

Perot Museum of Nature and Science

Financial Report

September 30, 2019

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Independent Auditor's Report

To the Board of Directors of
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, 2019 and 2018, the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended September 30, 2019, 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.

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, 2019 and 2018, 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.

The Board of Trustees of
Perot Museum of Nature and Science

Emphasis of Matter

As discussed in Note 2, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
February 7, 2020

Perot Museum of Nature and Science
 Statements of Financial Position
 September 30, 2019 And 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 30,695,369	\$ 26,354,917
Investments	24,031,658	25,432,798
Accounts receivable	307,105	457,692
Contributions receivable, net	6,405,161	7,955,500
Prepaid expenses and other assets	702,445	396,300
Property and equipment, net of depreciation	127,436,867	129,339,660
TOTAL ASSETS	\$ 189,578,605	\$ 189,936,867
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,692,240	\$ 3,035,698
Unearned revenue	1,046,599	904,000
Note payable, net	2,464,530	-
Total liabilities	7,203,369	3,939,698
NET ASSETS		
Without donor restrictions	158,342,523	161,724,584
With donor restrictions	24,032,713	24,272,585
Total net assets	182,375,236	185,997,169
TOTAL LIABILITIES AND NET ASSETS	\$ 189,578,605	\$ 189,936,867

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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Earned revenues			
General admission fees	\$ 9,215,643	\$ -	\$ 9,215,643
Theater admissions	955,679	-	955,679
Education programs	1,849,335	-	1,849,335
Memberships	937,853	-	937,853
Ancillary and other	4,845,685	-	4,845,685
Contributions			
Gifts and grants	4,075,699	3,737,570	7,813,269
City of Dallas	683,940	-	683,940
In-kind	479,030	747,919	1,226,949
Special events	56,413	1,061,069	1,117,482
Investment income, net	427,592	106,805	534,397
Net assets released from restrictions	5,893,235	(5,893,235)	-
TOTAL REVENUES AND OTHER SUPPORT	29,420,104	(239,872)	29,180,232
EXPENSES			
Salaries and benefits	11,487,655	-	11,487,655
Travel and professional development	388,132	-	388,132
Consultants and professional services	1,617,858	-	1,617,858
Advertising and promotion	1,542,516	-	1,542,516
Office expenses	1,114,244	-	1,114,244
Exhibition rental and maintenance	2,354,231	-	2,354,231
Supplies	1,851,032	-	1,851,032
Occupancy	3,844,637	-	3,844,637
Building and equipment maintenance/repairs	628,706	-	628,706
TOTAL EXPENSES	24,829,011	-	24,829,011
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION			
	4,591,093	(239,872)	4,351,221
Depreciation and amortization	7,973,154	-	7,973,154
CHANGE IN NET ASSETS	(3,382,061)	(239,872)	(3,621,933)
NET ASSETS, beginning of year	161,724,584	24,272,585	185,997,169
NET ASSETS, end of year	\$ 158,342,523	\$ 24,032,713	\$ 182,375,236

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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</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			
Salaries and benefits	10,776,501	-	10,776,501
Travel and professional development	212,338	-	212,338
Consultants and professional services	1,500,712	-	1,500,712
Advertising and promotion	1,618,692	-	1,618,692
Office expenses	1,168,104	-	1,168,104
Exhibition rental and maintenance	2,105,424	-	2,105,424
Supplies	1,641,622	-	1,641,622
Occupancy	3,713,371	-	3,713,371
Building and equipment maintenance/repairs	649,714	-	649,714
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	22,859,938	187,717,325
NET ASSETS, end of year	\$ 161,724,584	\$ 24,272,585	\$ 185,997,169

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

Perot Museum of Nature and Science
Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services					Total Program Expenses	Supporting Services		Total Supporting Expenses	Total Expenses
	Exhibitions	Education	Scientific Activities	Theater Operations	Facilities		General and Administration	Fundraising		
Salaries and benefits	\$ 2,642,881	\$ 4,319,558	\$ 819,044	\$ 121,408	\$ 1,527,939	\$ 9,430,830	\$ 598,430	\$ 1,458,395	\$ 2,056,825	\$ 11,487,655
Travel and professional development	103,355	52,797	52,504	4,560	19,059	232,275	123,929	31,928	155,857	388,132
Consultants and professional services	500,664	73,001	32,455	6,255	21,731	634,106	440,554	543,198	983,752	1,617,858
Advertising and promotion	746,371	633,268	112,212	-	-	1,491,851	-	50,665	50,665	1,542,516
Office expenses	3,441	22,139	482	-	1,017,493	1,043,555	66,077	4,612	70,689	1,114,244
Exhibition rental and maintenance	1,952,581	39,183	55,770	273,818	7,964	2,329,316	24,915	-	24,915	2,354,231
Supplies	654,490	500,253	47,250	71,485	108,896	1,382,374	84,065	384,593	468,658	1,851,032
Occupancy	-	-	-	-	3,671,318	3,671,318	173,319	-	173,319	3,844,637
Building and equipment maintenance/repairs	-	-	-	-	628,706	628,706	-	-	-	628,706
Total expenses before depreciation	6,603,783	5,640,199	1,119,717	477,526	7,003,106	20,844,331	1,511,289	2,473,391	3,984,680	24,829,011
Depreciation	3,716,184	31,170	33,063	64,686	4,024,019	7,869,122	103,785	247	104,032	7,973,154
TOTAL EXPENSES	\$ 10,319,967	\$ 5,671,369	\$ 1,152,780	\$ 542,212	\$ 11,027,125	\$ 28,713,453	\$ 1,615,074	\$ 2,473,638	\$ 4,088,712	\$ 32,802,165

The Notes to Financial Statements is an integral part of this statement.

Perot Museum of Nature and Science
Statements of Cash Flows
Years Ended September 30, 2019 And 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,621,933)	\$ (1,720,156)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized loss (gain) on investments	71,715	(2,128,246)
Realized (gain) loss on investments	(831)	167,592
(Gain) loss on disposal of property and equipment	(1,420,527)	1,063,199
Depreciation and amortization	7,973,154	7,661,669
Change in accounts receivable	150,587	26,606
Change in contributions receivable	1,550,339	(1,476,656)
Change in prepaid expenses and other assets	(306,145)	1,155,617
Change in accounts payable and accrued expenses	656,542	(37,613)
Change in unearned revenue	142,599	92,797
	5,195,500	4,804,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(6,758,375)	(465,047)
Sale of investments	8,088,631	3,132,891
Proceeds from sale of property and equipment	1,500,000	-
Purchase of property and equipment	(6,685,304)	(4,779,471)
	(3,855,048)	(2,111,627)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of note payable	3,000,000	-
	3,000,000	-
Increase in cash and cash equivalents	4,340,452	2,693,182
CASH AND CASH EQUIVALENTS, beginning of year	26,354,917	23,661,735
CASH AND CASH EQUIVALENTS, end of year	\$ 30,695,369	\$ 26,354,917

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 \$683,940 in 2019 and \$763,989 in 2018, plus contributed utilities and maintenance of approximately \$58,000 in 2019 and 2018, respectively. Additional support in the form of in-kind lease rent is contributed each year (Note 12).

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 presents its financial statements in accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 958 Not-for-Profit Entities. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. 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:

- Net Assets Without Restrictions - Net assets that are not subject to donor-imposed stipulations. Restricted contributions received and released in the current year will be reported as activity between the applicable classes of assets.
- Net Assets With Restrictions - Net assets with restrictions include net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time to be used generally for capital expenditures and program support. Net assets with restrictions also include net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be retained permanently. Generally, the donors of these assets permit the Museum to use all or part of the income earned on related investments for general or specific purposes, including program support.

Revenues are reported as increases in net assets without restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with restriction (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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.

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.

Perot Museum of Nature and Science

Notes to Financial Statements

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 net assets without donor restrictions 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, 2019 and 2018.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions. Support that is not restricted by the donor is reported as an increase in net assets without donor restrictions in the reporting period in which the support is recognized.

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, 2019 and 2018 have been discounted at 2.9% and 3.4%, respectively. The resulting discount of \$104,965 and \$195,352 at September 30, 2019 and 2018, respectively, is amortized using the level-yield method.

The Organization reports contributions of land, buildings, equipment and other long-lived assets as revenue without donor restrictions, 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 \$0 and \$17,520 for the years ended September 31, 2019 and 2018, respectively.

Perot Museum of Nature and Science

Notes to Financial Statements

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

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, 2019 and 2018.

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 net assets without donor restrictions in the year in which the items are acquired, or as decreases in 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 2019 or 2018.

Perot Museum of Nature and Science

Notes to Financial Statements

Unearned 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 unearned 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, 2019 and 2018, \$1,226,949 and \$719,727 respectively, was received in in-kind contributions. Additionally, in-kind rent was contributed as detailed in Note 12.

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, 2019 and 2018, 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 Functional Expenses. Salaries and related payroll expenses are recorded based on actual segregation of personnel by program or supporting services, when available. Distribution of all other expenses is based on actual usage or management's estimate of usage applicable to various programs and supporting services benefited.

Perot Museum of Nature and Science

Notes to Financial Statements

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, 2019 and 2018, advertising costs were approximately \$728,000 and \$722,000, 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 accrued expenses accounts.

New Accounting Pronouncement and Adoption

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented which had no material change to net assets.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the 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:

	2019	2018
Due in the next year	\$ 4,295,126	\$ 3,405,872
Due in one to five years	2,215,000	4,762,500
Due in more than five years	-	-
	6,510,126	8,168,372
Less unamortized discount	(104,965)	(195,352)
Less allowance for uncollectible pledges	-	(17,520)
Total contributions receivable	\$ 6,405,161	\$ 7,955,500

Perot Museum of Nature and Science

Notes to Financial Statements

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, 2019, of which approximately \$3 million are still to be collected.

Contributions receivable are discounted at a rate of 2.9% and 3.4% at September 30, 2019 and 2018, respectively. Activity within allowances for uncollectible amounts was insignificant during the years ended September 30, 2019 and 2018. In-kind receivables included in contributions receivable totaled \$239,625 and \$114,731 at September 30, 2019 and 2018, respectively.

Note 4. Fair Value of Investments

The Organization's investments are recorded at fair value and consisted of the following at September 30, 2019 and 2018:

	2019	2018
Mutual funds	\$ 5,076,999	\$ 4,716,146
Privately managed funds - equities	15,612,393	18,315,767
Privately managed funds - fixed income	1,323,378	715,751
Private equity funds	2,018,888	1,685,134
	\$ 24,031,658	\$ 25,432,798

Investment income at September 30, 2019 and 2018 consisted of the following:

	2019	2018
Dividends and interest	\$ 605,281	\$ 320,001
Net realized gains (losses)	831	(167,592)
Net unrealized (losses) gains	(71,715)	2,128,246
	\$ 534,397	\$ 2,280,655

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.

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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.

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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, 2019 and 2018:

Assets at Fair Value as of September 30, 2019						
	Liquidity	Notice Period	Level 1	Level 2	Level 3	Total
Investment - deferred compensation						
Various equity mutual funds	Daily	N/A	\$ 125,663	\$ -	\$ -	\$ 125,663
Mutual funds						
Energy limited partnership	Daily	N/A	4,784,875	-	-	4,784,875
Other	Daily	N/A	161,461	-	-	161,461
Total investments in fair value hierarchy			\$ 5,071,999	\$ -	\$ -	5,071,999
Investments measured at net asset value						
Japanese equities	Annually	90 Days				714,515
Emerging market funds	Annually	90 Days				2,080,314
Multi-Strategy funds	Annually	90 Days				8,933,842
International equities	Monthly	60 Days				3,888,722
Fixed Income	Monthly	15 Days				1,323,378
Private equity fund 1	As Realized	N/A				269,994
Private equity fund 2	Annually	N/A				981,811
Private equity fund 3	As Realized	N/A				702,492
Insurance linked securities	18 months	100 days				64,591
Investments at fair value						\$ 24,031,658

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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>

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. The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of September 30, 2019:

September 30, 2019	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity fund 1 (a)	\$ 269,994	\$ 79,108	See (a)	See (a)
Private equity fund 2 (a)	981,811	-	See (a)	See (a)
Private equity fund 3 (a)	702,492	-	See (a)	See (a)
International equities (b)	3,888,722	-	See (b)	See (b)
Emerging markets funds (c)	2,080,314	-	See (c)	See (c)
Multi-strategy funds (d)	8,933,842	-	See (d)	See (d)
Fixed income (e)	1,323,378	-	See (e)	See (e)
Japanese Equities (f)	714,515	-	See (f)	See (f)
Insurance linked securities (g)	64,591	-	See (g)	See (g)

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The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of September 30, 2018:

September 30, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
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)

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.

- (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.

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- (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 became available on December 31, 2018 for 50% of capital with the remaining 50% available on December 31, 2019, both with a 100 day notice.

Note 5. Property and Equipment

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

	2019	2018
Building and building improvements	\$ 109,650,278	\$ 106,028,551
Exhibits and renovations	34,651,956	34,128,287
Land and land improvements	25,856,016	25,780,485
Equipment and furniture	6,958,924	6,546,432
Leasehold improvements	1,500,000	1,500,000
Artwork	201,953	201,953
Work in progress	1,279,401	98,949
	180,098,528	174,284,657
Less accumulated depreciation and amortization	(52,661,661)	(44,944,997)
	\$ 127,436,867	\$ 129,339,660

In order to consolidate collections at one location, the Museum purchased property in Dallas, Texas on March 14, 2019, and completed the sale of property in Dallas on May 13, 2019. The larger property will house the museum collection and provide office space for research and collections staff.

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are summarized as follows:

	2019	2018
Accounts payable	\$ 1,003,215	\$ 456,116
Other accrued expenses	1,347,956	1,365,900
Deferred compensation	121,291	65,650
Accrued compensation and benefits	1,219,778	1,148,032
	\$ 3,692,240	\$ 3,035,698

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Note 7. Note Payable

On March 15, 2019, concurrent with the purchase of a building, the Museum entered into a promissory note with an individual lender for \$3 million. The note is payable in ten annual payments, beginning in March 2020, with the first nine payments due of \$200,000 each and a payment of the remaining balance being paid at the maturity date. There is no stated interest on the promissory note. As such, the Museum inputted a discount on the promissory note using its borrowing rate. The note payable balance was \$2,464,530 as of September 30, 2019, which includes an unamortized discount of \$535,470.

Note 8. Defined Contribution Plan

The Museum has established a 401(k) 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 \$270,000 and \$213,000 in 2019 and 2018, respectively, representing its matching contribution.

Note 9. Net Assets

Net assets without donor restrictions included certain amounts that were designated by the Museum's board to be spent for the following purposes at September 30:

	<u>2019</u>	<u>2018</u>
Endowment	15,036,377	15,417,871
Building	1,505,562	1,505,562
Exhibits	4,104,503	4,257,502
Technology	1,135,840	1,135,840
Other	165,633	370,632
	<u>\$ 21,947,915</u>	<u>\$ 22,687,407</u>

Net assets with donor restrictions are restricted for the following purposes at September 30:

	<u>2019</u>	<u>2018</u>
Campaign for Excellence	\$ 7,377,305	\$ 8,058,991
Bio-Lab - Perot Museum	50,000	-
Education programs	3,757,385	5,173,263
Scientific research	107,115	97,626
Exhibits	1,610,088	653,476
Collections	611,933	310,833
Fundraising development	1,037,264	848,235
Contributed rent	431,325	-
Endowment investment income	1,550,298	1,630,161
Restricted in perpetuity	7,500,000	7,500,000
	<u>\$ 24,032,713</u>	<u>\$ 24,272,585</u>

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Net assets were released from restrictions by incurring expenses to satisfy the following purpose restrictions or by the passage of time during the years ended September 30:

	2019	2018
Campaign for Excellence	\$ 772,073	\$ 2,674,442
Bio-Lab Perot Museum	80,533	4,571
Education programs	2,033,647	1,310,605
Scientific research	70,510	47,753
Exhibits	679,878	402,650
Collections	389,370	25,000
Fundraising development	1,236,692	1,646,836
Contributed rent	431,326	527,175
Endowment investment income	199,206	200,499
	\$ 5,893,235	\$ 6,839,531

Note 10. 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 10, 2018 and November 11, 2017, and had the following results:

	2019	2018
Ticket sales and in-kind gifts	\$ 1,122,871	\$ 1,147,920
Direct costs of event	(375,333)	(325,930)
	\$ 747,538	\$ 821,990

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

Note 11. 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.

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:

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Notes to Financial Statements

Net Assets with Donor Restrictions

Net assets with donor restrictions include 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) that are restricted in perpetuity. Net assets with donor restrictions also include 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) until those amounts are appropriated for expenditure with the standard of care required by UPMIFA.

Net Assets without Donor Restrictions

Income from endowment assets which is explicitly directed by the donor to be used to support current operations is classified as net assets without donor restrictions.

Endowment net assets consist of the following at September 30:

	2019		
	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	\$ 15,036,377	\$ -	\$ 15,036,377
Donor restricted endowment funds	-	9,050,298	9,050,298
Total endowed net assets	\$ 15,036,377	\$ 9,050,298	\$ 24,086,675
	2018		
	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	\$ 15,417,871	\$ -	\$ 15,417,871
Donor restricted endowment funds	-	9,130,160	9,130,160
Total endowed net assets	\$ 15,417,871	\$ 9,130,160	\$ 24,548,031

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Changes in the endowment for the years ended September 30, 2019 and 2018 were as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment, October 1, 2017	\$ 14,670,807	\$ 8,756,073	\$ 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>(668,330)</u>
Endowment, September 30, 2018	15,417,871	9,130,160	24,548,031
Investment income	56,690	27,314	84,004
Realized losses	13,175	6,551	19,726
Unrealized gains	13,454	85,479	98,933
Change in restriction	<u>(464,813)</u>	<u>(199,206)</u>	<u>(664,019)</u>
Endowment, September 30, 2019	<u>\$ 15,036,377</u>	<u>\$ 9,050,298</u>	<u>\$ 24,086,675</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 net assets without donor restrictions. No individual donor-restricted endowment accounts fell below this threshold, and donor-restricted endowment funds contained no deficiency for the years ending September 30, 2019 and 2018.

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 of 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

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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 12. Commitments and Contingencies

Total lease expense was approximately \$2,519,603 in 2019 and \$2,405,000 in 2018.

Lease expense does not include in-kind rent in the amount of \$623,025. The Museum renewed the lease agreement in 2018 to use the building at Fair Park through February 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 February 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, 2019:

<u>Year Ending September 30,</u>		
2020	\$	400,500
2021		400,500
2022		392,500
2023		388,500
2024		388,500
2025 and thereafter		<u>2,816,625</u>
	<u>\$</u>	<u>4,787,125</u>

Note 13. Concentrations

At September 30, 2019, the Museum had outstanding pledges due from three donors that accounted for approximately 74% of contributions receivable. At September 30, 2018, the Museum had outstanding pledges due from three donors that accounted for approximately 90% of contributions receivable.

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Note 14. Liquidity

The Museum regularly monitors liquidity required to meet its operating needs and other contractual commitments. For the purposes of analyzing resources available to meet general expenditures within 12 months, the Museum considers all expenditures related to its programs, management, and fundraising to be general expenditures. Amounts not available include endowment cash, board designated reserves, and donor-restricted cash. As of September 30, 2019, the following financial assets could readily be made available within one year to meet general expenditures:

Cash and cash equivalents	\$ 18,817,131
Accounts receivable	200,109
Contributions receivable for general expenditure due in one year or less	2,229,001
Board-approved endowment distribution in next 12 months	<u>694,806</u>
Financial assets due within one year of statement of financial position date for general expenditure	<u>\$ 21,941,047</u>

Note 15. Subsequent Events

The Museum evaluated its financial statements for subsequent events through February 7, 2020, the date the financial statements were available to be issued, and determined that no events have occurred subsequent to September 30, 2019 that warrant recognition or disclosure in the accompanying financial statements.