Exploratorium

Consolidated Financial Report
June 30, 2018

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Exploratorium
San Francisco, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of the Exploratorium, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Exploratorium as of June 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018 on our consideration of the Exploratorium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exploratorium's internal control over financial reporting and compliance.

RSM US LLP

San Francisco, California
October 8, 2018

Exploratorium

Consolidated Statements of Financial Position
June 30, 2018 and 2017

		2018		2017
Assets				
Cash and cash equivalents	**$**	**2,467,632**	$	23,680
Restricted cash		**250,000**		250,000
Contributions receivable, net (Note 2)		**17,509,971**		40,777,951
Government receivables		**513,560**		650,463
Accounts receivable		**906,945**		1,760,419
Inventories		**1,010,887**		1,007,516
Other assets and prepaid expenses		**1,874,603**		1,836,834
Investments, at fair value (Note 4)		**57,830,847**		28,898,632
Exhibits, leasehold improvements and equipment (Note 3)		**185,448,062**		190,351,767
Construction in progress, exhibits		**241,132**		773,881
Deferred rent (Note 8)		**2,452,079**		3,452,803
Total assets	**$**	**270,505,718**	$	269,783,946
Liabilities and Net Assets				
Line of credit (Note 7)	**$**	**2,180,595**	$	-
Trade payables		**1,260,025**		2,018,714
Accrued expenses		**4,122,555**		4,045,843
Deferred revenue		**2,036,131**		3,193,673
Historic tax credit obligation (Note 10)		**44,192,544**		44,192,544
Term debt, net (Note 7)		**44,276,476**		44,096,321
Total liabilities		**98,068,326**		97,547,095
Net assets:				
Unrestricted		**107,901,126**		115,271,603
Temporarily restricted (Note 5)		**8,259,156**		6,898,787
Permanently restricted (Note 5)		**56,277,110**		50,066,461
Total net assets		**172,437,392**		172,236,851
Total liabilities and net assets	**$**	**270,505,718**	$	269,783,946

See notes to consolidated financial statements.

Exploratorium

Consolidated Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support:				
Private contributions	$ 6,375,024	$ 9,717,788	$ 6,210,649	$ 22,303,461
Government grants	3,379,931	-	-	3,379,931
Global Studios—domestic	688,491	-	-	688,491
Global Studios—foreign	1,309,075	-	-	1,309,075
Admissions	9,995,456	-	-	9,995,456
Membership	2,367,946	-	-	2,367,946
Rentals and other revenue	8,887,338	-	-	8,887,338
Store sales	2,157,738	-	-	2,157,738
Net assets released from restrictions	11,435,650	(11,435,650)	-	-
Total revenue and support	46,596,649	(1,717,862)	6,210,649	51,089,436
Operating expenses:				
Program services:				
Visitor, learner and educator programs	36,496,196	-	-	36,496,196
Global Studios	1,933,563	-	-	1,933,563
Admissions and other	4,275,592	-	-	4,275,592
Store expenses	1,072,419	-	-	1,072,419
Support services:				
General and administrative	5,267,939	-	-	5,267,939
Fundraising and membership	3,733,471	-	-	3,733,471
Total operating expenses	52,779,180	-	-	52,779,180
Change in net assets from operating activities	(6,182,531)	(1,717,862)	6,210,649	(1,689,744)
Capital revenue:				
Private campaign contributions	-	1,619,904	-	1,619,904
Net assets released from restrictions	1,619,904	(1,619,904)	-	-
Total nonoperating revenues	1,619,904	-	-	1,619,904
Financing expense:				
Term loan interest expense	2,102,319	-	-	2,102,319
Historic Tax Credit (HTC) interest expense	880,442	-	-	880,442
Total nonoperating expenses	2,982,761	-	-	2,982,761
Investment activity:				
Investment income	76,110	1,586,273	-	1,662,383
Net realized and unrealized gains	98,801	1,491,958	-	1,590,759
Total investment activity	174,911	3,078,231	-	3,253,142
Change in net assets	(7,370,477)	1,360,369	6,210,649	200,541
Net assets, beginning of year	115,271,603	6,898,787	50,066,461	172,236,851
Net assets, end of year	$ 107,901,126	$ 8,259,156	$ 56,277,110	$ 172,437,392

See notes to consolidated financial statements.

Exploratorium

Consolidated Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support:				
Private contributions	$ 6,787,317	$ 8,267,730	$ 25,010,066	$ 40,065,113
Government grants	3,562,068	-	-	3,562,068
Global Studios—domestic	2,514,941	-	-	2,514,941
Global Studios—foreign	2,788,559	-	-	2,788,559
Admissions	10,272,474	-	-	10,272,474
Membership	2,485,695	-	-	2,485,695
Rentals and other revenue	9,109,525	-	-	9,109,525
Store sales	2,642,578	-	-	2,642,578
Net assets released from restrictions	7,966,541	(7,966,541)	-	-
Total revenue and support	48,129,698	301,189	25,010,066	73,440,953
Operating expenses:				
Program services:				
Visitor, learner and educator programs	36,726,347	-	-	36,726,347
Global Studios	2,845,486	-	-	2,845,486
Admissions and other	4,191,458	-	-	4,191,458
Store expenses	1,326,804	-	-	1,326,804
Support services:				
General and administrative	4,686,451	-	-	4,686,451
Fundraising and membership	3,473,804	-	-	3,473,804
Total operating expenses	53,250,350	-	-	53,250,350
Change in net assets from operating activities	(5,120,652)	301,189	25,010,066	20,190,603
Capital revenue:				
Private campaign contributions	-	3,973,333	-	3,973,333
Net assets released from restrictions	3,973,333	(3,973,333)	-	-
Total nonoperating revenues	3,973,333	-	-	3,973,333
Financing expense:				
Term loan interest expense	2,009,263	-	-	2,009,263
HTC interest expense	885,062	-	-	885,062
Total nonoperating expenses	2,894,325	-	-	2,894,325
Investment activity:				
Investment income	495,872	-	-	495,872
Net realized and unrealized gains	9,155	2,477,576	-	2,486,731
Total investment activity	505,027	2,477,576	-	2,982,603
Change in net assets	(3,536,617)	2,778,765	25,010,066	24,252,214
Net assets, beginning of year	118,808,220	4,120,022	25,056,395	147,984,637
Net assets, end of year	$ 115,271,603	$ 6,898,787	$ 50,066,461	$ 172,236,851

See notes to consolidated financial statements.

Exploratorium

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	**$ 200,541**	$ 24,252,214
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**6,274,024**	6,113,826
Amortization of financing costs	**163,092**	173,020
Write off of loan financing fees	**105,734**	-
Change in allowance for uncollectible accounts	**(7,000)**	(6,000)
Change in discount on long-term contributions receivable	**(238,093)**	(548,228)
Net realized and unrealized gains on investments	**(1,590,759)**	(2,486,732)
Donated securities	**(2,302,227)**	(419,784)
Proceeds from sale of donated securities	**2,302,227**	419,785
Loss on disposal of property and equipment	**79,242**	31,575
Contributions restricted for investment in endowment and museum programming	**(7,716,147)**	(26,991,822)
Change in deferred rent	**1,000,724**	1,060,993
Changes in assets and liabilities:		
Restricted cash	**-**	895,817
Government and other receivables	**990,377**	1,957,648
Inventories	**(3,371)**	130,180
Other assets and prepaid expenses	**(37,769)**	155,547
Trade payables and accrued expenses	**(681,967)**	624,445
Deferred revenue	**(1,157,542)**	(2,622,207)
Net cash (used in) provided by operating activities	**(2,618,914)**	2,740,277
Cash flows from investing activities		
Capital expenditures	**(916,811)**	(1,149,811)
Proceeds from sales of investments	**40,629,227**	22,186,612
Purchases of investments	**(67,970,682)**	(21,355,398)
Net cash used in investing activities	**(28,258,266)**	(318,597)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment and museum improvements	**31,229,208**	3,610,455
Net borrowings (repayments) on line of credit	**2,180,595**	(1,719,484)
Payments made on term loan	**(29,577,110)**	(5,517,179)
Proceeds from term loan	**29,577,110**	-
Payment of financing fees	**(88,671)**	-
Net cash provided by (used in) financing activities	**33,321,132**	(3,626,208)

(Continued)

Exploratorium

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Net increase (decrease) in cash and cash equivalents	**$ 2,443,952**	$ (1,204,528)
Cash and cash equivalents, beginning of year	**23,680**	1,228,208
Cash and cash equivalents, end of year	**$ 2,467,632**	$ 23,680
Supplemental enclosure of cash flow information:		
Cash paid for interest during the year	**$ 2,471,846**	$ 2,577,920

See notes to consolidated financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: The Exploratorium, a California nonprofit organization, is a museum of science, art, and human perception located in San Francisco, California. The Exploratorium creates tools and experiences that help visitors to become active explorers. Some of the tools used include: hundreds of "explore-for-yourself" exhibits; a website with several thousand pages of content; film screenings; workshops for lifelong learners and family investigations; and evening art and science events for adults. Professional development programs have been and are being created for educators, and are at the forefront of changing the way science is taught. Exhibits created and expertise learned are shared with museums worldwide.

A summary of the Exploratorium's significant accounting policies is as follows:

Principles of consolidation: The accompanying consolidated financial statements include the financial statements of the Exploratorium and Exploratorium Master Holdings, Inc. (Holdings), its wholly owned subsidiary. Exploratorium Solar LLC (Solar), Exploratorium Master Tenant LLC (EMTLLC), and Exploratorium Project LLC (EPLLC) are consolidated into Holdings. As further discussed in Note 10, Holdings and its related entities were created during the year ended June 30, 2011 as vehicles to assist the Exploratorium to partially finance the construction of its new facilities. Inter-organizational transactions and balances have been eliminated in the consolidation.

Basis of presentation: The Exploratorium's consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) on the basis of unrestricted, temporarily restricted, and permanently restricted net assets and under the accrual basis of accounting.

Unrestricted net assets: Unrestricted net assets are not subject to donor-imposed restrictions and include the carrying value of all physical properties (leasehold improvements and furniture and equipment). Items that affect (i.e., increase or decrease) this net asset category include: revenue (principally fees for admission), membership and educational programs, and related expenses associated with the core activities of the Exploratorium. In addition to these exchange transactions, changes in this category of net assets include certain types of philanthropic support, namely, unrestricted contributions, as well as restricted contributions whose donor-imposed restrictions were met during the fiscal year and investment income.

Temporarily restricted net assets: Temporarily restricted net assets represent contributions and other assets received from donors that are limited in use by the Exploratorium in accordance with temporary donor-imposed stipulations. Items that affect this net asset category are restricted contributions, including unconditional pledges, and investment income with donor-imposed restrictions from permanently restricted net assets. These stipulations may expire with time or may be satisfied and removed by the actions of the Exploratorium according to the terms of the contribution. Upon satisfaction of such stipulations, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently restricted net assets: Permanently restricted net assets represent unconditional promises to give by a donor that specifies that the assets donated be maintained permanently, and be invested to provide a permanent source of income. Permanently restricted gifts (endowments) are managed according to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the state of California. If the donor does not restrict the allowed use of the income, the Exploratorium classifies income as temporarily restricted net assets until those amounts are appropriated for expenditure by the Exploratorium in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash and cash equivalents represent cash and short-term investments with original maturities of 90 days or less at purchase, which are not considered investments.

Restricted cash: As of June 30, 2018 and 2017, restricted cash is held for amounts related to the ongoing maintenance of the substructure of Pier 15 and Pier 17, as further described in Note 8.

Accounts and government receivables—non-contribution: The Exploratorium evaluates the collectability of its non-contribution receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. At June 30, 2018 and 2017, the Exploratorium has determined that all non-contribution receivables are fully collectible and, therefore, has not recorded an allowance for doubtful accounts.

Contributions receivable: As of June 30, 2018 and 2017, contributions receivable consist of grants and pledges from either grantmaking foundations or donors and relate substantially to the Exploratorium's capital campaign (see Note 10). Contributions receivable at June 30, 2017 includes a bequest to be placed in a permanent endowment for programs and operations of the Bowes Education Center, which was collected in 2018. As further described in Note 2, these receivables are subject to discount. The Exploratorium has received intentions to give from its donor base, which do not constitute contributions in accordance with U.S. GAAP, and therefore, have not been recognized as revenue or receivables.

Inventories: Inventories, which consist mostly of items available for sale at the museum stores, is stated at the lower of cost (first-in, first-out basis) or net realizable value.

Exhibits, leasehold improvements and equipment: Upon determination that an exhibit is viable, the Exploratorium capitalizes the costs of construction, which generally include materials and labor. Depreciation is provided on the straight-line method over an estimated useful life of five to 10 years.

Equipment is recorded at cost or, if donated, at fair value on the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which range from three to 10 years. Leasehold improvements have been amortized on the straight-line basis over the shorter of their useful lives or the remaining period of the original lease ranging from 10 to 64 years.

Fair value of financial instruments: The carrying amounts of the Exploratorium's following financial instruments: current contributions and accounts receivable, accounts payable, and other accrued expenses, approximate their fair value due to their short maturities. Based on borrowing rates currently estimated to be available to the Exploratorium's donors being consistent with discount rates used historically, long-term contributions receivable, net of discounts, approximate fair value. Investments are reflected at fair value in the consolidated statements of financial position. The carrying value of the term debt approximates fair value as it is at a variable interest rate tied to market rates. The carrying value of the line of credit approximates fair value as its interest rate adjusts to changing market conditions. The carrying value of the Historic Tax Credit (HTC) obligation approximates fair value as it equates to the carrying value of the investor's equity interest.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Fair value measurements: Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Exploratorium's assumptions (unobservable inputs). The Exploratorium groups assets and liabilities at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Exploratorium has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2: Valuations are not based on quoted prices for identical assets or liabilities, but rather are based on significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Fair values are primarily obtained from third-party pricing services for comparable assets or liabilities.

Level 3: Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities. Management's estimate of the fair value of the alternative investments in hedge funds and private equity investment partnerships is based on information provided by the fund managers, which in turn is based on the most recent information available to the fund manager for the underlying investments.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

For the fiscal year ended June 30, 2018, the application of valuation techniques applied to similar assets has been consistent. The Exploratorium assesses levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. For the years ended June 30, 2018 and 2017, there were no such instances.

The fair value of money market funds is based on quoted market prices. Investments in equity instruments traded on national securities exchanges are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

Investments in fixed income and equity instruments for which quotations are not readily available are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. To the extent the inputs used in the pricing models are observable and timely, these financial instruments are classified as Level 2 in the fair value hierarchy; otherwise, they would be categorized as Level 3.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Investments in alternative investment funds are valued at fair value based on the applicable ownership of the funds' net asset value (NAV) or equivalent as of the measurement date as a practical expedient, as determined by the Exploratorium, in instances where there is not a readily determinable fair value. In determining fair value, the Exploratorium utilizes valuations provided by the investment funds. The investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the funds, which may include private placements and other securities for which prices are not readily available, are determined by the managers of the investment funds, which in turn is based on the most recent information available to the fund manager for the underlying investments, including the audited financial statements of the underlying funds, and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Exploratorium's investments in funds generally represents the amount the Exploratorium would expect to receive if it were to liquidate its investments in funds excluding any redemption charges that may apply.

The Exploratorium reviews its investments to identify those for which market value is below cost. The Exploratorium then makes a determination as to whether an investment should be considered other-than-temporarily impaired based on guidelines established by the Financial Accounting Standards Board (FASB). There were no other-than-temporary losses recognized during the years ended June 30, 2018 or 2017. If there were losses, these would have been treated as realized losses in the consolidated statements of activities.

The Exploratorium has various processes and controls in place to ensure fair value is reasonably stated. While the Exploratorium believes its valuation methods 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.

Investments: Investments are stated at fair value and are recorded on the trade or contract date. The fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. The fair value of alternative investments consisting of hedge funds, fixed income and private equity investment partnerships (collectively, the funds) is based on the applicable ownership of the funds' net assets or equivalent as of the measurement date, as determined by the Exploratorium. The difference between cost and fair value of investments is reflected as unrealized appreciation (depreciation) on investments, and any change in that amount from the prior year is reported as a component of investment return in the consolidated statements of activities.

Deferred rent: As further described in Note 8, the Exploratorium recognizes rent expense on the straight-line method over the term of its lease with the Port of San Francisco. In addition to the monthly lease payments, the Exploratorium is obligated under the lease agreement to pay for certain costs associated with the lease. These costs have been considered minimum lease payments and, as a result, have been included in the straight-line rent computation.

The Exploratorium uses the same methodology for its sublease on Pier 17. Rental revenue has been recognized on the straight-line basis over the term of the sublease. Initial direct costs of approximately $750,000 associated with the sublease have been included in the straight-line rent computation. Deferred rent from the above lease with the Port of San Francisco, along with this sublease, have been combined in the deferred rent line item in the consolidated statements of financial position.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Contributions: Contributions are recognized at fair value as revenue when received or unconditionally promised. An additional discount is added to the present value of contributions, which represents an additional factor in the fair value measurements and are based on management's estimates. The discounts on those pledges are computed using an interest rate for the year in which the promise was received and considers market and credit risk as applicable. Amortization of the discount is included in contributed income. Gifts of cash and other assets are reported as restricted support if received with donor stipulations that limit the use, either for time and/or purpose, of the donated assets. Donor-restricted contributions, whose restrictions are met in the same reporting period as the contribution is recorded, are reported as temporarily restricted contributions with a corresponding release of restrictions. Conditional promises to give are not recognized as revenue until the donor conditions are substantially met. The Exploratorium also receives corporate sponsorships, where revenue is recognized as both an exchange transaction and a contribution. In these cases, the Exploratorium determines the value or benefit the sponsor is receiving, and records that portion to earned revenue, with the remaining portion recorded as a contribution. If multiple deliverables span a period of years, then portions of the exchange transaction could be recorded as deferred revenue until the benefit takes place.

The Exploratorium has been conducting a multi-year, multipurpose capital campaign (the Campaign) for the purpose of the construction of its site located on the San Francisco Waterfront (i.e., the San Francisco Historic Port District) (see Note 10). The Campaign has been designed not only to encompass the renovation and construction of the new facility, but also the design and creation of the exhibits housed at the facility, new program content and an increase in the Exploratorium's endowment. Campaign contributions without a specific purpose restriction are expendable on both capitalizable and non-capitalizable expenditures, including debt repayment.

Pursuant to Board of Trustees policy, contributions received from donors through the Campaign are released once costs are incurred; however, to the extent costs are capitalized as either construction in progress (leasehold improvements) or exhibit costs in progress, such donations are maintained in temporarily restricted net assets through the completion of the construction phase. The Exploratorium has ongoing exhibit construction as a regular part of its activities. Contributions receivable from the Campaign, as shown in the consolidated statements of financial position, were released once the new facility was placed into service.

Revenue recognition: The Exploratorium recognizes revenues from store sales upon sale of the merchandise.

Admission revenues are recognized upon sale of admission tickets unless purchased in advance of use, in which case revenue is deferred until use.

Revenue from Global Studios fabrication projects is recognized using the percentage-of-completion method and revenue from consulting projects are generally recorded on an expense reimbursement basis. Revenue is recognized pro rata over the term of the lease agreement for rental fleet exhibits. Revenue from government grants is recognized as the related services are provided. Payments under such transactions are generally received on a cost-reimbursement basis.

Membership revenues are considered to be part unrestricted contribution and part exchange transaction. The contribution element is recorded in the period received. The exchange element is recorded as deferred revenue when received and recognized as membership revenue over the duration of the membership period.

Deferred revenue: Deferred revenue consists of annual or multi-year memberships, sponsorships, rental revenue and sublease space rental.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

As noted above, membership revenue is deferred and recognized over the duration of the membership period. To the extent that sponsorships contain earned revenue components as a result of specific events, etc., those are deferred until the events take place or the benefits are no longer available to the sponsor. Rental revenue that is paid in advance is considered deferred until it becomes earned.

Contribution of services: The Exploratorium has a substantial number of unpaid volunteers performing various functions who contributed over 15,183 hours (unaudited) and 18,786 hours (unaudited) for the years ended June 30, 2018 and 2017, respectively. The value of this contributed time is not reflected in the consolidated financial statements, as it does not meet the criteria for recognition. The Exploratorium also evaluates and records in-kind gifts of professional services as necessary.

Income tax status: The Exploratorium has received rulings from the Internal Revenue Service (IRS) and the California Franchise Tax Board granting it exemption from income taxes. The consolidated subsidiaries of the Exploratorium are organized as for-profit entities subject to tax at the subsidiary level. As of June 30, 2018 and 2017, the Exploratorium was not subject to any income tax as a result of ownership of its subsidiaries.

The Exploratorium files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. and California jurisdictions. The Exploratorium’s tax returns for the years ended June 30, 2014, 2015, 2016 and 2017 are open for potential IRS/California Franchise Tax Board examination. The subsidiaries are required to file corporate or partnership tax returns in the U.S. federal and California jurisdictions. The subsidiary tax returns for the years ended December 31, 2014, 2015, 2016 and 2017 are open for potential IRS/California Franchise Tax Board examination. To date, neither the Exploratorium nor its subsidiaries have been notified by either taxing authority of any pending examination.

The Exploratorium follows the provisions of FASB Accounting Standards Codification (ASC) 740-10, Income Taxes, relating to accounting for uncertain tax positions. Management evaluated the Exploratorium’s tax positions and concluded that there were no material uncertainties in income taxes as of June 30, 2018 or 2017. With few exceptions, the Exploratorium is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before June 30, 2014.

Functional expense allocations: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Expenses that apply to more than one functional category have been allocated between program services and support services based on the time spent on these functions by specific employees as estimated by management. Indirect expenses are allocated based on the overall number of staff in the various functional categories. Certain marketing material costs are allocated based on the percentage of the publication devoted to each functional area. All other costs are charged directly to the appropriate functional category.

Long-lived assets: The Exploratorium regularly evaluates whether circumstances have occurred that would indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, the Exploratorium uses an estimate of the undiscounted cash flows over the remaining life of the assets in measuring whether the assets are recoverable. In the opinion of management, no impairment adjustments were required at June 30, 2018 or 2017.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of risk: The Exploratorium recognizes there are inherent risks associated with publicly and non-publicly traded securities. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations and regular communication with investment managers. To address market risk of investments, the Exploratorium maintains a formal investment policy that sets out performance criteria and investment guidelines, and requires review of the investment managers' performances. Investments are managed by investment managers, who have responsibility for investing the funds in various investment alternatives.

The Exploratorium does transact some activities with organizations located outside the United States. For the years ended June 30, 2018 and 2017, revenues from such activities amounted to $1,309,075 and $2,788,559, respectively, which is recorded in Global Studios–foreign on the statements of activities.

In the regular course of business, the Exploratorium may maintain operating cash balances at a bank in excess of federally insured limits. Management does not believe it is exposed to any significant credit risk on uninsured amounts.

Reclassifications: Certain 2017 balances have been reclassified to conform with the 2018 presentation. These reclassifications have no effect on the Exploratorium's consolidated change in net assets or financial position as previously reported.

Issued but not adopted accounting pronouncements: In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement.* The guidance in this ASU amends the fair value disclosure requirements in ASC 820. Under the guidance, certain required disclosures regarding the fair value of the Exploratorium's investments would be modified or eliminated. The ASU is effective starting with fiscal years starting after December 15, 2019, though early adoption is permitted. The Exploratorium is currently evaluating how this ASU may impact its consolidated financial statements. The adoption of ASU 2018-13 is not expected to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Additionally, the ASU provides for earlier effective dates for public business entities). As the Exploratorium is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Exploratorium is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements. The adoption of ASU 2018-08 is not expected to have a material impact on the Exploratorium's consolidated financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*, which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 31, 2019. Early adoption is permitted. The Exploratorium is currently evaluating the effect of adoption to the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU 2016-14 streamlines and clarifies net asset reporting, provides flexibility regarding the definition or reported operating subtotals, and imposes new reporting requirements related to expenses. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Exploratorium is currently evaluating the effect of adoption to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases,* and ASU 2018-11, *Leases (Topic 842), Targeted Improvements,* that amend certain aspects of ASC Topic 842. ASU 2016-02, 2018-10, and 2018-11 are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Exploratorium is currently evaluating the effect of adoption to the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers*. The guidance in this ASU supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In May 2016, ASU 2016-12 was issued, which deferred the effective date of ASU 2014-09 for the Exploratorium to fiscal year ending June 30, 2020. The Exploratorium is currently evaluating the effect of adoption to the consolidated financial statements.

Note 2. Contributions Receivable

Contributions receivable represent unconditional promises to give by donors. Contributions that are expected to be collected after one year have been discounted at rates between 0.71 percent and 4.00 percent as of June 30, 2018 and 2017, and are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free rates applicable to the number of years the contribution is expected to remain outstanding.

Note 2. Contributions Receivable (Continued)

Contributions receivable are due as follows as of June 30:

	2018	2017
Contributions receivable (endowment and other):		
Less than one year	$ 1,964,578	$ 25,328,314
One to five years	4,050,000	110,777
Discount on receivables due in more than one year	(236,746)	(1,058)
Allowance for uncollectible contributions	-	(2,000)
	5,777,832	25,436,033
Contributions receivable (building related):		
Less than one year	2,727,838	4,116,392
One to five years	10,299,999	11,000,004
More than five years	-	2,000,000
Discount on receivables due in more than one year	(1,293,698)	(1,767,478)
Allowance for uncollectible contributions	(2,000)	(7,000)
	11,732,139	15,341,918
Total	$ 17,509,971	$ 40,777,951

As of June 30, 2018 and 2017, contributions receivable from one donor represented 66 percent and 94 percent, respectively, of the total contributions receivable amount.

Note 3. Exhibits, Leasehold Improvements and Equipment

	2018	2017
Leasehold improvements, exhibits and equipment at cost	$ 34,915,980	$ 33,805,463
Less accumulated depreciation and amortization	(20,769,806)	(17,957,356)
	14,146,174	15,848,107
Leasehold improvements, Piers 15 and 17	189,475,804	189,381,525
Less accumulated depreciation and amortization	(18,173,916)	(14,877,865)
	171,301,888	174,503,660
Total	$ 185,448,062	$ 190,351,767

Depreciation and amortization expense for leasehold improvements, exhibits and equipment was $6,274,024 and $6,113,826 for the years ended June 30, 2018 and 2017, respectively.

Note 4. Fair Value Measurements and Investments

A summary of the Exploratorium's investments measured at fair value on a recurring basis at June 30, and set forth by level within the fair value hierarchy, is as follows:

	2018			
Description	Level 1	Level 2	Level 3	Total
Money market fund	$ 1,725,178	$ -	$ -	$ 1,725,178
Fixed-income securities:				
Domestic	14,567,908	-	-	14,567,908
Equities:				
Domestic	20,777,175	-	-	20,777,175
International	18,757,554	-	-	18,757,554
	55,827,815	-	-	55,827,815
Investments measured at NAV	-	-	-	2,003,032
	$ 55,827,815	$ -	$ -	$ 57,830,847

	2017			
Description	Level 1	Level 2	Level 3	Total
Money market fund	$ 135,647	$ -	$ -	$ 135,647
Fixed-income securities:				
Domestic	5,899,513	-	-	5,899,513
Equities:				
Domestic	9,385,611	-	-	9,385,611
International	9,410,852	-	-	9,410,852
	24,831,623	-	-	24,831,623
Investments measured at NAV	-	-	-	4,067,009
	$ 24,831,623	$ -	$ -	$ 28,898,632

Note 4. Fair Value Measurement and Investment (Continued)

Additional information related to the alternative investments is as follows:

2018	Fair Value	Total Commitments	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge fund	254,378	N/A	N/A	Quarterly	65 days' notice [1]
Fixed income	1,748,654	N/A	N/A	Quarterly	60 days' notice
	$ 2,003,032	$ -	$ -		

2017	Fair Value	Total Commitments	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge fund	$ 91,989	N/A	N/A	Monthly	30 days' notice
Private equity	47,162	$ 500,000	N/A	N/A	Upon Termination [2]
Hedge fund	1,820,622	N/A	N/A	Quarterly	65 days' notice [1]
Fixed income	2,107,236	N/A	N/A	Quarterly	60 days' notice
	$ 4,067,009	$ 500,000	$ -		

(1) This class includes one fund that allows for a 65-day redemption notice, but restricts redemptions to 25 percent of the original investment each quarter.

(2) This class includes one private equity investment fund. The fund is closed ended and does not allow for withdraws or redemptions. This fund was terminated as of June 30, 2018.

Note 5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were restricted for the following purposes as of June 30:

	2018	2017
Program restrictions (purpose and time restrictions)	$ 4,567,308	$ 4,797,065
Exhibits and furniture site (time restrictions)	83,605	335,710
Unappropriated endowment earnings	3,608,243	1,766,012
	$ 8,259,156	$ 6,898,787

Note 5. Temporarily and Permanently Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction or by the passage of time during the years ended June 30:

	2018	2017
Campaign operating initiatives (time and purpose restrictions)	$ 712,136	$ 741,936
Capital campaign initiatives (purpose restrictions)	1,569,904	3,973,333
Program restrictions (time and purpose restrictions)	10,773,514	7,224,605
	$ 13,055,554	$ 11,939,874

Permanently restricted net assets generate earnings that are either purpose-restricted for various program initiatives by donors, or unrestricted as to purpose as follows as of June 30:

	2018	2017
Permanently restricted net assets generating purpose-restricted investment earnings	$ 54,447,338	$ 48,236,689
Permanently restricted net assets generating earnings with no purpose restriction	1,829,772	1,829,772
	$ 56,277,110	$ 50,066,461

Temporary program and permanent purpose restrictions primarily consist of gifts that are restricted for education and programs such as the Teacher's Institute, and Tinkering Studio and the Arts, among others.

Note 6. Endowment

California enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective January 1, 2009. As a result, the Exploratorium reviewed all relevant gift instruments and its organizing documents to determine if it had funds with donor-imposed restrictions that are subject to the state-enacted version of UPMIFA. The Exploratorium continues to review all new gift instruments in relationship to the enacted law.

Interpretation of relevant law: The Board of Trustees, with the advice of legal counsel, has determined it holds net assets that meet the definition of endowment funds under UPMIFA. As a result of this interpretation, the corpus of funds subject to UPMIFA is classified as permanently restricted. The corpus represents the fair value of the original gifts as of the gift date and all subsequent gifts where the donor has indicated the gift be retained permanently. The assets with a value in excess of original gifts in donor endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Exploratorium.

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level classified as permanently restricted net assets. At June 30, 2018 and 2017, the Exploratorium had four endowment funds with deficiencies of this nature totaling $27,432 and $52,460, respectively. These deficiencies are reflected in unrestricted net assets.

Note 6. Endowment (Continued)

In accordance with UPMIFA, the Exploratorium considers the following factors in making a determination as to the appropriation of assets for expenditure: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the Exploratorium.

Investment and spending policies: The Exploratorium has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowed assets. The investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

To accomplish the long-term rate of return objectives, the Exploratorium relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Exploratorium targets a diversified asset allocation with an emphasis on equity-based investments within prudent risk parameters.

The spending policy determines the amount of money to be distributed annually from the Exploratorium’s various endowed funds for operational support. The Exploratorium adopted a spending policy to address underwater funds, defined as those funds with balances below historic gift value. The spending rate in the current year is calculated based upon 80 percent of the previous year’s spending plus 20 percent of the market value of the portfolio, adjusted for inflation, with a target long-term spending rate of 4.5 percent, as approved by the Board of Trustees. The total amounts that were appropriated and spent in fiscal years 2018 and 2017 were $1,236,000 and $1,097,884, respectively. Appropriations from the endowment are included in net assets released from restrictions on the consolidated statements of activities.

Note 6. Endowment (Continued)

For the years ended June 30, the Exploratorium's endowment net assets changed as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ (382,768)	$ 414,913	$ 25,056,395	$ 25,088,540
Investment return:				
Investment income	6,867	466,154	-	473,021
Net losses	323,441	1,982,829	-	2,306,270
Appropriations	-	(1,097,884)	-	(1,097,884)
Additions	-	-	25,010,066	25,010,066
Endowment net assets, June 30, 2017	(52,460)	1,766,012	50,066,461	51,780,013
Investment return:				
Investment income	11,195	1,586,274	-	1,597,469
Net losses	13,833	1,491,958	-	1,505,791
Appropriations	-	(1,236,000)	-	(1,236,000)
Additions	-	-	6,210,649	6,210,649
Endowment net assets, June 30, 2018	$ (27,432)	$ 3,608,244	$ 56,277,110	$ 59,857,922

Note 7. Debt Obligations

Long-term debt: Effective November 19, 2013, the Exploratorium entered into a debt facility with a banking consortium. The terms of the facility were as follows:

- Total aggregate indebtedness—$85,000,000. Each of the three banks involved has an equal share of debt exposure ($28,333,334).
- Principal and interest payments:
  - Semi-annual interest payments are due December 31 and June 30 each year. Interest was payable at a fixed rate of 3.451 percent.
  - Annual principal payments are initially due December 31, 2014 and every 12 months thereafter until maturity.
  - Minimum collected pledge debt payment amount is computed at the greater of 75 percent of the collected pledge receipts or 100 percent of the debt service payments then due under the loan, including interest due and payable.
- Excess pledge cash flow—Amounts collected are allowed to be used for the following purposes:
  - Payment of any outstanding principal and/or interest then due and owing under the loan.
  - Payment for the cost to construct the Water Taxi Dock (the Dock) as defined in, and pursuant to Section 5.11 of, the Ground Lease with the Port of San Francisco (see Note 8).

Note 7. Debt Obligations (Continued)

- Funding of Borrower's obligations with respect to the Off-Site Fill as defined in, and pursuant to Section 9.11 of, the Ground Lease with the Port of San Francisco (see Note 8).

- Payments due to the HTC Investor member pursuant to the HTC Documentation (see Note 10).

As of June 30, 2018, the Exploratorium has paid $2,539,281 and $8,050,300 during the years ended June 30, 2018 and 2017, respectively, and $54,708,749 in the aggregate, for the above purposes.

- Covenants—The debt facility has financial and nonfinancial covenants due quarterly and annually. The Exploratorium has met all financial covenants for fiscal year 2018.

As of December 19, 2017, the Exploratorium modified this original debt agreement in order to remove the other two banks in the consortium, so the lead bank in the consortium would carry all of the Exploratorium's debt. This was done with the expectation that the Exploratorium would refinance to a tax-exempt bond (see Note 13). Terms and covenants of this modified agreement remained mostly the same, with the most significant change being the interest rate was converted to a variable rate of LIBOR plus 215 basis points due quarterly. Principal is due at maturity. As of June 30, 2018, the interest rate was 4.059 percent.

The loans are secured by the Campaign pledges to be received over a period of time and a $22.5 million guarantee from a large private foundation. The loan has a maturity date and is due and payable on November 19, 2018.

As of June 30, 2018 and 2017, amounts outstanding against this facility were $44,335,665 for both years. Total interest on this loan was $1,658,839 and $1,648,060 during the years ended June 30, 2018 and 2017, respectively. Under the terms of this facility, the Exploratorium is not allowed to borrow additional funding after principal payments are made.

Breakdown of the term debt as shown on the statements of financial position is as follows:

	2018	2017
Long-term debt	$ 44,335,665	$ 44,335,665
Less: Deferred financing fees	(59,189)	(239,344)
	$ 44,276,476	$ 44,096,321

Line of credit: Effective November 19, 2013, the Exploratorium entered into a revolving line of credit debt facility of $5 million with the lead bank of the above-mentioned consortium. Interest is payable at a variable rate and due monthly. In 2017, the applicable variable rate was equal to LIBOR plus 300 basis points. As of June 30, 2018 and 2017, the effective interest rates were 4.05 percent and 5.25 percent, respectively. As of June 30, 2018 and 2017, amounts outstanding against this facility were $2,180,595 and $0, respectively. As of June 30, 2017, the maturity date was extended to January 17, 2019. This latest extension increased the applicable variable rate to LIBOR plus 325 basis points, and permanently increased the availability on the revolving line of credit debt facility to $6.5 million.

Note 8. Lease Commitments

Effective November 3, 2010, the Exploratorium entered into a 66-year lease with the City and County of San Francisco operating by and through the San Francisco Port Commission (the Port). The lease provides for the Exploratorium to lease Pier 15 and a portion of Pier 17, both located in the Historic Port District of the Port of San Francisco. The Exploratorium moved both the museum and corporate offices to the Piers in early 2013 upon completion of the renovations. Key provisions of the lease are as follows:

Pier 15:

Initial minimum monthly rent: $66,107. Upon Bay Delta (a tenant of the Port) (see Note 10) relocating from Pier 15 to Pier 17, the monthly rent increased to $78,805. Bay Delta relocated on May 1, 2011.

Rent escalation: The monthly minimum lease payment is subject to consumer price index (CPI) increases every fifth year beginning on the fifth anniversary of the lease commencement. The minimum CPI increase is 10 percent, with a maximum of 20 percent.

Rent incentives: In consideration of the tenant improvements to be constructed by the Exploratorium, the Port is providing the Exploratorium rent incentives equal to the minimum monthly rent from lease commencement through the 50th anniversary of the lease.

Percentage rent: The Exploratorium is obligated to pay a monthly percentage rent (6 percent) based on gross revenues generated on Pier 15 once museum operations commence. If the total computed percentage rent on a quarterly basis exceeds the minimum monthly rent computed before the application of the rent incentives, the Exploratorium will be obligated to pay the Port the differential. For the years ended June 30, 2018 and 2017, the Exploratorium was not obligated for any percentage rent.

Pier 17:

Initial minimum monthly rent: $66,961. Such initial minimum monthly rent was reduced to $42,032 for the first six months of the lease.

Rent escalation: The monthly minimum lease payment is subject to a CPI increase of 3 percent each year, effective January 1, 2012, until the application of the rent incentive applicable for Pier 17, or on or about January 2024. Upon entering the rent incentive period, the minimum lease payments will increase by the existing CPI every fifth anniversary. The increase will be no less than 10 percent and no more than 20 percent. Pier 17 rent increases are also subject to a prevailing rental clause.

Rent incentive: In consideration for tenant improvements, which may be made to Pier 17 by the Exploratorium, the Port will provide the Exploratorium a rent incentive to be negotiated prior to the beginning of Pier 17 improvements.

Percentage rent: The Exploratorium will be obligated to pay percentage rent on certain revenues generated on Pier 17 and then, if the Exploratorium expands the museum to Pier 17, on all revenues. Payment provisions are and will be similar to Pier 15. For the years ended June 30, 2018 and 2017, the Exploratorium was not obligated for any percentage rent.

General provisions: The Exploratorium is obligated to pay the Port’s “transaction costs” directly associated with the lease. Such payments are due quarterly in advance. The transaction costs, estimated to be approximately $1.5 million, were substantially paid by June 30, 2013 and have been included in minimum rent for purposes of the deferred rent computation.

Note 8. Lease Commitments (Continued)

The Exploratorium, at its sole expense, was obligated to improve a portion of Pier 17 to allow Bay Delta to relocate its maritime facility from Pier 15 to Pier 17. Substantially all of these improvements, which totaled approximately $7.9 million, were incurred by June 30, 2011 and have been included in minimum rent for purposes of computation of deferred rent.

The Exploratorium, at its sole expense, did construct the Dock for the exclusive use of the Port. The Exploratorium estimated the Dock to cost $700,000 to construct. Since the Exploratorium is obligated under the lease to incur this expense, the construction costs have been included in minimum rent for purposes of computation of deferred rent. The Exploratorium completed the construction of the Dock in fiscal year 2016.

The Exploratorium is potentially obligated to pay and is required to segregate in a separate account, $50,000 annually on the second through fifth anniversaries of the lease for a substructure reserve. On the sixth anniversary of the lease and every fifth year thereafter, the Exploratorium is to increase the balance in the account to an amount based on the most recent substructure condition report. Interest on the fund shall accrue to the reserve account. The funds in the account are to be used only for the maintenance, repair and replacement of the substructure, if necessary. As of June 30, 2018 and 2017, the balance in this reserve totaled $250,000 for both years.

The Port leased the Piers to the Exploratorium on an “as is” basis. The cost of any hazardous waste cleanup was the sole expense of the Exploratorium. The Exploratorium, as part of construction, removed all the hazardous waste as required by the lease and current law. Since completion of this project, there have been no hazardous waste costs to date, and management does not anticipate any more significant costs.

The lease calls for the Exploratorium to expand the museum’s footprint to encompass substantially all of Pier 17 under the Phase II construction section of the lease. In order to accomplish this expansion, three events must occur:

1. Bay Delta must vacate the space it currently leases at Pier 17 directly from the Port.

2. The Port Commission must determine that the portion of Pier 17 currently occupied by Bay Delta is no longer needed for maritime use. This determination cannot occur until a maritime use study has been conducted after Bay Delta has vacated the space.

3. The Exploratorium must start construction on the planned Pier 17 renovations by the 16th anniversary of the lease (November 2026).

It is the Exploratorium’s intention to expand to Pier 17, even if Bay Delta does not vacate their current space. The Exploratorium may still renovate and expand the museum’s footprint to the rest of Pier 17 not currently occupied by Bay Delta, assuming item three is achieved.

Note 8. Lease Commitments (Continued)

Future minimum commitments under this agreement are as follows:

Years ending June 30:	
2019	$ 2,115,259
2020	2,146,253
2021	2,259,609
2022	2,323,893
2023	2,359,282
2024-2077	110,776,530
	121,980,826
Less sublease revenue	(6,400,985)
	$ 115,579,841

The above lease schedule includes the future minimum rents for Pier 17 only through the 17th anniversary of the lease. While it is the intention of the Exploratorium to expand to the portion of Pier 17 to which it is allowed (see above), the possibility does exist that the lease for substantially all of Pier 17 could terminate in either 2026 or 2027.

As described in Note 1, the Exploratorium recognizes both lease expense and rent incentives on the straight-line method over the term of the lease. As a result, approximately $2.4 million and $3.2 million have been recognized as deferred rent assets as a result of the Port lease on the consolidated statements of financial position as of June 30, 2018 and 2017, respectively. Total lease expense, associated with the Port lease, amounted to approximately $1.9 million for both of the years ended June 30, 2018 and 2017. These amounts are net of approximately $1.2 million for both of the years ended June 30, 2018 and 2017, in recognized rent incentives provided by the Port through the rent credit clause of the lease.

The Exploratorium currently has two subtenants resident to Pier 17. One lease expires July 31, 2019. The other lease, which was entered into on July 1, 2014, expires June 30, 2024. An important provision of this sublease is as follows:

- Approximately $750,000 in initial direct costs have been included in the deferred rent calculation, the result of which creates an additional deferred rent asset of $540,000 that has been combined with the deferred rent asset created under the Port lease (as noted above) in the consolidated statements of financial position.

Note 9. Contingencies

The Exploratorium receives funds from and administers to various federal and state government-funded programs that are subject to audit by the cognizant governmental agencies. Some of these grants also contain provisions that subject certain assets purchased with governmental funds to be subject to reversion. To date, the Exploratorium has not been required to either refund any grant funding or return any assets purchased with government funding.

Note 10. New Museum Site Construction, Capital Campaign and HTC Arrangement

As detailed in Note 8, the Exploratorium embarked on a multi-year, multipurpose campaign to construct a new and improved museum and educational facility located on Piers 15 and 17 at the San Francisco Historic Port District (Campaign). The majority of the pledges received from the Campaign described above were available for the renovation of Piers 15 and 17. Pier 15 currently houses the Exploratorium's museum space as well as its administrative functions. Pier 17 also currently houses some of the Exploratorium's administrative functions. The most significant cost of the Pier 17 renovations was associated with the renovations necessary to allow Bay Delta to relocate to the north side of Pier 17 from the south side of Pier 15. Internally, the Exploratorium had also earmarked a portion of the Campaign proceeds to fund the planning, design and ultimate construction of the museum. Expenses associated with planning, research and development of the museum space were expensed as incurred.

To supplement the bridge financing obtained during construction, the Exploratorium entered into a HTC arrangement, whereby tax credits generated from the renovation of Pier 15 were purchased by an investor group. The agreed-upon purchase price was $1.25 per HTC earned from the project.

The total tax credits earned were approximately $39 million for a total investor purchase price of approximately $49 million. To effectuate the HTC Arrangement, the Exploratorium assisted in the creation of various flow-through entities, which have enabled the investor group to take advantage of the tax credits generated, receive a 2 percent annual return on capital, and participate in the depreciation allowed on the improvements for as long as the flow-through entities exist. As described in Note 1, these entities are fully consolidated with the operations of the Exploratorium.

In accordance with the Master Tenant Operating Agreement, the following capital contributions were or are required by the investor member to be paid to the Exploratorium:

- $10,000—upon close of escrow (received November 3, 2010).
- $41,078,186—upon completion of all items precedent for Payment 2 (received November 7, 2013).
- $2,416,952—upon completion of all items precedent for Payment 3 (received November 2013).
- $687,406—upon completion of all items precedent for Payment 3 as a true-up payment for additional credits earned in excess of the original projections (received January 2014).
- $4,833,904—payable no earlier than one year from the date of receipt of Part 3 of the Historic Preservation Certificate Application (July 18, 2013) required by the National Park Service.

The for-profit tax structure provides for the following:

- EPLLC—This entity was created to house the qualifying rehabilitation expenditures (QRE) incurred through the rehabilitation of Pier 15. The managing member of EPLLC is Holdings, the wholly owned subsidiary of the Exploratorium. Holdings is also a 60 percent member of EPLLC.
- EMTLLC—This entity was created to house the improvements on Pier 15, which do not qualify as QREs. The managing member of EMTLLC is Holdings, which is also a 0.01 percent member of EMTLLC. Bay Area Historic Fund, LLP (Investor) is the 99.99 percent member of EMTLLC.
- Solar—This entity, which is a wholly owned subsidiary of Holdings, was created strictly to qualify for certain federal solar grants for qualifying solar expenditures. During the year ended June 30, 2014, Solar received a grant totaling approximately $1.8 million.

Note 10. New Museum Site Construction, Capital Campaign and HTC Arrangement (Continued)

Concurrent with the various agreements entered into by the above entities, the Investor and Holdings entered into an option agreement, whereby the Investor has the right to a put option to take out its investment in EMTLLC. The option period is from August 2, 2018 through and including February 2, 2019. The price of the put option, if exercised, is based on a formula as stipulated in the Master Tenant Operating Agreement. In the event the investor member does not exercise the put option, Holdings has a call option whereby Holdings would purchase the investor member's position in EMTLLC. As with the put option, the call option price, if exercised, is based on a formula as stipulated in the Master Tenant Operating Agreement.

Due to these options, the Investor's member capital contributions have been reflected as a liability on the Exploratorium's consolidated financial statements. The HTCs are contingent on the Exploratorium and its related entities' ability to maintain compliance with various rules and regulations. Failure to maintain compliance or to correct noncompliance within a specified time period could result in the recapture of previously taken tax credits.

In addition, such potential noncompliance may require an adjustment to the capital contributed by EMTLLC's Investor member. Pursuant to a Tax Credit Guaranty Agreement, the Exploratorium and Holdings have guaranteed that in the event of an HTC reduction event, the Investor member will be reimbursed the amount of HTCs available to the Investor member and subject to loss or recapture. In addition, upon any HTC reduction event, the payments required shall also include: (i) any interest payments and penalty charges imposed by the IRS on the Investor member with respect to any reduction in HTCs previously claimed by the Investor member, (ii) any reasonable legal and administrative expenses incurred by the Investor member as a result of such HTC reduction event, and (iii) an amount sufficient to pay any tax liability owed by the Investor member resulting from the receipt of the detailed amounts. As of June 30, 2018, no HTC reduction event has occurred.

The Investor exercised its put option August 2, 2018 relieving the HTC obligation through a payment to the Investor and the Investor's interest in Holdings was assigned to the Exploratorium. A purchase price of $7.3 million was attributed to that puttable non-controlling interest obligation, which was funded through a final capital contribution to the Exploratorium of $4.7 million and with available funds. Upon exercise of the put option, the Exploratorium funded the Investor's final 2 percent preferred return.

The Exploratorium concluded that capital contributions received from the Investor, in substance, are consideration that the Exploratorium received in exchange for its obligation to deliver tax credits and other tax benefits to the Investor. These receipts other than the amounts allocated to the put obligation were recognized as revenue in the consolidated financial statements beginning when the obligation to the Investor was relieved which occurred upon delivery of the expected tax benefits net of any associated costs August 2, 2018 and amounted to $41.6 million.

Note 11. Retirement Plan

The Exploratorium has a defined contribution plan that is a qualified plan under Section 403(b) of the Internal Revenue Code. The plan covers employees who have reached the age of 21, completed one year of service and worked at least 975 hours during any plan year. The plan allows for the Exploratorium, as plan sponsor, to make elective matching contributions to the plan.

During the years ended June 30, 2018 and 2017, the Exploratorium contributed $974,726 and $991,870 to the plan, respectively.

Note 12. Related-Party Transactions

Contribution receivables from members of the Board of Trustees of the Exploratorium or companies or individuals with which the Board of Trustees are affiliated were $17,031,471 and $41,229,263 as of and for the years ended June 30, 2018 and 2017, respectively. Recorded contribution revenue from members of the Board of Trustees of the Exploratorium or companies or individuals with which the Board of Trustees are affiliated were $7,641,746 and $28,652,106 for the years ended June 30, 2018 and 2017, respectively.

Note 13. Subsequent Events

The Exploratorium evaluated subsequent events through October 8, 2018, the date on which the consolidated financial statements were available to be issued.

Effective August 31, 2018, the Exploratorium refinanced its current debt through the issuance of a tax-exempt bond of $49.2 million. The new financing includes semi-annual interest payments and annual principal payments. The loan is a ten-year loan with a fixed interest rate of 3.87 percent for the first seven years and then a variable interest rate for the remaining three years, with a 20-year amortization period. The Exploratorium also renewed its revolving line of credit agreement at $6.5 million and extended the agreement an additional two years to January 17, 2021.