

Perot Museum of Nature and Science

Financial Report

September 30, 2018

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Independent Auditor's Report

To the Board of Directors
Perot Museum of Nature and Science Dallas, Texas

We have audited the accompanying financial statements of the Perot Museum of Nature and Science (the Museum), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

The Board of Trustees
Perot Museum of Nature and Science

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Perot Museum of Nature and Science as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
January 28, 2019

Perot Museum of Nature and Science

Statements of Financial Position

September 30, 2018 And 2017

ASSETS	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 26,354,917	\$ 23,661,735
Investments	25,432,798	26,139,988
Accounts receivable	457,692	484,298
Contributions receivable, net	7,955,500	6,478,844
Prepaid expenses and other assets	396,300	1,551,917
Property and equipment, net of depreciation	<u>129,339,660</u>	<u>133,285,057</u>
TOTAL ASSETS	<u>\$ 189,936,867</u>	<u>\$ 191,601,839</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,035,698	\$ 3,073,311
Unearned revenue	<u>904,000</u>	<u>811,203</u>
Total liabilities	3,939,698	3,884,514
NET ASSETS		
Unrestricted, undesignated	134,371,529	140,990,156
Unrestricted, board designated	<u>27,353,055</u>	<u>23,867,231</u>
Total unrestricted net assets	161,724,584	164,857,387
Temporarily restricted	16,772,585	15,359,938
Permanently restricted	<u>7,500,000</u>	<u>7,500,000</u>
Total net assets	<u>185,997,169</u>	<u>187,717,325</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 189,936,867</u>	<u>\$ 191,601,839</u>

The Notes to Financial Statements are an integral part of these statements.

Perot Museum of Nature and Science
Statements of Activities
Year Ended September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Earned revenues				
General admission fees	\$ 8,516,941	\$ -	\$ -	\$ 8,516,941
Theater admissions	1,095,412	-	-	1,095,412
Education programs	1,694,992	-	-	1,694,992
Memberships	825,132	-	-	825,132
Ancillary and other	2,313,404	-	-	2,313,404
Contributions				
Gifts and grants	3,385,756	6,847,374	-	10,233,130
City of Dallas	763,989	-	-	763,989
In-kind	719,727	-	-	719,727
Special events	54,391	830,218	-	884,609
Investment income, net	1,706,069	574,586	-	2,280,655
Net assets released from restrictions	6,839,531	(6,839,531)	-	-
TOTAL REVENUES AND OTHER SUPPORT	27,915,344	1,412,647	-	29,327,991
EXPENSES				
Programs				
Exhibitions	4,284,123	-	-	4,284,123
Education	4,323,513	-	-	4,323,513
Scientific activities	761,563	-	-	761,563
Theater operations	515,136	-	-	515,136
Operating				
Operating	4,172,116	-	-	4,172,116
Marketing	2,561,766	-	-	2,561,766
Facilities	4,805,073	-	-	4,805,073
Technology	1,963,188	-	-	1,963,188
TOTAL EXPENSES	23,386,478	-	-	23,386,478
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION				
	4,528,866	1,412,647	-	5,941,513
Depreciation and amortization	7,661,669	-	-	7,661,669
CHANGE IN NET ASSETS	(3,132,803)	1,412,647	-	(1,720,156)
NET ASSETS, beginning of year	164,857,387	15,359,938	7,500,000	187,717,325
NET ASSETS, end of year	\$161,724,584	\$ 16,772,585	\$ 7,500,000	\$185,997,169

The Notes to Financial Statements are an integral part of these statements.

Perot Museum of Nature and Science
Statements of Activities – Continued
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Earned revenues				
General admission fees	\$ 7,342,881	\$ -	\$ -	\$ 7,342,881
Theater admissions	1,126,653	-	-	1,126,653
Education programs	1,530,999	-	-	1,530,999
Memberships	840,665	-	-	840,665
Ancillary and other	3,202,896	-	-	3,202,896
Contributions				
Gifts and grants	3,652,830	1,077,530	-	4,730,360
City of Dallas	803,278	67,500	-	870,778
In-kind	594,096	308,400	-	902,496
Special events	157,700	955,164	-	1,112,864
Investment income, net	1,873,646	833,420	-	2,707,066
Net assets released from restrictions	4,169,550	(4,169,550)	-	-
TOTAL REVENUES AND OTHER SUPPORT	25,295,194	(927,536)	-	24,367,658
EXPENSES				
Programs				
Exhibitions	3,468,584	-	-	3,468,584
Education	4,117,199	-	-	4,117,199
Scientific activities	605,726	-	-	605,726
Theater operations	581,660	-	-	581,660
Operating				
Operating	4,038,784	-	-	4,038,784
Marketing	2,335,279	-	-	2,335,279
Facilities	4,747,843	-	-	4,747,843
Technology	1,786,572	-	-	1,786,572
TOTAL EXPENSES	21,681,647	-	-	21,681,647
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION	3,613,547	(927,536)	-	2,686,011
Depreciation and amortization	7,923,266	-	-	7,923,266
CHANGE IN NET ASSETS	(4,309,719)	(927,536)	-	(5,237,255)
NET ASSETS, beginning of year	169,167,106	16,287,474	7,500,000	192,954,580
NET ASSETS, end of year	\$ 164,857,387	\$ 15,359,938	\$ 7,500,000	\$ 187,717,325

The Notes to Financial Statements are an integral part of these statements.

Perot Museum of Nature and Science
Statements of Cash Flows
Years Ended September 30, 2018 And 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,720,156)	\$ (5,237,255)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized gain on investments	(2,128,246)	(2,468,252)
Realized loss/(gain) on investments	167,592	(43,852)
Loss on disposal of property and equipment	1,063,199	13,687
Depreciation and amortization	7,661,669	7,923,266
Change in accounts receivable	26,606	(41,408)
Change in contributions receivable	(1,476,656)	1,472,298
Change in prepaid expenses and other assets	1,155,617	(707,809)
Change in accounts payable and accrued expenses	(37,613)	59,259
Change in unearned revenue	92,797	(33,435)
	4,804,809	936,499
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(465,047)	(480,339)
Sale of investments	3,132,891	1,546,318
Proceeds from sale of property and equipment	-	59,779
Purchase of property and equipment	(4,779,471)	(1,366,739)
	(2,111,627)	(240,981)
 Increase in cash and cash equivalents	2,693,182	695,518
 CASH AND CASH EQUIVALENTS, beginning of year	23,661,735	22,966,217
 CASH AND CASH EQUIVALENTS, end of year	\$ 26,354,917	\$ 23,661,735

The Notes to Financial Statements are an integral part of these statements.

Perot Museum of Nature and Science

Notes to Financial Statements

Note 1. Purpose of Organization

Purpose

The Perot Museum of Nature and Science (the Museum or Organization), formerly known as the Museum of Nature and Science, is a Texas not-for-profit corporation organized to inspire minds through nature and science. The Museum was founded in 1936 as part of the Texas Centennial and was one of the first natural history museums in the region. It is the only public collections-based, research driven, natural history museum in the region.

In June 2006, the Museum acquired the net assets of the Southwest Museum of Science and Technology (The Science Place). The Science Place was founded in 1946 as the Dallas Health Museum and is one of the oldest science museums in the nation. In October 2006, the Museum acquired the net assets of the Dallas Children's Museum. In December 2012, the Museum moved from its original facility in Fair Park which was provided by the City of Dallas to a newly constructed facility in Downtown Dallas' Victory Park area. The new facility, known as the Perot Museum of Nature and Science, is an 180,000 square foot, state-of-the-art exhibit and education space which includes 11 permanent exhibit halls, six learning labs/classrooms, a temporary exhibit hall, a 3D digital theater, auditorium, museum shop, cafe and outdoor science park. The Museum has retained the use of the Nature Building at Fair Park for its paleontology lab, collections storage, and outreach educational staff.

In 1993, operation of the Museum was transferred from the City of Dallas (which owns the building in Dallas at Fair Park and a portion of the collections). The City of Dallas continues to support the Museum with direct support of \$763,989 in 2018 and \$870,778 in 2017, plus contributed utilities and maintenance of approximately \$58,000 in 2018 and 2017. Additional support in the form of in-kind lease rent is contributed each year (Note 11).

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), which recognizes revenues when earned and expenses when incurred.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant estimates include but are not limited to the fair value of investments, allowance and discount on contributions receivable and estimated useful lives of property and equipment.

Perot Museum of Nature and Science

Notes to Financial Statements

Basis of Presentation

The Organization three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Unrestricted net assets are expendable resources which are not subject to donor-imposed restrictions. Unrestricted net assets include funds designated for operations, net investment in plant facilities, certain investment and endowment gains and funds functioning as endowment. These net assets may be designated by the Organization’s board of directors for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties.

All expenses are recorded as a reduction of unrestricted net assets. The operating activities of the Organization include the revenues earned and expenses incurred in the current year to support the Organization’s core activities of inspiring minds through nature and science. The non-operating activities of the Organization include returns on the Organization’s investments, current year gifts not included in operations, capital, and other gifts released from restrictions.

Temporarily restricted net assets – Temporarily restricted net assets include gifts and contributions that are subject to donor-imposed restrictions that expire with the passage of time, payment of contributions or specific actions to be undertaken by the Organization, which are then released and reclassified to unrestricted net assets. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until donor restrictions are met. Donor- restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted net assets when the asset is placed in service.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions require they be maintained permanently. Permanently restricted net assets are generally restricted to long-term investment and are comprised primarily of donor- restricted endowment funds. Generally, the donors of these assets permit the Organization to use all or part of the investment return on these assets. Income on endowment funds restricted for specified purposes is reported on the accompanying statements of activities and changes in net assets as temporarily restricted realized gains and unrealized gains on investments.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor- imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

Revenue Recognition

Support arising from donated services, goods, or capital equipment is recorded as both revenues and as an expense or asset based on the fair value at the date of the donation.

Perot Museum of Nature and Science

Notes to Financial Statements

Revenue from the sale of tickets to the public, reservations for school programs, and tickets to the theater for dates after the end of the year is deferred as unearned revenue. Membership revenues are recognized ratably over the terms of the memberships. Amounts included in ancillary and other revenues include facilities rentals, café revenues, gift shop revenues, and parking revenues for which revenue is recognized in accordance with agreements and contracts.

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum's programs, principally in board activities, scientific laboratories, and educational programs. The value of this contributed time is not reflected in these financial statements because it does not meet criteria for recognition under the GAAP.

Cash and Cash Equivalents

The Museum considers cash and cash equivalents to be cash on hand, money market accounts, and all highly liquid investments purchased with an initial maturity of three months or less. Cash and cash equivalents are reported at cost which approximates fair value. The Organization maintains cash balances at various financial institutions, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

The Museum records investments at fair value. Under this method of accounting, fair value fluctuations are recorded in the period in which they occur by adjusting the carrying value of such investments and recognizing a net unrealized gain or loss. Realized gains and losses are recognized in the period in which they are earned or incurred. Interest income is recorded as earned. Investment income is reported in unrestricted net assets unless its use is restricted by explicit donor stipulation or by law.

Accounts Receivable

Accounts receivable consists of amounts owed on various agreements and contracts, and are included on the accompanying statements of financial position. Management determines the need for an allowance for doubtful accounts which is based upon a review of outstanding receivables, historical collection information, existing economic conditions, and by identifying troubled accounts. Historically, the Organization has not experienced significant losses on accounts receivables. Based on past experience and analysis of current receivable collectability, no allowance for doubtful accounts was considered necessary as of September 30, 2018 and 2017.

Contributions

Unconditional promises by donors to give are included on the financial statements as contributions receivable and revenue in the appropriate net asset category. The Organization reports contributions as restricted support if the support is received with donor restrictions that limit the use of the donated assets. When and if a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. Support that is not restricted by the donor is reported as an increase in unrestricted net assets in the reporting period in which the support is recognized.

Perot Museum of Nature and Science

Notes to Financial Statements

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique using a discounted rate commensurate with the risks involved. Promises to give are recorded after discounting, to the present value of the future cash flows. Unconditional promises to give received during the years ended September 30, 2018 and 2017 have been discounted at 3.4% and 2.4%, respectively. The resulting discount of \$195,352 and \$221,718 at September 30, 2018 and 2017, respectively, is amortized using the level-yield method.

The Organization reports contributions of land, buildings, equipment and other long-lived assets as unrestricted revenue, unless explicit donor restrictions specify how the donated assets must be used. Gifts of assets with explicit restrictions that specify how the assets are to be used are accounted for as restricted support. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization evaluates the need for an allowance for uncollectible accounts based on management's analysis of specific pledges, historical collection experience, type of contribution, and nature of the fund-raising activity, and is adjusted for those contributions receivable for which collection is uncertain. Historically, the Organization has experienced minimal losses on receivables. Based on their review of the criteria above, management has recorded an allowance for uncollectible accounts of \$17,520 and \$0 for the years ended September 31, 2018 and 2017, respectively.

Conditional promises to give depend on the occurrence of a specified future and uncertain event to bind the potential donor. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. No amounts have been recognized in the financial statements for conditional promises to give, which generally arise from the Organization being named as a beneficiary in a revocable will or trust, because the conditions on which such contributions depend have not been substantially met.

Property and Equipment

Purchased property and equipment are stated at cost, representing the purchase price or fair market value at the date of gift, less accumulated depreciation. Depreciation expense is computed using the straight-line method over estimated useful lives of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

	<u>Estimated Useful Life</u>
Building & building improvements	3 - 40 years
Exhibits and renovations	6 - 10 years
Land improvements	5 - 15 years
Equipment and furniture	3 - 15 years
Leasehold improvements	20 years

Perot Museum of Nature and Science

Notes to Financial Statements

The Organization capitalizes property and equipment with a cost greater than \$5,000 and a useful life of greater than three years. The Organization reviews the carrying value of long-lived assets to determine if facts and circumstances suggest that they may be impaired or that the depreciation or amortization period may need to be changed. If circumstances indicate the long-lived asset will not be recoverable, based upon undiscounted cash flows of the long-lived asset over the remaining life, the carrying value of the long-lived asset will be reduced by the estimated shortfall of discounted cash flows. The Organization does not believe there are any indicators that would require an adjustment of the carrying value of its long-lived assets or their remaining useful lives as of September 30, 2018 and 2017.

Collections

The physical facilities at Fair Park and a portion of the collections of the Museum are owned by the City of Dallas, except for certain other collections, which are owned by the Museum. The Museum's collections are comprised of objects of historical, cultural or scientific significance that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved and cared for, and monitored according to professional museum standards, and activities verifying its existence and assessing its condition are performed continuously. The collections are subject to a policy that requires proceeds from sales of collection items be used to acquire other items for collections or provide for the direct care of existing collections.

In accordance with the practice generally followed by museums, the value of objects in the collections is excluded from the financial statements. Such collections have been acquired through purchases and contributions since the Museum's inception. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as decreases in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in net assets. There were no sales of collection items in 2018 or 2017.

Deferred Membership Revenue

The Organization directly solicits memberships. Membership dues received are recognized as revenue upon receipt for the portion of the dues that are considered a contribution to the Museum, while the portion of the dues that relates to the service the Museum will provide the member is recognized as revenue ratably over the term of the membership period. Amounts not yet earned by the end of the fiscal year are reported as deferred revenue on the statements of financial position.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense or an asset, as applicable, in its financial statements and similarly increase contribution revenue by a like amount. The Organization has recorded in-kind contributions for use of facilities and professional services in the statement of activities in accordance with GAAP. Only contributions of services received that create or enhance a nonfinancial asset or require a specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation, are recorded. Generally, the Organization recognizes donated property if the estimated fair value exceeds \$5,000. For the years ended September 30, 2018 and 2017, \$719,727 and \$902,496 respectively, was received in in-kind contributions. Additionally, in-kind rent was contributed as detailed in Note 11.

Perot Museum of Nature and Science

Notes to Financial Statements

Income Taxes

The Organization has been recognized by the Internal Revenue Service as a nonprofit corporation exempt from federal income tax on its income, under Section 501(c)(3) of the Internal Revenue Code. The Organization follows the provisions of ASC 740-10, Income Taxes, related to unrecognized tax positions. The Organization recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the positions. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Organization does not believe there are any material uncertain tax positions and accordingly, it will not recognize any liability for unrecognized tax benefits. For the years ended September 30, 2018 and 2017, there were no interest or penalties recorded or included in the financial statements. The Organization is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis on the statement of activities. Certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

The Organization uses advertising to promote its programs. The production costs of advertising are expensed as incurred and include direct media, promotional items, and advertising contracts for public relations development. For the years ended September 30, 2018 and 2017, advertising costs were approximately \$722,000 and \$717,000, respectively, and are included in marketing expenses on the statement of activities.

Deferred Compensation

The Organization holds an investment in a 457(b) plan. In accordance with GAAP, the Organization has recorded an investment - deferred compensation and a corresponding deferred compensation liability on the statement of financial position. The investment - deferred compensation is recorded at fair value. All activity related to this investment, including contributions, gain or loss and investment income, is recorded as increases or decreases to the investment and liability accounts.

New Accounting Pronouncements/Accounting Changes

Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958), was issued in August 2016. This standard fundamentally changes the financial presentation for nonprofit entities. It reduces net asset classifications to two from the current three, and adds additional disclosures concerning expenses and liquidity among others. The new requirements will be effective for the Museum for the year ended September 30, 2019. Management is reviewing the implementation process and gathering information for the implementation of this standard.

Perot Museum of Nature and Science

Notes to Financial Statements

Reclassification

Certain reclassifications have been made to the 2017 amounts to conform to the presentation in 2018. The reclassifications had no effect on total net assets or change in net assets.

Note 3. Contributions Receivable

As of September 30, unconditional promises to give are expected to be collected in the following periods:

	2018	2017
Due in the next year	\$ 3,405,872	\$ 2,650,562
Due in one to five years	4,762,500	3,550,000
Due in more than five years	-	500,000
	8,168,372	6,700,562
Less unamortized discount	(195,352)	(221,718)
Less allowance for uncollectible pledges	(17,520)	-
Total contributions receivable	\$ 7,955,500	\$ 6,478,844

Campaign for Excellence - The Campaign for Excellence was launched in 2012 to secure the financial resources to bring blockbuster traveling exhibitions to Dallas; to support innovation and technology; to build our endowment; to support research and collections; and to grow our scholarship programs. The Museum raised pledges of approximately \$20.9 million through September 30, 2018, of which approximately \$4 million are still to be collected.

Contributions receivable are discounted at a rate of 3.4% and 2.4% at September 30, 2018 and 2017, respectively. Activity within allowances for uncollectible amounts was insignificant during the years ended September 30, 2018 and 2017. In-kind receivables included in contributions receivable totaled \$114,731 and \$835,575 at September 30, 2018 and 2017, respectively.

Note 4. Fair Value of Investments

The Organization's investments are recorded at fair value and consisted of the following at September 30, 2018 and 2017:

	2018	2017
Mutual funds	\$ 4,716,146	\$ 4,426,115
Privately managed funds - equities	18,315,767	19,519,468
Privately managed funds - fixed income	715,751	1,065,877
Private equity funds	1,685,134	1,128,528
	\$ 25,432,798	\$ 26,139,988

Perot Museum of Nature and Science

Notes to Financial Statements

Investment income at September 30, 2018 and 2017 consisted of the following:

	2018	2017
Dividends and interest	\$ 320,001	\$ 194,962
Net realized gains (losses)	(167,592)	43,852
Net unrealized gains	2,128,246	2,468,252
	\$ 2,280,655	\$ 2,707,066

The Organization follows FASB ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. FASB ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed as follows:

Level 1 Quoted prices are available in active markets that the Organization has the ability to access for identical investments as of the reporting date, without adjustment. The type of investments in Level I include listed mutual funds.

Level 2 Other significant observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices of identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Significant unobservable inputs. Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Organization evaluates its hierarchy disclosures each reporting period and, based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Organization expects that changes in classifications between different levels will not have a significant effect on the financial statements.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Perot Museum of Nature and Science

Notes to Financial Statements

The fair value of each asset and liability in the tables below was measured using FASB ASC 820 input guidance and valuation techniques. The following tables present 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 September 30, 2018 and 2017:

Assets at Fair Value as of September 30, 2018						
	Liquidity	Notice Period	Level 1	Level 2	Level 3	Total
Investment - deferred compensation						
Various equity mutual funds	Daily	N/A	\$ 65,650	\$ -	\$ -	\$ 65,650
Mutual funds						
Energy limited partnership	Daily	N/A	742,332	-	-	742,332
Large blend	Daily	N/A	<u>3,908,164</u>	<u>-</u>	<u>-</u>	<u>3,908,164</u>
Total investments in fair value hierarchy			<u>\$ 4,716,146</u>	<u>\$ -</u>	<u>\$ -</u>	4,716,146
Investments measured at net asset value						
Japanese equities	Annually	90 Days				791,173
Emerging market funds	Annually	90 Days				2,089,290
Multi-Strategy funds	Annually	90 Days				11,372,426
International equities	Monthly	60 Days				4,062,878
Fixed Income	Monthly	15 Days				715,751
Private equity fund 1	As Realized	N/A				230,833
Private equity fund 2	Annually	N/A				599,117
Private equity fund 3	As Realized	N/A				519,908
Insurance linked securities	18 months	100 days				<u>335,276</u>
Investments at fair value						<u>\$ 25,432,798</u>

Assets at Fair Value as of September 30, 2017						
	Liquidity	Notice Period	Level 1	Level 2	Level 3	Total
Mutual funds						
Energy limited partnership	Daily	N/A	\$ 728,681	\$ -	\$ -	\$ 728,681
Large Blend	Daily	N/A	<u>3,697,434</u>	<u>-</u>	<u>-</u>	<u>3,697,434</u>
Total investments in fair value hierarchy			<u>\$ 4,426,115</u>	<u>\$ -</u>	<u>\$ -</u>	4,426,115
Investments measured at net asset value						
Japanese equities	Annually	90 Days				707,895
Emerging market funds	Annually	90 Days				2,431,109
Multi-strategy funds	Annually	90 Days				12,190,049
International equities	Monthly	60 Days				4,190,415
Fixed Income	Monthly	15 Days				1,065,877
Private equity fund 1	As Realized	N/A				218,757
Private equity fund 2	Annually	N/A				310,212
Private equity fund 3	As Realized	N/A				338,021
Insurance linked securities	18 months	100 Days				<u>261,538</u>
Investments at fair value						<u>\$ 26,139,988</u>

Perot Museum of Nature and Science

Notes to Financial Statements

Fair Value of Investments that Calculate Net Asset Value

The Organization invests in the following investment companies that are reported at net asset value. Investments reported at net asset value are excluded from the fair value hierarchy:

September 30, 2018	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Private equity fund 1 (a)	\$ 230,833	\$ 146,382	See (a)	See (a)
Private equity fund 2 (a)	599,117	-	See (a)	See (a)
Private equity fund 3 (a)	519,908	-	See (a)	See (a)
International equities (b)	4,062,878	-	See (b)	See (b)
Emerging markets funds (c)	2,089,290	-	See (c)	See (c)
Multi-strategy funds (d)	11,372,426	-	See (d)	See (d)
Fixed income (e)	715,751	-	See (e)	See (e)
Japanese Equities (f)	791,173	-	See (f)	See (f)
Insurance linked securities (g)	335,276	-	See (g)	See (g)

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of September 30, 2017:

September 30, 2017	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Private equity fund 1 (a)	\$ 218,757	\$ -	See (a)	See (a)
Private equity fund 2 (a)	310,212	50,000	See (a)	See (a)
Private equity fund 3 (a)	338,021	60,000	See (a)	See (a)
International equities (b)	4,190,415	-	See (b)	See (b)
Emerging markets funds (c)	2,431,109	-	See (c)	See (c)
Multi-strategy funds (d)	12,190,049	-	See (d)	See (d)
Fixed income (e)	1,065,877	-	See (e)	See (e)
Japanese Equities (f)	707,895	-	See (f)	See (f)
Insurance linked securities (g)	261,538	-	See (g)	See (g)

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Organization's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Perot Museum of Nature and Science

Notes to Financial Statements

- (a) Private equity funds - The private equity fund contains interest in various established private equity funds and interest in operating companies owned by private equity funds. Due to the nature of the investments, restrictions on redemptions exist in some of the private equity funds and amounts are considered illiquid.
- (b) International equities – The international equities includes an investment in a fund of funds that invests primarily in long U.S. and international equities with a long-term investment horizon. Withdrawals may be made at the end of any fiscal quarter by giving notice no later than 60 days prior to the quarter end of the withdrawal.
- (c) Emerging markets funds – The emerging markets funds invest in equity and debt securities in emerging market companies, opportunities that arise from the restructuring of debt, opportunities in privatization ventures, arbitrage opportunities, and securities of privately held companies, including certain investments that are hedged. Withdrawals may be made at the end of the calendar year by giving notice no later than September 30th.
- (d) Multi-strategy funds – The multi-strategy funds include investments in various relative value arbitrage strategies which use varying degrees of hedging and leverage, a diversified group of long and short equity funds that attempt to minimize market risk through a hedged approach, and various other securities and funds. Withdrawals may be made on a quarterly basis.
- (e) Fixed income – The fixed income fund is a pooled investment fund that invests in a variety of equity, debt, and options. Withdrawals may be made at the end of each month with a 15 day notice.
- (f) Japanese Equities – The Japanese equities fund include investments in various domestic Japanese securities. Withdrawals may be made at the end of the calendar year by giving notice no later than September 30th.
- (g) Insurance linked securities – The insurance linked securities fund includes investments in private non-life insurance, with an emphasis on property catastrophe that has limited to no correlation to traditional asset classes. Withdrawals can begin on 12/31/2018 for 50% of capital with the remaining 50% available on 12/31/2019 both with a 100 day notice.

Note 5. Property and Equipment

Property and equipment consisted of the following as of September 30:

	2018	2017
Building and building improvements	\$ 106,028,551	\$ 105,929,084
Exhibits and renovations	34,128,287	31,874,764
Land and land improvements	25,780,485	25,780,485
Equipment and furniture	6,546,432	6,006,719
Leasehold improvements	1,500,000	1,500,000
Artwork	201,953	201,953
Work in progress	98,949	598,648
	174,284,657	171,891,653
Less accumulated depreciation and amortization	(44,944,997)	(38,606,596)
	\$ 129,339,660	\$ 133,285,057

Perot Museum of Nature and Science

Notes to Financial Statements

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are summarized as follows:

	2018	2017
Accounts payable	\$ 456,116	\$ 732,184
Other accrued expenses	1,365,900	1,193,805
Deferred compensation	65,650	-
Accrued compensation and benefits	1,148,032	1,147,322
	\$ 3,035,698	\$ 3,073,311

Note 7. Defined Contribution Plan

The Museum has established a 403(b) Plan for the benefit of all its employees. Employees are eligible to participate on the first day of the month subsequent to their hire. Each eligible employee may contribute to the plan. The Museum may, at the Board's discretion, match contributions based upon the employee's contribution to the plan. The Museum recognized an expense of approximately \$213,000 and \$158,000 in 2018 and 2017, respectively, representing its matching contribution.

Note 8. Net Assets

Temporarily restricted net assets are available for the following programs:

	2018	2017
Campaign for Excellence	\$ 8,058,991	\$ 10,707,043
Bio-Lab - Perot Museum	-	4,571
Education programs	5,173,263	924,034
Scientific research	97,626	95,379
Exhibits	653,476	402,776
Collections	310,833	35,833
Fundraising development	848,235	1,407,053
Contributed rent	-	527,175
Endowment investment income	1,630,161	1,256,074
	\$ 16,772,585	\$ 15,359,938

Perot Museum of Nature and Science

Notes to Financial Statements

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, as follows:

	2018	2017
Campaign for Excellence	\$ 2,674,442	\$ 785,848
Bio-Lab Perot Museum	4,571	99,712
Education programs	1,310,605	1,044,272
Scientific research	47,753	101,409
Exhibits	402,650	296,122
Collections	25,000	-
Fundraising development	1,646,836	1,065,975
Contributed rent	527,175	575,100
Endowment investment income	200,499	201,112
	\$ 6,839,531	\$ 4,169,550

Permanently Restricted Net Assets

The income generated from permanently restricted net assets of \$7,500,000 can be used to support the general operations of the Museum.

Note 9. Night at the Museum Special Event

Included in Special Event revenues are amounts from the Museum's primary fundraising event, Night at the Museum, which were held November 11, 2017 and November 12, 2016, and had the following results:

	2018	2017
Ticket sales and in-kind gifts	\$ 1,147,920	\$ 1,056,800
Direct costs of event	(325,930)	(314,240)
	\$ 821,990	\$ 742,560

Direct costs of the event are included in operating expenses on the statements of activities.

Note 10. Endowment

The Museum's endowment consists of numerous accounts established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi endowment). The net assets of endowment funds are classified and reported based on the existence or absence of donor restrictions.

Perot Museum of Nature and Science

Notes to Financial Statements

Interpretation of Relevant Law

The Museum follows FASB ASC 958-205, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds, which provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the 2006 UPMIFA. The Museum, relying on information and advice from legal counsel and appointed officers, has interpreted UPMIFA to require the preservation of the historic dollar value of the donor restricted endowment fund pool, absent explicit donor direction to the contrary. As a result of this interpretation, for financial reporting purposes, the Museum classifies endowment assets with donor restrictions as follows:

Permanently Restricted Net Assets

The original historic dollar value of donor-restricted endowment assets, including any subsequent gifts and any required accumulations to be made in accordance with the donor gift instrument (mandatory capitalization) are classified as permanently restricted net assets.

Temporarily Restricted Net Assets

Unrealized gains and losses, realized gains and losses, and any accumulations made on donor-restricted endowment assets which are discretionary and not required by explicit donor restrictions (discretionary capitalization) are classified as temporarily restricted net assets until those amounts are appropriated for expenditure with the standard of care required by UPMIFA.

Unrestricted Net Assets

Income from endowment assets which is explicitly directed by the donor to be used to support current operations is classified as unrestricted net assets.

Endowment net assets consist of the following at September 30:

	2018			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 15,417,871	\$ -	\$ -	\$ 15,417,871
Donor restricted endowment funds	-	1,630,160	7,500,000	9,130,160
Total endowed net assets	\$ 15,417,871	\$ 1,630,160	\$ 7,500,000	\$ 24,548,031
	2017			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 14,670,807	\$ -	\$ -	\$ 14,670,807
Donor restricted endowment funds	-	1,256,073	7,500,000	8,756,073
Total endowed net assets	\$ 14,670,807	\$ 1,256,073	\$ 7,500,000	\$ 23,426,880

Perot Museum of Nature and Science

Notes to Financial Statements

Changes in the endowment for the years ended September 30, 2018 and 2017 were as follows:

	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment, October 1, 2016	\$ 13,537,298	\$ 623,765	\$ 7,500,000	\$ 21,661,063
Investment income	69,795	38,310	-	108,105
Realized losses	28,327	15,525	-	43,852
Unrealized gains	1,462,750	779,585	-	2,242,335
Change in restriction	<u>(427,363)</u>	<u>(201,112)</u>	<u>-</u>	<u>(628,475)</u>
Endowment, September 30, 2017	14,670,807	1,256,073	7,500,000	23,426,880
Investment income	72,295	31,921	-	104,216
Realized losses	45,474	20,533	-	66,007
Unrealized gains	1,097,126	522,132	-	1,619,258
Change in restriction	<u>(467,831)</u>	<u>(200,499)</u>	<u>-</u>	<u>(668,330)</u>
Endowment, September 30, 2018	<u>\$ 15,417,871</u>	<u>\$ 1,630,160</u>	<u>\$ 7,500,000</u>	<u>\$ 24,548,031</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment accounts may fall below the level that the donor or UPMIFA requires the Museum to retain for perpetuity. A deficiency of this nature would be reported in unrestricted net assets. No individual donor-restricted endowment accounts fell below this threshold, and donor-restricted endowment funds contained no deficiency for the years ending September 30, 2018 and 2017.

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs and scholarships supported by endowment while seeking to maintain the real purchasing power of the endowment. Endowment assets are invested to yield a level of return to meet the objectives of the fund while adhering to a prudent level of risk.

Strategies Employed for Achieving Objectives

The Museum investment objective is to earn inflation-offsetting returns that preserve the real value of the assets and where possible earn enhanced returns to achieve the spending objectives of the operations supported by the endowments. The endowment assets are invested in a diversified investment portfolio designed to achieve a balance of income and growth objectives within prudent risk constraints.

Spending Policy and How Investment Objectives Relate to Spending Policy

In accordance with UPMIFA, 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 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; and
7. The investment policies of the Museum

Perot Museum of Nature and Science

Notes to Financial Statements

After maintaining the real value of the permanent endowment funds, any remainder of total return is available for appropriation. The Museum appropriates investment earnings, as considered prudent, to meet the Museum's long term and short term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions.

Note 11. Commitments and Contingencies

Total lease expense was approximately \$2,405,000 in 2018 and \$1,854,000 in 2017.

Lease expense does not include in-kind rent in the amount of \$575,100. The Museum renewed the lease agreement in 2018 to use the building at Fair Park through 2020. The Museum has recorded a contribution receivable for the estimated value of the remaining benefit to be provided until the end of its lease agreement in 2020.

The Museum entered into a 20 year lease of a parking lot beginning in January 2012 with the City of Dallas. The lease calls for minimum annual payments of \$388,500. The agreement also calls for additional rent based upon collections, as defined in the agreement. The agreement also allows for two 10-year lease extensions. The lease is being expensed in the Museum's financial statements in level amounts over the lease terms.

Scheduled minimum payments under leases is as follows at September 30, 2018:

<u>Year ending September 30,</u>	
2019	\$ 535,000
2020	400,500
2021	400,500
2022	392,500
2023	388,500
2024 and thereafter	<u>3,205,125</u>
	<u>\$ 5,322,125</u>

Note 12. Concentrations

At September 30, 2018, the Museum had outstanding pledges due from three donors that accounted for approximately 90% of contributions receivable. At September 30, 2017, the Museum had outstanding pledges due from two donors that accounted for approximately 85% of contributions receivable.

Note 13. Subsequent Events

The Museum evaluated its financial statements for subsequent events through January 28, 2019, the date the financial statements were available to be issued. Effective December 24, 2018, the Museum received an extension from the City of Dallas to extend the lease agreement for the use of the building at Fair Park through February 2020.

The Museum plans to purchase a building with the intent to consolidate its collections. The purchase is expected to take place within the year ending September 30, 2019.