

Audited Financial Statements

**THE NORTH CAROLINA MUSEUM
OF LIFE AND SCIENCE, INC.**

Year Ended June 30, 2019

Audited Financial Statements

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Year Ended June 30, 2019

Independent Auditors' Report..... 1

Statement of Financial Position.....2

Statement of Activities3

Statement of Functional Expenses.....4

Statement of Cash Flows5

Notes to Financial Statements6

Independent Auditors' Report

Board of Directors
The North Carolina Museum of Life and Science, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of The North Carolina Museum of Life and Science, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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.

Auditors' 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 The North Carolina Museum of Life and Science, Inc. as of June 30, 2019, 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.

Report on Summarized Comparative Information

We have previously audited The North Carolina Museum of Life and Science, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the twelve months ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it was derived.

Adoption of New Accounting Standard

As described in Note A to the financial statements, The North Carolina Museum of Life and Science, Inc. adopted FASB Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
January 17, 2020

Statement of Financial Position

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

June 30, 2019

(with comparative totals as of June 30, 2018)

| | 2019 | 2018 |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents: | | |
| Restricted for Capital Campaign | \$ - | \$ 335,577 |
| Board-designated | 926,637 | 779,249 |
| Other | 1,812,075 | 1,750,494 |
| | <u>2,738,712</u> | <u>2,865,320</u> |
| Grants receivable: | | |
| Bond expenses receivable | 420,436 | 27,472 |
| Other grants receivable | 153,578 | 78,369 |
| | <u>574,014</u> | <u>105,841</u> |
| Other receivables: | | |
| Capital campaign pledges, net | 96,780 | 80,339 |
| Other receivables | 74,196 | 79,665 |
| | <u>170,976</u> | <u>160,004</u> |
| Funds held in escrow | - | 50,000 |
| Gift shop inventory | 136,382 | 91,556 |
| Prepaid expenses | 196,203 | 186,998 |
| Investments: | | |
| Board-designated certificate of deposit | 156,870 | - |
| With donor restrictions, other than endowments | 29,227 | - |
| With donor restrictions, held under endowments | 116,807 | 157,863 |
| Deferred compensation | 83,915 | 67,214 |
| | <u>386,819</u> | <u>225,077</u> |
| Property and equipment, net | <u>13,606,025</u> | <u>13,588,947</u> |
| TOTAL ASSETS | \$ <u>17,809,131</u> | \$ <u>17,273,743</u> |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable | \$ 379,823 | \$ 189,303 |
| Accrued wages and payroll-related liabilities | 352,098 | 317,121 |
| Accrued vacation | 167,900 | 147,920 |
| Deferred compensation | 83,915 | 67,214 |
| Deferred revenues | <u>660,053</u> | <u>671,499</u> |
| TOTAL LIABILITIES | 1,643,789 | 1,393,057 |
| NET ASSETS | | |
| Without donor restrictions: | | |
| Operating reserves: | | |
| Board-designated net assets: | | |
| Contingency Reserve Fund | 590,425 | 460,404 |
| Capital Reserve Fund | 493,082 | 318,845 |
| Undesignated operating reserves | 960,484 | 817,326 |
| Net property and equipment | <u>13,606,025</u> | <u>13,588,947</u> |
| Total net assets without donor restrictions | <u>15,650,016</u> | <u>15,185,522</u> |
| With donor restrictions: | | |
| Other than endowments | 398,519 | 537,301 |
| Held under endowments | <u>116,807</u> | <u>157,863</u> |
| Total net assets with donor restrictions | <u>515,326</u> | <u>695,164</u> |
| TOTAL NET ASSETS | <u>16,165,342</u> | <u>15,880,686</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>17,809,131</u> | \$ <u>17,273,743</u> |

See independent auditors' report and notes to financial statements.

Statement of Activities

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Year Ended June 30, 2019

(With comparative totals for the year ended June 30, 2018)

| | 2019 | | | | 2018 |
|--|----------------------------|----------------------------|---------------------|----------------------|----------------------|
| | Without Donor Restrictions | | With Donor | Total | Total |
| | Operating Reserves | Net Property and Equipment | Restrictions | | |
| SUPPORT, REVENUES AND OTHER INCOME: | | | | | |
| Government support: | | | | | |
| Durham County bond income | \$ - | \$ 843,304 | \$ - | \$ 843,304 | \$ 6,199,641 |
| Government contracts/grants | - | - | 1,992,768 | 1,992,768 | 1,931,058 |
| Capital campaign support | - | - | 331,253 | 331,253 | 144,152 |
| Contributions and other grants | 324,128 | - | 30,240 | 354,368 | 174,704 |
| Corporate donations | 136,225 | - | 147,094 | 283,319 | 276,200 |
| Contributed goods and services | 35,579 | 5,500 | - | 41,079 | 46,160 |
| Fundraising and special events | 312,248 | - | - | 312,248 | 348,737 |
| Education | 1,001,641 | - | - | 1,001,641 | 969,331 |
| Admissions | 2,022,488 | - | - | 2,022,488 | 1,897,316 |
| Gift shop sales | 593,632 | - | - | 593,632 | 550,924 |
| Train revenue | 376,383 | - | - | 376,383 | 378,999 |
| Concession revenue | 63,255 | - | 15,475 | 78,730 | 77,137 |
| Membership dues | 2,381,567 | - | - | 2,381,567 | 2,244,432 |
| Rental income | 446,245 | - | - | 446,245 | 412,860 |
| Investment income, net | 12,561 | - | 4,934 | 17,495 | 15,649 |
| Other income | 67,277 | - | - | 67,277 | 11,142 |
| Net assets released from restrictions due to: | | | | | |
| Released from non-endowed funds | 1,856,991 | 843,828 | (2,700,819) | - | - |
| Appropriated from endowment funds | 783 | - | (783) | - | - |
| TOTAL SUPPORT, REVENUES AND OTHER INCOME | 9,631,003 | 1,692,632 | (179,838) | 11,143,797 | 15,678,442 |
| EXPENSES: | | | | | |
| Program services | 6,937,196 | 1,557,606 | - | 8,494,802 | 8,544,187 |
| Support services: | | | | | |
| Management and general | 1,713,375 | 173,067 | - | 1,886,442 | 1,833,959 |
| Fundraising | 477,897 | - | - | 477,897 | 482,543 |
| Total support services | 2,191,272 | 173,067 | - | 2,364,339 | 2,316,502 |
| TOTAL EXPENSES | 9,128,468 | 1,730,673 | - | 10,859,141 | 10,860,689 |
| CHANGE IN NET ASSETS, BEFORE TRANSFERS | \$ 502,535 | \$ (38,041) | \$ (179,838) | \$ 284,656 | \$ 4,817,753 |
| NET ASSETS, BEGINNING OF YEAR | \$ 1,596,575 | \$ 13,588,947 | \$ 695,164 | \$ 15,880,686 | \$ 11,062,933 |
| Change in net assets, before transfers | 502,535 | (38,041) | (179,838) | 284,656 | 4,817,753 |
| Transfers within net assets without donor restrictions | (55,119) | 55,119 | - | - | - |
| CHANGE IN NET ASSETS | 447,416 | 17,078 | (179,838) | 284,656 | 4,817,753 |
| NET ASSETS, END OF YEAR | \$ 2,043,991 | \$ 13,606,025 | \$ 515,326 | \$ 16,165,342 | \$ 15,880,686 |

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Year Ended June 30, 2019

(With comparative totals for the year ended June 30, 2018)

| | 2019 | | | | 2018 |
|--|---------------------|---------------------------|-------------|---------------|---------------|
| | Support Services | | | | |
| | Program Services | Management and General | Fundraising | Total | Total |
| PERSONNEL COSTS: | | | | | |
| Salaries and wages | \$ 3,680,613 | \$ 781,865 | \$ 287,399 | \$ 4,749,877 | \$ 4,582,174 |
| Fringe benefits | 787,520 | 171,414 | 64,142 | 1,023,076 | 996,998 |
| Payroll taxes | 280,306 | 52,372 | 22,605 | 355,283 | 343,584 |
| Total personnel costs | 4,748,439 | 1,005,651 | 374,146 | 6,128,236 | 5,922,756 |
| OTHER EXPENSES: | | | | | |
| Occupancy | 245,235 | 27,248 | | 272,483 | 261,275 |
| Facilities maintenance | 530,040 | 46,310 | 250 | 576,600 | 549,628 |
| Property insurance | 88,052 | 9,784 | | 97,836 | 107,210 |
| Gift shop expenses | 290,135 | 140 | | 290,275 | 288,149 |
| Exhibits-supplies and maintenance | 185,323 | | | 185,323 | 223,525 |
| Education program expense | 95,814 | | 22,983 | 118,797 | 128,722 |
| Animal care | 107,601 | | | 107,601 | 88,935 |
| Professional fees | 42,204 | 116,646 | | 158,850 | 205,839 |
| Contract labor/subcontracts | 1,825 | | | 1,825 | 33,119 |
| Telephone | 4,144 | 20,843 | 39 | 25,026 | 21,349 |
| Postage | 12,520 | 9,189 | 1,438 | 23,147 | 19,276 |
| Leasing and service contracts | 31,838 | 10,047 | | 41,885 | 41,222 |
| Materials and supplies | 6,079 | 17,171 | 242 | 23,492 | 24,761 |
| Other operating costs | 177,414 | 183,030 | 13,288 | 373,732 | 376,824 |
| Staff development | 79,312 | 43,275 | 4,828 | 127,415 | 130,511 |
| Development/marketing (non-personnel) | 5,002 | 268,779 | 36,900 | 310,681 | 303,042 |
| Bank and merchant fees | 151,836 | 247 | 7,453 | 159,536 | 181,015 |
| Interest | 102 | 269 | | 371 | 361 |
| Contributed goods and services | 24,642 | 107 | 16,330 | 41,079 | 46,160 |
| Allocation of indirect costs--facilities | 32,910 | (32,910) | | - | - |
| Allocation of indirect costs--admin. | 30,564 | (30,564) | | - | - |
| Loss on disposal of fixed assets | 21,085 | | | 21,085 | - |
| Bad debts | 2,297 | | | 2,297 | 732 |
| Miscellaneous | 22,783 | 18,113 | | 40,896 | 34,399 |
| Total other expenses | 2,188,757 | 707,724 | 103,751 | 3,000,232 | 3,066,054 |
| Total operating expenses before depreciation | 6,937,196 | 1,713,375 | 477,897 | 9,128,468 | 8,988,810 |
| Depreciation and amortization | 1,557,606 | 173,067 | - | 1,730,673 | 1,871,879 |
| TOTAL EXPENSES | \$ 8,494,802 | \$ 1,886,442 | \$ 477,897 | \$ 10,859,141 | \$ 10,860,689 |

See independent auditors' report and notes to financial statements.

Statement of Cash Flows

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Year Ended June 30, 2019

(With comparative totals for the year ended June 30, 2018)

| | <u>2019</u> | <u>2018</u> |
|---|----------------------------|----------------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ 284,656 | \$ 4,817,753 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,730,673 | 1,871,879 |
| Loss on disposal of fixed assets | 21,085 | - |
| Bond income for capital improvements | (843,304) | (6,199,641) |
| Support restricted for Capital Campaign | (331,253) | (144,152) |
| Change in fair value of investments, net (gain) loss | (9,425) | (17,786) |
| Changes in operating assets and liabilities: | | |
| Receivables (excluding bonds/Capital Campaign) | (69,740) | (64,066) |
| Funds held in escrow | 50,000 | (50,000) |
| Gift shop inventory | (44,826) | (2,412) |
| Prepaid expenses and other | (9,205) | (12,709) |
| Accounts payable and accrued wages | 225,497 | (158,227) |
| Accrued vacation | 19,980 | 9,899 |
| Deferred compensation | 16,701 | 18,519 |
| Deferred revenues | (11,446) | 21,206 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>1,029,393</u> | <u>90,263</u> |
| INVESTING ACTIVITIES | | |
| Purchases of investments | (169,569) | (11,097) |
| Distributions from investments | 17,252 | 1,198 |
| Purchases of fixed assets | (1,768,836) | (6,736,434) |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(1,921,153)</u> | <u>(6,746,333)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from bonds for capital improvements | 450,340 | 6,683,481 |
| Proceeds from support restricted for Capital Campaign | 314,812 | 411,488 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>765,152</u> | <u>7,094,969</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (126,608) | 438,899 |
| Cash and cash equivalents at beginning of the year | <u>2,865,320</u> | <u>2,426,421</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | <u><u>\$ 2,738,712</u></u> | <u><u>\$ 2,865,320</u></u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid | \$ 371 | \$ 361 |

See independent auditors' report and notes to financial statements.

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

Year Ended June 30, 2019

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization: The North Carolina Museum of Life and Science, Inc. (d/b/a Museum of Life and Science and referred to herein as "the Museum") maintains a museum in Durham, North Carolina for natural, historical and scientific educational purposes. The mission of the Museum is to create a place of lifelong learning where people, from young child to senior citizen, embrace science as a way of knowing about themselves, their community, and their world. Nationally, the Museum is an active member of leading informal learning organizations including the Association of Science and Technology Centers (ASTC) and the Association of Zoos and Aquariums (AZA).

Basis of Accounting: The financial statements of the Museum have been prepared on the accrual basis of accounting.

Adoption of a New Accounting Standard: The accompanying financial statements have been prepared in accordance with FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which was first effective for fiscal years beginning after December 15, 2017. The Museum is thereby required to report information regarding its financial position and activities according to the following net asset classes:

Net Assets Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. At June 30, 2019, the Museum's net assets without donor restrictions include Board-designated net assets of \$590,425 in a Contingency Reserve Fund. These funds are expected to be drawn upon only in the event of unforeseen circumstances that have an adverse impact on the Museum's working capital. Board-designated net assets at June 30, 2019, also include \$493,082 in a Capital Reserve Fund. These funds are expected to be drawn upon to cover the costs of acquiring and/or constructing fixed assets, as well as expenditures for the repair and maintenance of fixed assets. Capital Reserve Funds of \$71,000 were transferred subsequently to the Museum's operating reserves to cover website design costs that were incurred and capitalized in fiscal 2018-2019. Board-designated net assets are not available to cover operating expenses, including budget shortfalls, unless specifically approved by the Board.

Net Assets With Donor Restrictions: Net assets subject to restrictions imposed by donors and grantors. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that require resources to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions. This net asset class includes amounts that were previously included in temporarily restricted and permanently restricted net assets.

Due to the implementation of ASU 2016-14, the Museum is required to report expenses by nature and function, and to include both quantitative and qualitative disclosures with regard to the availability and liquidity of assets. The Museum has applied the new standard to the financial statements using a retrospective application as pertains to the summarized comparative information presented as of and for the year ended June 30, 2018.

Recognition of Support: Contributions (and grant awards) are recognized as support when the donor (or grantor) makes a promise to give to the Museum that is, in substance, unconditional. Contributions (or grant awards) that are restricted by the donor (or grantor) are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Promises to Give: Unconditional promises to give, including grant awards, are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give (including reimbursement grants) are recognized when the conditions on which they depend are substantially met.

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Recognition of Revenues: Revenues are derived primarily from admissions, program fees, rentals, gift shop sales, and concessions. Revenues are recognized in the period in which goods or services are provided. Amounts received in advance are held as deferred revenues until earned. Deferred revenues of approximately \$552,000 at June 30, 2019, relate to advance deposits for July and August 2019 summer camp. Deferred revenues also include advance deposits for group events and online ticket sales for other upcoming events.

Cash Equivalents: The Museum considers money market accounts and all highly liquid investments with an initial or remaining maturity of three months or less to be cash equivalents. (Refer also to *Note J--Fair Value Measurements*.)

Grants Receivable: Grants receivable at June 30, 2019, consists largely of reimbursements due from the County of Durham for bond-related expenditures. Receivable balances are also due from various governmental entities, corporations, and nonprofit organizations. Management feels all receivables are fully collectible; therefore, no allowance has been provided at June 30, 2019 and 2018. Receivables are unsecured and are due within a year.

Other Receivables: Other receivables at June 30, 2019, include net capital campaign pledges of \$96,780 due from a corporation and a private foundation. Pledges of \$25,000 or more due beyond one year are recorded at the discounted present value of the estimated future cash flows using a discount factor of 4%. *Capital campaign pledges* receivable is recorded net of a discount of \$7,720 and \$2,848 at June 30, 2019 and 2018, respectively. Other receivables also include amounts due from various entities in the normal course of operations, including sales tax receivable of \$43,225 at June 30, 2019. Management feels all receivables are fully collectible; therefore, no allowance has been provided at June 30, 2019 and 2018. Outstanding receivables are unsecured. (Refer also to *Note C--Capital Campaign Pledges Receivable*.)

Funds Held in Escrow: In February 2018, the Museum placed \$50,000 in escrow with the City of Durham, with return of the funds contingent upon the City's review and acceptance of "as built" documentation for the Museum's bio-retention pond. The City notified the Museum of its acceptance of the site modifications on November 8, 2018. The \$50,000 held in escrow was returned to the Museum in full in December 2018.

Inventory: Gift shop inventory is stated at the lower of cost (first-in, first-out method) or market.

Investments (including a subsequent event): Board-designated investments of \$156,870 at June 30, 2019, are held in a thirteen-month bank certificate of deposit. The certificate bears interest at 2.13% and was subsequently renewed for twelve months upon its maturity in September 2019.

Investments held by Triangle Community Foundation (TCF) are reported at fair value, as reported by TCF, and consist of the following at June 30 2019: (a) \$29,227 - invested in the Non-Endowed Equity Oriented Investment Pool, donor-restricted for scholarships, expected to distribute approximately 4.0% of the invested funds annually; (b) \$81,652 - invested in the Endowment Investment Pool, with earnings available for the general operations of the Museum. Management has instructed TCF to reinvest the spendable balance in the fund.

Donor-restricted endowment funds of \$35,155 are invested in a bank money market account at June 30, 2019, with earnings therefrom available for the general operations of the Museum.

Refer also to *Note G--Net Assets With Donor Restrictions, Held Under Endowments* and *Note J--Fair Value Measurements* as pertains to the aforementioned investments.

Investments of \$83,915 are held in equity securities with TIAA at June 30, 2019, and are available to fund the deferred compensation agreement referenced in *Note M--Commitments and Contingencies*. These securities are recorded at fair value, as reported by TIAA. Refer also to *Note J--Fair Value Measurements*.

Property and Equipment: All acquisitions of property and equipment in excess of \$5,000 and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Donated Property and Equipment: Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Donated Services: The Museum recognizes certain *contributed goods and services* (as both a revenue and expense) in connection with the support and delivery of its educational programs. Contributed goods and services are recognized at the estimated fair value of such at the date of donation, and consist primarily of animal supplies and supplies and services supporting Museum fundraising and special events. In addition, the Museum receives services from many individuals that volunteer their time and perform a variety of tasks that assist the Museum with specific assistance programs, campaign solicitations, and various committee assignments. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under FASB ASC 958-605.

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fixed assets having an aggregate cost of \$197,811, and a net book value of \$21,085, were written-off during the year ended June 30, 2019, based on management's identification of assets no longer used by the Museum.

Advertising: The Museum uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs approximated \$127,480 for the year ended June 30, 2019.

Tax Status: The Museum is a tax-exempt charitable organization that is not a private foundation. The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of North Carolina tax laws. The Museum had no income subject to taxation as unrelated business income for the year ended June 30, 2019, and management is aware of no uncertain tax positions.

Functional Allocation of Expenses: The Museum allocates its expenses on a functional basis between program and support services. Expenses that can be identified with a program or support service are allocated directly thereto. Certain indirect expenses are allocated based on estimated usage and/or benefit.

Program Services: The Museum of Life and Science offers an accessible indoor-outdoor educational environment serving over 589,000 annual visitors. The 84-acre campus offers engaging educational experiences in most science disciplines with over 285 hands-on exhibits. Special events, traveling exhibits, partnerships with area science organizations, on-site and outreach programs provide a diversity of educational experiences about science and the natural world.

Support Services: Support services include expenses not directly or indirectly allocated to program services. Management and general expenses include costs associated with the maintenance of facilities and exhibits and other administrative services, as well as development and marketing efforts that attract visitors to the Museum. Fundraising expenses include costs associated with efforts and events designed to generate support for the Museum.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from these estimates.

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE A--THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Fair Value of Financial Instruments: The carrying value of cash equivalents, receivables (excluding pledges due beyond one year), accounts payable and accrued liabilities approximate the fair value of such based on the short maturities of those financial instruments. (Refer also to *Note J--Fair Value Measurements*.)

Summarized Comparative 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements as of and for the year ended June 30 2018, from which the summarized information was derived.

Reclassifications: Certain reclassifications were made to the prior year summarized comparative information to conform to the presentation for fiscal 2018-2019.

Future Pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will be effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this ASU on future financial statements.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU are intended to assist entities (1) in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) in determining whether a contribution is conditional. The standard will be effective for the resource recipient in fiscal years beginning after December 15, 2018, and for the resource provider in fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this ASU on future financial statements.

NOTE B--AVAILABILITY AND LIQUIDITY OF ASSETS

The following reflects the Museum's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year from June 30:

| | <u>2019</u> |
|--|---------------------|
| Financial assets at year-end: | |
| Cash and cash equivalents | \$ 2,738,712 |
| Grants receivable | 574,014 |
| Other receivables | 170,976 |
| Investments | <u>386,819</u> |
| | 3,870,521 |
| Less those unavailable for general expenditures within one year: | |
| Investments to fund deferred compensation | (83,915) |
| Board-designated Contingency Reserve | (590,425) |
| Board-designated Capital Reserve | (493,082) |
| Donor-restricted, non-endowed net assets | (398,519) |
| Donor-restricted endowment net assets | <u>(116,807)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 2,187,773</u> |

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.**NOTE C--CAPITAL CAMPAIGN PLEDGES RECEIVABLE**

Capital campaign pledges receivable at June 30, 2019, are expected to be collected as follows:

| <u>Years Ending June 30,</u> | |
|------------------------------|------------------|
| 2020 | \$ 25,000 |
| 2021 | 45,000 |
| 2022 | 20,000 |
| 2023 | <u>14,500</u> |
| | 104,500 |
| Less: Unamortized discount | <u>(7,720)</u> |
| | <u>\$ 96,780</u> |

NOTE D--PROPERTY AND EQUIPMENT

2016 Durham County Bond Projects: On April 11, 2017, the Durham County Board of Commissioners appropriated \$14,214,903 in 2016 Voter Approved General Obligation Bond funds for various capital improvement projects of the Museum. Bond proceeds of \$14,067,705 (net of bond issuance costs of \$147,198) will be used to expand the Museum's parking capacity, to support exhibit maintenance and upgrades across the campus, and to improve access, including a new school group entry and two new classrooms. Draw-downs of \$843,304 and \$6,199,641 were requested for the years ended June 30, 2019 and 2018, respectively, based on expenditures incurred. These expenditures relate primarily to the new parking deck, completed in March 2018 at a cost of approximately \$6,493,035, and *Earth Moves* enhancements. Bond proceeds of \$6,363,038 remain available for expenditure as of June 30, 2019. The Museum estimates that approximately \$2,000,000 will be spent in fiscal 2019-2020 to support exhibit infusion, including *Earth Moves* enhancements and progress on the construction of a Woodland classroom, animal quarantine facility, and Operations Center expansion.

Capital Campaign: The Museum is conducting a \$3.9 million capital campaign to create two major outdoor experiences, *Hideaway Woods* and *Earth Moves*. The first project is an outdoor playscape of nearly two acres to provide opportunities for physical activity and important child development in a natural setting, a new classroom, and a new visitor park. This was completed in September 2015. The second project will engage visitors with Earth sciences and systems through the interaction of *Earth Moves*. Understanding the forces and forms of the Earth is critical to support science learning and to understand our world. *Earth Moves* was completed and opened to the public in September 2019. Campaign donations and pledges of approximately \$3,673,324 have been recognized through June 30, 2019.

Construction in Progress: Construction in progress at June 30, 2019, includes primarily costs associated with *Earth Moves*.

Property and equipment consist of the following at June 30:

| | <u>2019</u> | <u>2018*</u> |
|--|----------------------|----------------------|
| Land | \$ 21,600 | \$ 33,266 |
| Building and improvements | 20,433,489 | 20,381,917 |
| Exhibits | 25,437,961 | 25,211,934 |
| Furniture, fixtures and equipment | 1,043,647 | 965,977 |
| Computers and software | 147,315 | 147,315 |
| Vehicles | 219,916 | 209,470 |
| Trademarks and patents | 34,397 | 34,397 |
| Construction in progress (not depreciable) | <u>1,845,563</u> | <u>628,589</u> |
| | 49,183,888 | 47,612,865 |
| Less accumulated depreciation and amortization | <u>(35,577,863)</u> | <u>(34,023,918)</u> |
| | <u>\$ 13,606,025</u> | <u>\$ 13,588,947</u> |

* for comparative purposes

Notes to Financial Statements--Continued

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE E--NET ASSETS WITH DONOR RESTRICTIONS, OTHER THAN ENDOWMENTS

Net assets with donor restrictions, other than endowments, were released from donor restrictions in fiscal 2018-2019 by incurring expenses satisfying the restricted purposes or by occurrence of other events as specified by the donors as follows:

| | |
|--|---------------------|
| Capital Campaign | \$ 645,166 |
| Facility Improvements - County of Durham grant | 198,662 |
| State funds, field biologist/exhibit supplies | 28,712 |
| Space and Earth STEM Education (NASA/via Science Museum of Minnesota and Arizona State University) | 143,384 |
| Oceans Outreach (NSF/via Duke University) | 13,158 |
| Multi-Site Public Engagement with Science (NSF/via Museum of Science, Boston) | 2,063 |
| ChemAttitudes (NSF/via Museum of Science, Boston) | 11,611 |
| Earth Moves Exhibit (GSK Foundation) | 20,972 |
| Teen Aerospace (NASA) | 2,500 |
| Co-Created Public Engagement for Science (CC-PES) (NSF via Twin Cities Public Television) | 8,297 |
| Nanolithography (NSF via NC State University) | 7,919 |
| Earth Moves Exhibit (Frank Smullin) | 14,980 |
| Scholarships (Nora K. Nicholson) | 1,488 |
| Various programs | 34,066 |
| General support: | |
| County of Durham grant | <u>1,567,841</u> |
| | <u>\$ 2,700,819</u> |

Net assets with donor restrictions at June 30, 2019, are available for the following purposes:

| | |
|---|-------------------|
| Capital Campaign | \$ 89,229 |
| Facility Improvements - County of Durham grant | 59,236 |
| Dinosaur Trail | 17,582 |
| Earth Moves Exhibit (GSK Foundation) | 126,122 |
| Nanolithography (NSF via NC State University) | 8,345 |
| WTVD Weather Exhibit | 4,500 |
| Cerebro Edu (NIH via Twin Cities Public Television) | 1,000 |
| Scholarships (Nora K. Nicholson) | 29,227 |
| Various programs | <u>63,278</u> |
| | <u>\$ 398,519</u> |

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE F--CONDITIONAL SUPPORT

The following represent conditional promises to give at June 30, 2019, for which no support is recognized in the accompanying financial statements:

Reimbursement grants:

| | |
|---|------------|
| Space and Earth Informal STEM Education (SEISE) project, scheduled for funding by December 2019. | \$ 122,922 |
| Chem Attitudes, scheduled for funding by September 2019. | 2,279 |
| Co-Created Public Engagement with Science (CC-PES), scheduled for funding by October 2019. | 11,050 |
| Cerebro Edu, scheduled for funding by March 2020. | 2,000 |
| County of Durham bond proceeds for capital improvement project, conditional to incurrence of qualifying expenditures. (Refer also to <i>Note D--Property and Equipment</i> .) | 6,363,038 |

NOTE G--NET ASSETS WITH DONOR RESTRICTIONS, HELD UNDER ENDOWMENTS

FASB ASC 958-205 provides guidance on the net asset classification of board-designated and donor-restricted endowment funds held by nonprofit organizations, subject to an enacted version of UPMIFA (the *Uniform Prudent Management Institutional Funds Act*). The Museum holds only donor-restricted endowment funds. Therefore, unless stated otherwise in the gift instrument, assets held under endowments are considered donor-restricted assets until appropriated for expenditure by the Museum. Endowment net assets are disaggregated further by the Museum as to which amounts are subject to appropriation by the Museum or to investment in perpetuity. The Museum considers the following to be subject to investment in perpetuity: (1) the original value of gifts donated to endowments, (2) the original value of subsequent gifts to endowments, and (3) accumulations to endowments made in accordance with the direction of the applicable donor gift instruments. Net investment income is considered available for appropriation unless otherwise directed by the gift instrument.

The Museum has historically placed the majority of its endowment net assets with Triangle Community Foundation (TCF). In June 2018, the Museum was notified of TCF's newly-adopted endowment spending policy that sets the minimum required fund balance for endowment funds at \$50,000 and removes the spending restriction on endowed funds with smaller balances in order to provide effective and prudent stewardship.

In August 2018, the Museum notified TCF of its election (with the donor's consent) to convert the Nora K. Nicholson Scholarship Fund to a non-endowed investment fund. *Net assets with donor restrictions, held under endowments*, of \$29,101 were reclassified to *net assets with donor restrictions, other than endowments*, in the accompanying financial statements as a result of this election. The non-endowed fund will continue to be on a distribution schedule, with distributions made annually in February at the rate of 4% per year beginning with calendar year 2019. However, as a non-endowed fund, distributions of any amount may be requested. The fund will continue to be subject to donor restrictions, but will no longer require the investment of any portion of the fund in perpetuity.

In August 2018, the Museum also notified TCF of its election to take a full distribution of the balance of the Frank Smullin Arts & Technology Fund. *Net assets with donor restrictions, held under endowments*, of \$14,980 were reclassified to *net assets with donor restrictions, other than endowments*, in the accompanying financial statements as a result of this election. The Museum used the distributed funds to support the *Earth Moves* exhibit which opened in late September 2019.

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE G--NET ASSETS WITH DONOR RESTRICTIONS, HELD UNDER ENDOWMENTS--Continued

At June 30, 2019, donor-restricted General Endowment funds of \$81,652 and \$35,155 are held by TCF and Mechanics & Farmers Bank (M&F), respectively, for the benefit of the Museum. The funds held by TCF are invested in the TCF Endowment Investment Pool, which has a diversification target of 60% equity, 20% fixed income, and 20% alternative investments. The primary investment objective is to increase charitable assets while preserving capital. In May 2016, the Museum advised TCF to invest all funds in its General Endowment, rather than holding out a 5% *spendable balance* for distributions. The 5% *spendable balance* is not invested and does not earn income for the fund. General Endowment funds held by Mechanics & Farmers Bank are invested in a bank money market account. Investment income (including interest and dividends, net of fees, and realized and unrealized gains and losses) from the General Endowment is available for the Museum's general use upon appropriation.

Endowment net assets by fund type at June 30, 2019, and changes in endowment net assets for the year then ended as follows:

| | Subject to Approp'n | Subject to Investment in Perpetuity | Total |
|--------------------------------------|------------------------|---|-------------------|
| Donor-restricted endowment funds: | | | |
| General Endowment (M&F) | \$ 5,155 | \$ 30,000 | \$ 35,155 |
| General Endowment (TCF) | 38,231 | 43,421 | 81,652 |
| Board-designated endowment funds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total endowment funds, June 30, 2019 | <u>\$ 43,386</u> | <u>\$ 73,421</u> | <u>\$ 116,807</u> |
| Endowment net assets, June 30, 2018 | \$ 49,465 | \$ 108,398 | \$ 157,863 |
| Investment income, net | 3,808 | - | 3,808 |
| Contributions | - | - | - |
| Reclassification of net assets: | | | |
| Nora K. Nicholson Scholarship Fund | (291) | (28,810) | (29,101) |
| Frank Smullin Arts & Technology Fund | (8,813) | (6,167) | (14,980) |
| Appropriated for expenditure | <u>(783)</u> | <u>-</u> | <u>(783)</u> |
| Endowment net assets, June 30, 2019 | <u>\$ 43,386</u> | <u>\$ 73,421</u> | <u>\$ 116,807</u> |

NOTE H--LEASES

The Museum leases two tracts of land from the City of Durham under leases which provide for annual lease payments of \$1 and \$100, and expire in 2033 and 2031, respectively. No in-kind support has been recorded for these reduced-rate leases because the fair rental value is not determinable.

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.**NOTE I--403(b) RETIREMENT PLANS**

The Museum sponsors a defined contribution plan, as well as a plan for employee deferrals. The Defined Contribution Plan provides for the Museum to contribute 5% of an employee's annual compensation, for employees who have both completed a Year of Service and attained age twenty-one, as defined by the plan. The Museum's contributions to the plan for the year ended June 30, 2019, approximated \$189,000. The Tax Deferred Annuity Plan allows employees to make elective deferrals, subject to limitations established by the Internal Revenue Service, with no age or service requirements. Participants are fully vested in all contributions to their accounts.

At its October 2018 meeting, the Executive Committee of the Board approved combining the Defined Contribution Plan and the Tax Deferred Annuity Plan into one plan, effective January 1, 2019. The aggregation of plans has no impact on plan participants.

NOTE J--FAIR VALUE MEASUREMENTS

The Museum applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority.

The following represents assets measured (and carried) at fair value on a recurring basis by the Museum:

| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
|--|---------------------|---|--|---------------------------------------|
| <u>June 30, 2019</u> | <u>Fair Value</u> | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
| <i>Cash equivalents:</i> | | | | |
| Money market accounts | \$ 1,087,871 | \$ 1,087,871 | \$ - | \$ - |
| <i>Investments:</i> | | | | |
| Bank certificate of deposit | 156,870 | - | 156,870 | - |
| TCF Non-endowed Equity Oriented Investment Pool | 29,227 | 29,227 | - | - |
| <i>Held under endowments:</i> | | | | |
| Bank money market | 35,155 | 35,155 | - | - |
| TCF Endowment Invest- ment Pool | 81,652 | 81,652 | - | - |
| <i>Deferred compensation:</i> | | | | |
| CREF Equity Index R1 | 83,915 | 83,915 | - | - |
| | <u>\$ 1,474,690</u> | <u>\$ 1,317,820</u> | <u>\$ 156,870</u> | <u>\$ -</u> |

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE J--FAIR VALUE MEASUREMENTS--Continued

Level 1: Cash equivalents are held in bank/credit union money market accounts. Endowment funds and non-endowed funds held by the Triangle Community Foundation (TCF) are invested as described in the preceding table, and are carried at fair value as reported by TCF. (Refer also to *Note H--Net Assets With Donor Restrictions, Held Under Endowments*.) Investments to fund deferred compensation are held in CREF Equity Index R1 and are carried at fair value as reported by TIAA.

Level 2: Investments include amounts held in a thirteen-month bank certificate of deposit. The certificate is carried at face value plus accrued earnings thereon, which approximates the fair value of such.

The Museum reports transfers between levels of the fair value hierarchy, if any, at the end of the reporting period. There were no such transfers at June 30, 2019 and 2018.

At June 30, 2019 and 2018, the Museum had no assets or liabilities classified within Level 3 of the fair value hierarchy.

NOTE K--SIGNIFICANT CONCENTRATIONS

Credit Risk: The Museum has its primary operating account with a bank and its Board-designated reserves and certain endowed investments with various other banks (and credit unions). Deposits are eligible for up to \$250,000 of insurance coverage per bank (credit union), as provided by the Federal Deposit Insurance Corporation (National Credit Union Administration). At June 30, 2019, approximately \$1,731,000 of the Museum's bank (credit union) holdings exceeded federally insured limits.

Support Risk (including a subsequent event): The Museum depends upon an annual award from the County of Durham to cover a significant portion of its operating expenses. The award provided for \$1,567,841 (or approximately 17% of the Museum's operating expenses before depreciation) for the year ended June 30, 2019. Management was notified subsequently of an appropriation, whereby the County of Durham will provide general operating support of \$1,667,841 and capital improvement funds of \$100,000 to the Museum for the year ending June 30, 2020.

Economic Risk: Approximately 48% and 46% of the Museum's operating expenses before depreciation for the years ended June 30, 2019 and 2018 were funded by membership dues and general admission fees. While the Museum attracts members and visitors from across the State and beyond, a significant portion of its members and visitors live in and around the Raleigh-Durham-Research Triangle area.

NOTE L--BANK LINE OF CREDIT

The Museum has a \$500,000 bank line of credit, though no amounts had been drawn against the line through June 30, 2019, or subsequent thereto. The line bears interest at the bank's one-month LIBOR plus 2.50% per annum and is secured by the Museum's deposits with the bank, as well as other assets of the Museum.

NOTE M--COMMITMENTS AND CONTINGENCIES

Commitments: The Museum has committed to make certain severance payments in the event of *termination without cause* under an employment contract scheduled to expire December 31, 2020, but providing for annual renewals thereafter. The contract also provides for a minimum base salary, discretionary performance bonuses, and deferred compensation.

Effective September 24, 2014, the Museum established a 457(f) deferred compensation plan on behalf of the President and CEO. The Museum shall make a contribution of 5% of the CEO's current base salary upon execution of the agreement. An annual contribution of 5% of the CEO's current base salary shall be made before September 30 of each year. Amounts contributed are to be invested as directed by the Employee, from investment options provided by the Employer. All expenses incurred related to the investment account shall be taken from the investment account. Invested amounts and the related deferred compensation liability total \$83,915 at June 30, 2019.

Notes to Financial Statements--Continued

THE NORTH CAROLINA MUSEUM OF LIFE AND SCIENCE, INC.

NOTE M--COMMITMENTS AND CONTINGENCIES--Continued

Contingencies: Financial assistance from various awarding agencies is subject to special audit. Such audits could result in claims against the Museum for disallowed costs or noncompliance with grantor restrictions. Management is aware of no disallowable costs or instances of noncompliance with grantor restrictions. Consequently, no provision has been made for liabilities, if any, that may arise from such audits.

NOTE N--SUBSEQUENT EVENTS (unless otherwise disclosed herein)

Management has evaluated subsequent events through January 17, 2020, the date on which financial statements were available for issue.