8,904 | 3,522,295 |
| Supplies and subscriptions | 412,681 | 129,091 | 541,772 | 479,411 | 15,892 | 495,303 | 1,006 | 1,038,081 |
| Rentals | 860,527 | 71,811 | 932,338 | 9,251 | 465 | 9,716 | 1,130 | 943,184 |
| Utilities | 657,097 | 63,874 | 720,971 | - | - | - | - | 720,971 |
| Cost of merchandise sold | 20,757 | 46,363 | 67,120 | - | - | - | 510,303 | 577,423 |
| Repairs and maintenance | 519,827 | 16,040 | 535,867 | 40,782 | - | 40,782 | 510 | 577,159 |
| Bank fees and interest | 741 | 121 | 862 | 569,553 | 154 | 569,707 | 215 | 570,784 |
| Publicity, printing, and postage | 540,861 | 1,638 | 542,499 | 10,167 | 12,520 | 22,687 | 1,139 | 566,325 |
| Insurance | 963 | 2,514 | 3,477 | 434,292 | - | 434,292 | - | 437,769 |
| Food | 42,684 | 161,792 | 204,476 | 39,236 | 101,363 | 140,599 | 5,213 | 350,288 |
| Equipment | 151,817 | 28,992 | 180,809 | 94,364 | - | 94,364 | 500 | 275,673 |
| Contributions of nonfinancial assets | 106,799 | 39,189 | 145,988 | 6,993 | 96,189 | 103,182 | - | 249,170 |
| Travel | 85,023 | 33,393 | 118,416 | 13,949 | 8,105 | 22,054 | 758 | 141,228 |
| Transportation | 98,055 | 25,001 | 123,056 | 32 | - | 32 | 384 | 123,472 |
| Taxes and other | 87,421 | 2,716 | 90,137 | 2,354 | 726 | 3,080 | 2,730 | 95,947 |
| Telephone | 17,013 | 12,653 | 29,666 | 48,173 | 5,625 | 53,798 | 1,310 | 84,774 |
| Miscellaneous | 8,430 | 1,000 | 9,430 | 7,252 | - | 7,252 | - | 16,682 |
| Bad debt | - | - | - | 120 | - | 120 | - | 120 |
| Total functional expenses | <u>\$ 13,952,600</u> | <u>\$ 4,541,580</u> | <u>\$ 18,494,180</u> | <u>\$ 4,192,873</u> | <u>\$ 1,294,682</u> | <u>\$ 5,487,555</u> | <u>\$ 1,063,355</u> | <u>\$ 25,045,090</u> |

See accompanying notes.

Oregon Museum of Science and Industry
Statement of Functional Expenses
Year Ended May 31, 2022

| | Program Services | | | Supporting Services | | | Auxiliary Activities | Total |
|---------------------------------------|----------------------|-------------------------|----------------------|---------------------------|---------------------|---------------------|-------------------------|----------------------|
| | Museum Activities | Educational Programs | Subtotal | Management and General | Fundraising | Subtotal | | |
| Salaries, wages, and related expenses | \$ 4,534,692 | \$ 2,076,585 | \$ 6,611,277 | \$ 1,604,055 | \$ 730,781 | \$ 2,334,836 | \$ 146,658 | \$ 9,092,771 |
| Depreciation and amortization of | | | | | | | | |
| capital assets | 2,446,480 | 487,352 | 2,933,832 | 178,127 | - | 178,127 | 326,624 | 3,438,583 |
| Professional services | 1,537,008 | 253,404 | 1,790,412 | 357,587 | 203,312 | 560,899 | - | 2,351,311 |
| Supplies and subscriptions | 221,553 | 98,495 | 320,048 | 307,981 | 16,408 | 324,389 | 1,223 | 645,660 |
| Rentals | 1,125,224 | 8,312 | 1,133,536 | 68,539 | - | 68,539 | - | 1,202,075 |
| Utilities | 559,499 | 45,596 | 605,095 | - | - | - | - | 605,095 |
| Cost of merchandise sold | 171 | 19,860 | 20,031 | - | - | - | 344,065 | 364,096 |
| Repairs and maintenance | 208,686 | 15,768 | 224,454 | 44,097 | - | 44,097 | 244 | 268,795 |
| Bank fees and interest | 986 | 20 | 1,006 | 458,065 | 252 | 458,317 | 42 | 459,365 |
| Publicity, printing, and postage | 270,529 | 2,862 | 273,391 | 5,555 | 12,240 | 17,795 | 1,288 | 292,474 |
| Insurance | 8,948 | 340 | 9,288 | 397,196 | - | 397,196 | - | 406,484 |
| Food | 41,132 | 53,596 | 94,728 | 12,447 | 43,169 | 55,616 | 2,901 | 153,245 |
| Equipment | 53,913 | 62,137 | 116,050 | 96,774 | 10,010 | 106,784 | - | 222,834 |
| Contributions of nonfinancial assets | 37,921 | 14,343 | 52,264 | 7,920 | 79,605 | 87,525 | - | 139,789 |
| Museum support services | 377,697 | 100 | 377,797 | 126,591 | 5,772 | 132,363 | 2,827 | 512,987 |
| Travel | 87,862 | 29,208 | 117,070 | 5,350 | 255 | 5,605 | 8 | 122,683 |
| Transportation | 97,741 | 14,099 | 111,840 | 413 | 20 | 433 | - | 112,273 |
| Taxes and other | 98,717 | 17,040 | 115,757 | 15,445 | 1,468 | 16,913 | 3,050 | 135,720 |
| Telephone | 15,875 | 10,098 | 25,973 | 49,311 | 3,825 | 53,136 | 900 | 80,009 |
| Miscellaneous | 3,806 | 288 | 4,094 | 16,171 | - | 16,171 | - | 20,265 |
| Bad debt | - | - | - | 1,650 | - | 1,650 | - | 1,650 |
| Total functional expenses | <u>\$ 11,728,440</u> | <u>\$ 3,209,503</u> | <u>\$ 14,937,943</u> | <u>\$ 3,753,274</u> | <u>\$ 1,107,117</u> | <u>\$ 4,860,391</u> | <u>\$ 829,830</u> | <u>\$ 20,628,164</u> |

See accompanying notes.

Oregon Museum of Science and Industry
Statements of Cash Flows
Years Ended May 31, 2023 and 2022

| | 2023 | 2022 |
|---------------------------------------------------------------------------------------------|----------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (1,775,567) | \$ 2,986,034 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net realized and unrealized losses on investments | 158,354 | 284,024 |
| Gain on extinguishment of debt | - | (2,000,000) |
| Depreciation and amortization expense | 3,700,141 | 3,438,583 |
| Amortization of right of use asset | 126,441 | - |
| Fair value adjustment to perpetual trust | 29,614 | 64,894 |
| Loss (gain) on disposition of land, buildings, exhibits, and equipment | 76,422 | (15,325) |
| Changes in assets and liabilities: | | |
| Accounts, pledges, and contracts receivable | (458,321) | 1,425,418 |
| Prepaid expenses and other assets | (647,524) | (115,919) |
| Accounts payable and accrued expenses | 444,227 | 97,872 |
| Operating lease liability | (126,441) | - |
| Deferred revenues | 1,303,868 | 757,210 |
| Net cash provided by operating activities | 2,831,214 | 6,922,791 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 7,293,923 | 1,752,323 |
| Purchase of investments | (8,109,193) | (1,751,746) |
| Proceeds from sale of land, buildings, exhibits and equipment | - | 15,325 |
| Purchase of land, buildings, exhibits and equipment | (2,421,351) | (4,558,890) |
| Net cash used in investing activities | (3,236,621) | (4,542,988) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on loans payable | - | (1,312,481) |
| Payments on 2020 Series A bonds payable | (151,502) | (147,536) |
| Payments on 2020 Series B bonds payable | (147,147) | - |
| Proceeds from issuance of 2020 Series B bonds payable | - | 1,500,062 |
| Net cash (used in) provided by financing activities | (298,649) | 40,045 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (704,056) | 2,419,848 |
| CASH AND CASH EQUIVALENTS, beginning of year | 12,522,522 | 10,102,674 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 11,818,466 | \$ 12,522,522 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Establishment of right of use lease asset and liability | \$ 478,593 | \$ - |
| Cash paid during the year for interest | \$ 187,537 | \$ 266,995 |

See accompanying notes.

Oregon Museum of Science and Industry

Notes to Financial Statements

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.

Adoption of new accounting standards – Effective June 1, 2022, the Museum changed its method of accounting for leases on a prospective basis as a result of the Museum's adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases* (ASC 842), under the modified retrospective approach, applying the standard to the beginning of the period of adoption. Results for reporting periods beginning on or after June 1, 2022 are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 840. There was no cumulative-effect adjustment recognized at adoption.

In September 2020, the FASB issued Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The standard did not have a material impact on the financial statements.

Financial statement presentation – The accompanying financial statements of MSI 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:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of MSI and/or the passage of time. When a restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Also included in this classification are net assets subject to donor-imposed stipulations which must be maintained in perpetuity by MSI. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

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. The Museum holds cash and cash equivalents at two institutions, and certain amounts may exceed the limits of FDIC insurance coverage. However, the Museum has not incurred any credit related losses to date.

Oregon Museum of Science and Industry

Notes to Financial Statements

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 and other customers for eligible expenses incurred. 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, 2023 and 2022. 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.

Investments and investment return – Investments in securities with readily determinable fair values are measured at fair value in the statement of financial position. Investment return includes realized and unrealized gains and losses, interest, and dividends, net of investment expenses, and are reported as an increase or decrease to the appropriate net asset category.

Prepaid expenses – Prepaid expenses consist primarily of rental costs, software costs, and other prepaid general business-related operating expenses and are expensed over the term of the associated contract or time period.

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 2 to 40 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. Costs incurred on all non-traveling exhibits are capitalized and depreciated over their useful life, generally five years.

Oregon Museum of Science and Industry

Notes to Financial Statements

Leases – The Museum determines if an arrangement is a lease, or contains a lease, at the inception of the arrangement and reassesses that conclusion, if the arrangement is modified. When the Museum determines the arrangement is a lease, or contains a lease, at lease inception, a determination is made as to whether the lease is an operating lease or a finance lease. Operating and finance leases result in the Museum recording a right-of-use (ROU) asset and lease liability on its statement of financial position. ROU assets represent the Museum's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are initially recognized based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Museum uses the implicit interest rate in the lease, if readily determinable, or when the implicit interest rate is not readily determinable, the Museum has elected the practical expedient that permits use of a risk-free discount rate, determined using a period comparable with that of the lease term. Rent expense from operating leases is recognized on a straight-line basis over the term of the leases. The Museum also elected the following practical expedients:

- Practical expedient on not separating lease components from nonlease components for classes of underlying assets.
- Package of practical expedients, which must be elected as a package, to leases that commenced before June 1, 2022, which permit an entity to (1) not reassess whether any expired or existing contracts are or contain leases, (2) not reassess the lease classification, and (3) reassess initial direct costs.
- Practical expedient to not recognize ROU assets and lease liabilities that arise from short-term (12 months or less) leases for any class of underlying asset.

In periods prior to June 1, 2022, the Museum recognized rent expense on a straight-line basis but did not recognize ROU assets and lease liabilities for its operating leases.

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 net assets without donor restrictions in the year in which the items are acquired and as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset category.

Upon the deaccession of collections and exhibits, the Museum's policy is to use those proceeds for the acquisition of new collection items and the direct care of existing collections. Direct care costs include costs that enhance the life, usefulness, or quality of the Museum's collection and provide a benefit to the Museum's collection.

Deferred revenues – OMSI sells annual Museum memberships, which cover a 12-month period from the month of purchase. Membership fees are recognized ratably over the 12-month period to which they are valid.

Oregon Museum of Science and Industry

Notes to Financial Statements

OMSI owns certain traveling exhibits which have been contracted to other museums through fiscal year 2026. Revenues from these contracts, deferred initially, are recognized over the terms of the contracts upon delivery of the exhibit at each site.

OMSI also receives prepayments on certain camps and classes. Such prepayments are deferred and recognized as revenue when the event occurs.

Admissions – Revenues from admissions are recorded at the time of ticket redemption.

Memberships – Revenues from memberships, which are nonrefundable, are recognized ratably over the period over which the membership is valid.

Educational programs – Revenues from educational programs consist of payments for camps and classes. These revenues are recognized at the completion of the camp, class, or event. If an educational program is canceled, participants are provided the option for a refund or for application of the fee to a future camp, class, or event.

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 traveling exhibit fees are recognized ratably over the term of the exhibit's contract.

Contributions and grants – The Museum recognizes contributions and grants when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance obligation or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A portion of the Museum's revenue is derived from cost-reimbursable federal contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Museum has incurred expenditures in compliance with the specific contract or grant provisions. The Museum received cost-reimbursable grants of \$6,253,659 that have not been recognized at May 31, 2023 because qualifying expenditures have not yet been incurred.

All contributions and grants are considered to be available for OMSI's unrestricted use unless specifically restricted by the donor. Contributions and grants restricted by the donor are recorded as net assets with donor restrictions. When the restrictions are satisfied, the restricted amounts are released to net assets without donor restrictions.

Functional allocation of expenses – The costs of the Museum's various activities and programs have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs, supporting services, and auxiliary activities benefited on a reasonable basis that is consistently applied. Auxiliary activities include the Museum's science store and special events. Depreciation and amortization of capital assets are allocated on a square footage basis or directly according to the program it supports. All other expenses are allocated on the basis of estimates of time and effort or directly to the programs benefited.

Oregon Museum of Science and Industry

Notes to Financial Statements

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 statements of functional expenses. Advertising expenses aggregated \$532,028 and \$267,035 for the years ended May 31, 2023 and 2022, respectively.

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, 2023 and 2022. 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 6, 2023, which is the date the financial statements were available to be issued. See Note 19.

Oregon Museum of Science and Industry

Notes to Financial Statements

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, 2022, from which the summarized information was derived.

Note 3 – Liquidity and Availability

Financial assets and liquid resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of May 31:

| | 2023 | 2022 |
|----------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 9,841,217 | \$ 9,925,689 |
| Accounts, pledges, and contracts receivable | 1,069,598 | 926,193 |
| Investments | <u>2,750,122</u> | <u>2,659,714</u> |
| Total financial assets available within one year | 13,660,937 | 13,511,596 |
| Less amount required to be maintained in accordance with the Museum's outstanding bonds payable | <u>(1,000,000)</u> | <u>(1,000,000)</u> |
| Total financial assets and liquidity resources available within one year | <u><u>\$ 12,660,937</u></u> | <u><u>\$ 12,511,596</u></u> |

As part of the Museum's liquidity management plan, the Museum invests cash in excess of daily requirements in short-term investments and money market funds. In accordance with the Museum's outstanding bonds payable, OMSI must maintain cash and cash equivalents of at least \$1,000,000 as of the last day of the second and fourth quarter of each fiscal year.

Oregon Museum of Science and Industry

Notes to Financial Statements

Note 4 – Accounts, Pledges, and Contracts Receivable

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

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------------------------------------------------------------|--------------------|--------------------|
| Accounts, pledges, and contracts receivable without donor restrictions: | | |
| Trade and other receivables | \$ 684,100 | \$ 483,748 |
| Traveling exhibit and exhibit sales contracts | 47,250 | 100,213 |
| Pledges, net of discount | 246,436 | 159,708 |
| Grants | <u>111,812</u> | <u>202,524</u> |
| | 1,089,598 | 946,193 |
| Less allowance for doubtful accounts | <u>(20,000)</u> | <u>(20,000)</u> |
| Accounts, pledges, and contracts receivable without donor restrictions, net of discount | <u>1,069,598</u> | <u>926,193</u> |
| Pledges and grants receivable with donor restrictions: | | |
| Pledges, net of discount | 1,172,121 | 742,596 |
| Grants | <u>-</u> | <u>114,609</u> |
| Pledges and grants receivable with donor restrictions | <u>1,172,121</u> | <u>857,205</u> |
| Total accounts, pledges, and contracts receivable | 2,241,719 | 1,783,398 |
| Less accounts, pledges, and contracts receivable due within one year | <u>(2,038,985)</u> | <u>(1,713,442)</u> |
| Long-term accounts, pledges, and contracts receivable | <u>\$ 202,734</u> | <u>\$ 69,956</u> |

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 \$39,266 and \$10,544 for the years ended May 31, 2023 and 2022, respectively.

Oregon Museum of Science and Industry

Notes to Financial Statements

As of May 31, 2023, pledges receivable are due as follows:

| | |
|-------------------------------------|----------------------------|
| Less than one year | \$ 1,215,823 |
| One to five years | <u>242,000</u> |
| | 1,457,823 |
| Less: discount to net present value | <u>(39,266)</u> |
| Pledges receivable, net of discount | <u><u>\$ 1,418,557</u></u> |

Note 5 – 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 net assets with donor restrictions. As of May 31, 2023 and 2022, the fair value of the trust assets totaled \$360,494 and \$390,108, respectively.

Note 6 – Investments

Investments are comprised of the following at May 31:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|----------------------------|----------------------------|
| Mutual funds | \$ 1,616,922 | \$ 1,031,837 |
| Stocks and exchange traded funds | 501,076 | 1,174,909 |
| Certificates of deposit | <u>2,748,758</u> | <u>2,003,094</u> |
| Total investments | <u><u>\$ 4,866,756</u></u> | <u><u>\$ 4,209,840</u></u> |

Oregon Museum of Science and Industry

Notes to Financial Statements

Note 7 – Fair Value of Assets

The Museum accounts for financial instruments in accordance with ASC 820, *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 certificates of deposit, 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 Museum has no liabilities that are required to be measured at fair value at May 31, 2023 and 2022. There were no changes in valuation methodologies or assumptions during the years ended May 31, 2023 and 2022.

Oregon Museum of Science and Industry

Notes to Financial Statements

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, 2023 and 2022:

| | Fair Value Measurement at Report Date Using: | | | |
|----------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| | Fair Value at May 31, 2023 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual funds | \$ 1,616,922 | \$ 1,616,922 | \$ - | \$ - |
| Stocks and exchange traded funds | 501,076 | 501,076 | - | - |
| Certificates of deposit | 2,748,758 | - | 2,748,758 | - |
| Beneficial interest in perpetual trust | 360,494 | - | - | 360,494 |
| | <u>\$ 5,227,250</u> | <u>\$ 2,117,998</u> | <u>\$ 2,748,758</u> | <u>\$ 360,494</u> |

| | Fair Value Measurement at Report Date Using: | | | |
|----------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| | Fair Value at May 31, 2022 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual funds | \$ 1,031,837 | \$ 1,031,837 | \$ - | \$ - |
| Stocks and exchange traded funds | 1,174,909 | 1,174,909 | - | - |
| Certificates of deposit | 2,003,094 | - | 2,003,094 | - |
| Beneficial interest in perpetual trust | 390,108 | - | - | 390,108 |
| | <u>\$ 4,599,948</u> | <u>\$ 2,206,746</u> | <u>\$ 2,003,094</u> | <u>\$ 390,108</u> |

Oregon Museum of Science and Industry

Notes to Financial Statements

Note 8 – Land, Buildings, Exhibits, and Equipment

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

| | 2023 | 2022 |
|------------------------------------------------|-----------------------------|-----------------------------|
| Land | \$ 9,683,547 | \$ 9,683,547 |
| Buildings and improvements | 56,896,789 | 56,970,832 |
| Exhibits | 13,545,970 | 13,974,504 |
| Equipment | 6,781,192 | 6,320,202 |
| | <u>86,907,498</u> | <u>86,949,085</u> |
| Total land, buildings, exhibits, and equipment | | |
| Less accumulated depreciation and amortization | (47,899,788) | (46,503,553) |
| | <u>39,007,710</u> | <u>40,445,532</u> |
| Construction in progress | 1,344,590 | 1,261,980 |
| | <u>1,344,590</u> | <u>1,261,980</u> |
| Land, buildings, exhibits, and equipment, net | <u><u>\$ 40,352,300</u></u> | <u><u>\$ 41,707,512</u></u> |

Note 9 – Deferred Revenue

Deferred revenue related to memberships was as follows at May 31:

| | 2023 | 2022 |
|----------------------------------------|----------------------------|--------------------------|
| Deferred revenue, beginning of year | \$ 818,034 | \$ 465,598 |
| Purchase of memberships | 2,276,659 | 1,572,645 |
| Amortization of memberships to revenue | (1,959,048) | (1,220,209) |
| | <u>1,135,645</u> | <u>818,034</u> |
| Deferred revenue, end of year | <u><u>\$ 1,135,645</u></u> | <u><u>\$ 818,034</u></u> |

Deferred revenue related to traveling exhibits and exhibit sales was as follows at May 31:

| | 2023 | 2022 |
|------------------------------------------|--------------------------|--------------------------|
| Deferred revenue, beginning of year | \$ 465,626 | \$ 556,171 |
| Traveling exhibit fees and exhibit sales | 1,059,674 | 683,027 |
| Amortization of exhibit fees to revenue | (680,418) | (773,572) |
| | <u>844,882</u> | <u>465,626</u> |
| Deferred revenue, end of year | <u><u>\$ 844,882</u></u> | <u><u>\$ 465,626</u></u> |

Oregon Museum of Science and Industry

Notes to Financial Statements

Deferred revenue related to camps, classes, and other events was as follows at May 31:

| | 2023 | 2022 |
|-------------------------------------------------|---------------------|---------------------|
| Deferred revenue, beginning of year | \$ 2,073,288 | \$ 1,577,969 |
| Purchase of camps, classes, and other events | 3,822,830 | 2,304,350 |
| Amortization of educational programs to revenue | <u>(3,215,829)</u> | <u>(1,809,031)</u> |
| Deferred revenue, end of year | <u>\$ 2,680,289</u> | <u>\$ 2,073,288</u> |

Note 10 – Long-Term Debt

Promissory note – In February 2023, the Museum entered into a promissory note agreement with HBCDE, LLC. Advances to the Museum are not to exceed \$1,628,000 and the Museum incurs interest expense on the unpaid principal balance at a rate of 3.00% per annum through March 1, 2030. Following that date, the interest rate will be based on a variable rate, as defined in the agreement, plus 2.00%, with a floor of 4.75%. The entire unpaid principal balance, together with all interest accrued and not yet paid, is due and payable in full on February 23, 2035. As of May 31, 2023, no amounts were owed by the Museum under this agreement. The loan is secured by a deed of trust and fixture filing with assignment of leases and rents. See Note 19.

Bonds payable – In April 2020, the Museum issued bonds to refinance the Museum's 2015 Series A Oregon Facilities Authority bonds, pay the costs of renovating and improving the Museum's facilities, including, but not limited to roof improvements, and finance certain costs of issuing the bonds. The bonds were issued and purchased by Wells Fargo as a private placement. To secure its 2020 bond obligations, the Museum granted a security interest in real property held by the Museum. The face value of the 2020 Series A bonds is \$3,668,000. The bond proceeds of the 2020 Series B bonds were disbursed in installments through the making of advances in accordance with the terms and conditions of the bond agreement. Interest payable on the 2020 Series B bonds is determined based on the principal amount which will be at the earliest of the following to occur: the date when the sum of the aggregate advances equals \$3,830,000, the completion date of the project, the full funding date, or the determination of taxability. The project was completed during the year ended May 31, 2022 and advances totaled \$3,746,953. The face value of the 2020 Series B bonds is \$3,830,000.

The agreement contains covenants which require the Museum to maintain a minimum liquidity of at least \$1,000,000 as of the last day of the second and fourth quarter of each fiscal year.

Oregon Museum of Science and Industry

Notes to Financial Statements

Bonds payable consists of the following at May 31:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Oregon Facilities Authority 2020 Series A Bonds – Interest only payments through November 1, 2020 at an interest rate of 2.62%. Principal and interest payments began December 1, 2020, bonds mature April 30, 2050. | \$ 3,297,111 | \$ 3,448,614 |
| Oregon Facilities Authority 2020 Series B Bonds – Interest only payments through May 1, 2022 at an interest rate of 2.62%. Principal and interest payments began on June 1, 2022, bonds mature on April 30, 2050. | <u>3,599,807</u> | <u>3,746,953</u> |
| Bonds payable, total | 6,896,918 | 7,195,567 |
| Less current portion | <u>(306,182)</u> | <u>(298,649)</u> |
| Bonds payable, net of current portion | <u><u>\$ 6,590,736</u></u> | <u><u>\$ 6,896,918</u></u> |

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

| | |
|----------------------|----------------------------|
| Years ending May 31, | \$ 306,182 |
| 2024 | 314,912 |
| 2025 | 323,380 |
| 2026 | 332,076 |
| 2027 | 340,604 |
| 2028 | 5,279,764 |
| Thereafter | <u>5,279,764</u> |
| | <u><u>\$ 6,896,918</u></u> |

Total interest expense for the years ended May 31, 2023 and 2022 was \$204,476 and \$247,143 respectively.

In accordance with the agreement, the bonds mature on April 30, 2050. However, because the bonds were purchased by Wells Fargo as a private placement, the direct purchase period ends on April 1, 2030. As of the end of the direct purchase period, the interest rate may be modified in accordance with the terms of the agreement.

Note 11 – Trust Funds Held by Others

Securities and cash with fair values of \$861,055 and \$941,204 at May 31, 2023 and 2022, 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 with donor restrictions when received.

Oregon Museum of Science and Industry

Notes to Financial Statements

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, 2023 or 2022. 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 \$6,678,797 and \$7,019,267 at May 31, 2023 and 2022, respectively. OMSI recorded contributions with donor restrictions from the endowment of \$526,964 and \$244,051 for the years ended May 31, 2023 and 2022, respectively.

Note 12 – 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. The Board of Trustees approved a matching contribution totaling \$78,704 and \$66,710 during the years ended May 31, 2023 and May 31, 2022, 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, 2023 and 2022. The Museum recorded an asset and liability in the amount of \$68,857 as of May 31, 2023. The Museum recorded an asset and liability in the amount of \$68,637 as of May 31, 2022. 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 13 – Commitments and Contingencies

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.

Oregon Museum of Science and Industry

Notes to Financial Statements

Note 14 – Operating Leases

The Museum leases office facilities and equipment for their operations under non-cancelable leases, which expire through April 2028. The operating leases do not require any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees.

Supplemental Lease Information

| | <u>2023</u> |
|--------------------------------------------------------------------|-------------|
| Operating cash flows from operating leases | \$ 139,158 |
| Weighted-average remaining lease term – operating leases, in years | 2.63 |
| Weighted-average discount rate – operating leases | 3.77% |

Maturities of operating lease liabilities as of May 31, 2023 are as follows:

| | | |
|----------------------|------------------------|--------------------------|
| Years ending May 31, | 2024 | \$ 149,868 |
| | 2025 | 149,868 |
| | 2026 | 47,109 |
| | 2027 | 12,852 |
| | 2028 | 11,781 |
| | Total | <u>371,478</u> |
| | Less: Imputed Interest | <u>(19,326)</u> |
| | Lease liability | <u><u>\$ 352,152</u></u> |

Total lease costs for the year ended May 31, 2023 was approximately \$140,000. Rent expense includes a number of short-term rentals that did not qualify under ASC 842 for recording.

As the Museum has not restated prior-year information for the adoption of Topic 842, total operating lease rental expense under ASC Topic 840, *Leases*, for the year ended May 31, 2022 was approximately \$1,200,000.

Note 15 – Net Assets Released from Restrictions

Net assets relating to restricted contributions and grants are released from net assets with donor restrictions to net assets without donor restrictions 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, 2023:

| | |
|--------------------------------------------------------|----------------------------|
| Satisfaction of program restrictions for grants | \$ 2,033,226 |
| Satisfaction of program restrictions for contributions | <u>2,248,653</u> |
| | <u><u>\$ 4,281,879</u></u> |

Oregon Museum of Science and Industry

Notes to Financial Statements

Note 16 – Net Assets with Donor Restrictions

Net assets with donor restrictions are comprised of the following at May 31:

| | 2023 | 2022 |
|-----------------------------------------------------|--------------|--------------|
| Contributions and grants restricted by purpose for: | | |
| Various projects and exhibits | \$ - | \$ 114,609 |
| Special operating purposes | 3,766,146 | 3,458,237 |
| Scholarships | 532,012 | 257,138 |
| Total purpose restrictions | 4,298,158 | 3,829,984 |
| Contributions restricted by time for operations | 192,308 | 7,500 |
| Endowments | | |
| General Education (Original Gift, \$462,602) | 558,054 | 535,237 |
| Steere Education (Original Gift, \$26,282) | 26,282 | 26,282 |
| Naftalin Education (Original Gift, \$8,294) | 9,113 | 9,091 |
| Poulsen Education (Original Gift, \$1,395) | 1,395 | 1,395 |
| Total endowments held in perpetuity | 594,844 | 572,005 |
| Peterson Trust – beneficial interest in trust | 360,494 | 390,108 |
| Total endowments | 955,338 | 962,113 |
| Total net assets with donor restrictions | \$ 5,445,804 | \$ 4,799,597 |

Note 17 – Endowments

Board-designated endowments represent quasi-endowments which are net assets without donor restrictions 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 net assets without donor restrictions. 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 Board-designated endowments as of May 31, 2023 and 2022.

Endowments with donor restrictions are comprised of endowments that have outside donor-imposed stipulations, which neither expire by the passage of time nor can be fulfilled by actions of the Museum. Also included in this classification are funds resulting from earnings on those endowments, 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.

Oregon Museum of Science and Industry

Notes to Financial Statements

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, 2023 and 2022.

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 net assets with donor restrictions: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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. The earnings are typically spent on financial assistance for participants in camps, classes, labs, and field trips.

Oregon Museum of Science and Industry

Notes to Financial Statements

Endowment net assets and changes in endowment net assets for the year ended May 31, 2023 is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------------------------------------|-------------------------------|----------------------------|-------------------|
| Endowment net assets, May 31, 2022 | \$ - | \$ 572,005 | \$ 572,005 |
| Contributions | - | 20,000 | 20,000 |
| Investment return | - | 28,347 | 28,347 |
| Appropriation of endowment assets for expenditure | - | (25,508) | (25,508) |
| Endowment net assets, May 31, 2023 | <u>\$ -</u> | <u>\$ 594,844</u> | <u>\$ 594,844</u> |

Endowment net assets and changes in endowment net assets for the year ended May 31, 2022 is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------------------------------------|-------------------------------|----------------------------|-------------------|
| Endowment net assets, May 31, 2021 | \$ - | \$ 568,416 | \$ 568,416 |
| Investment return | - | 39,167 | 39,167 |
| Appropriation of endowment assets for expenditure | - | (35,578) | (35,578) |
| Endowment net assets, May 31, 2022 | <u>\$ -</u> | <u>\$ 572,005</u> | <u>\$ 572,005</u> |

Note 18 – Contributed Nonfinancial Assets

Contributed nonfinancial assets were comprised of the following for the years ended May 31:

| | 2023 | 2022 |
|-----------------------|-------------------|-------------------|
| Professional services | \$ 128,322 | \$ 45,654 |
| Goods | 120,848 | 94,135 |
| | <u>\$ 249,170</u> | <u>\$ 139,789</u> |

Oregon Museum of Science and Industry

Notes to Financial Statements

The majority of contributed nonfinancial assets are comprised of goods and professional services. The estimated fair value of these items are provided by third parties and valued at market prices. Donated services are similarly reported when they enhance a nonfinancial asset or 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.

None of the Museum's contributed nonfinancial assets are restricted for specific project work. The Museum monetized certain goods during the gala during the years ended May 31, 2023 and 2022.

Note 19 – Subsequent Events

In August 2023, the Museum amended its promissory note agreement with HBCDE, LLC, allowing for additional advanced funds of no more than \$7,260,000, bringing the total maximum aggregate principal amount to \$8,888,000. All other terms remain the same. The promissory note agreement was amended to allow for the purchase of a property. In connection with the purchase and sale agreement, the Museum simultaneously entered into a lease agreement with the tenant of the property until August 2024 in the amount of \$20,000 per month.

The Museum has evaluated subsequent events through October 6, 2023, which is the date the financial statements were available to be issued.