

Denver Museum of Nature and Science

Financial Statements and Supplementary Information

December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Kundinger, Corder & Engle, P.C.

Certified Public Accountants
475 Lincoln Street, Suite 200
Denver, Colorado 80203

Phone (303) 534-5953
Fax (303) 892-7776
www.kcedenver.com

Independent Auditor's Report

**Board of Trustees
Denver Museum of Nature and Science:**

Report on the Financial Statements

We have audited the accompanying financial statements of Denver Museum of Nature and Science, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Denver Museum of Nature and Science as of December 31, 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.

**Board of Trustees
Denver Museum of Nature and Science**

Emphasis of Matter

As discussed in note 1, the Denver Museum of Nature and Science adopted the Financial Accounting Standard Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Schedule of Operating Results included on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kundinger, Caudia + Langley, P.C.

March 13, 2019

Denver Museum of Nature and Science
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 9,368,748	5,220,697
Short-term investments (notes 3 and 4)	7,267,212	7,188,658
Accounts receivable (notes 13 and 14)	3,254,671	3,085,240
Merchandise held for resale	490,618	448,055
Prepaid expenses:		
Other	632,627	548,966
Exhibits	620,522	702,602
Contributions receivable (note 5)	10,724,705	1,653,975
Other assets	50,216	47,536
Furniture and equipment, net (notes 1a and 6)	2,759,398	3,168,427
Restricted net assets held by DMNS Foundation (note 14)	116,317,700	134,933,870
Collections (note 7)		
Total assets	\$ 151,486,417	156,998,026
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,199,056	1,015,315
Accrued compensation	1,273,770	1,183,920
Deferred revenue	905,377	454,751
Total liabilities	3,378,203	2,653,986
Net assets (note 8):		
Without donor restrictions:		
Board designated	1,414,848	1,721
Undesignated	16,402,008	13,553,861
Total net assets without donor restrictions	17,816,856	13,555,582
With donor restrictions:		
Purpose restricted	122,263,090	131,894,284
Perpetual in nature	8,028,268	8,894,174
Total net assets with donor restrictions	130,291,358	140,788,458
Total net assets	148,108,214	154,344,040
Commitments (notes 9, 11 and 12)		
Total liabilities and net assets	\$ 151,486,417	156,998,026

The accompanying notes are an integral part of the financial statements.

Denver Museum of Nature and Science
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Admissions	\$ 12,038,588	–	12,038,588
Gift shop and food service operations:			
Gross sales	8,912,258	–	8,912,258
Less cost of sales	(3,103,594)	–	(3,103,594)
Memberships	5,886,728	–	5,886,728
Gifts and grants:			
DMNS Foundation (note 14)	1,519,056	6,016,952	7,536,008
Other	3,113,302	14,034,587	17,147,889
Special event income	501,080	–	501,080
Less direct expenses	(151,998)	–	(151,998)
Program revenue	1,368,441	–	1,368,441
City and County of Denver support (notes 1a and 10)	2,939,907	–	2,939,907
Scientific and Cultural Facilities District Support (note 13)	9,523,447	–	9,523,447
Investment return (note 3)	73,249	–	73,249
Other	464,711	–	464,711
Net assets released from restrictions (note 8)	11,932,469	(11,932,469)	–
Total support and revenue	<u>55,017,644</u>	<u>8,119,070</u>	<u>63,136,714</u>
Expenditures			
Program activities:			
Museum, IMAX and Planetarium	3,662,300	–	3,662,300
Gift shop and food service operations	3,431,352	–	3,431,352
Physical plant maintenance and acquisitions	7,111,525	–	7,111,525
Visitor experience	7,206,852	–	7,206,852
Education	5,504,880	–	5,504,880
Collections and research	5,461,806	–	5,461,806
Strategic Initiatives	6,981,707	–	6,981,707
Total program activities	<u>39,360,422</u>	<u>–</u>	<u>39,360,422</u>
Supporting activities:			
General and administrative	5,448,257	–	5,448,257
Marketing	2,465,177	–	2,465,177
Fundraising	1,997,868	–	1,997,868
Membership	1,484,646	–	1,484,646
Total supporting activities	<u>11,395,948</u>	<u>–</u>	<u>11,395,948</u>
Total expenditures	<u>50,756,370</u>	<u>–</u>	<u>50,756,370</u>
Change in net assets before change in net assets held by DMNS Foundation			
Change in net assets held by DMNS Foundation	4,261,274	8,119,070	12,380,344
Change in net assets			
Net assets at beginning of year	–	(18,616,170)	(18,616,170)
Net assets at end of year	<u>\$ 17,816,856</u>	<u>130,291,358</u>	<u>148,108,214</u>

The accompanying notes are an integral part of the financial statements.

Denver Museum of Nature and Science

Statement of Activities

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Admissions	\$ 9,867,396	–	9,867,396
Gift shop and food service operations:			
Gross sales	7,952,728	–	7,952,728
Less cost of sales	(2,804,969)	–	(2,804,969)
Memberships	5,621,738	–	5,621,738
Gifts and grants:			
DMNS Foundation (note 14)	1,677,041	1,734,584	3,411,625
Other	1,596,691	6,103,057	7,699,748
Special event income	599,423	–	599,423
Less direct expenses	(89,179)	–	(89,179)
Program revenue	1,571,417	–	1,571,417
City and County of Denver support (note 1a)	1,636,398	–	1,636,398
Scientific and Cultural Facilities District Support (note 13)	9,423,694	–	9,423,694
Investment return (note 3)	50,396	–	50,396
Other	432,517	–	432,517
Net assets released from restrictions (note 8)	5,379,476	(5,379,476)	–
Total support and revenue	<u>42,914,767</u>	<u>2,458,165</u>	<u>45,372,932</u>
Expenditures			
Program activities:			
Museum, IMAX and Planetarium	3,153,234	–	3,153,234
Gift shop and food service operations	3,377,970	–	3,377,970
Physical plant maintenance and acquisitions	6,323,229	–	6,323,229
Visitor experience	6,401,420	–	6,401,420
Education	4,976,029	–	4,976,029
Collections and research	5,281,176	–	5,281,176
Strategic Initiatives	4,585,897	–	4,585,897
Total program activities	<u>34,098,955</u>	<u>–</u>	<u>34,098,955</u>
Supporting activities:			
General and administrative	5,017,014	–	5,017,014
Marketing	2,126,172	–	2,126,172
Fundraising	2,271,198	–	2,271,198
Membership	1,456,392	–	1,456,392
Total supporting activities	<u>10,870,776</u>	<u>–</u>	<u>10,870,776</u>
Total expenditures	<u>44,969,731</u>	<u>–</u>	<u>44,969,731</u>
Change in net assets before change in net assets held by DMNS Foundation			
Collection items purchased but not capitalized	(10,000)	–	(10,000)
Change in net assets held by DMNS Foundation	–	15,268,545	15,268,545
Change in net assets	<u>(2,064,964)</u>	<u>17,726,710</u>	<u>15,661,746</u>
Net assets at beginning of year	15,620,546	123,061,748	138,682,294
Net assets at end of year	<u>\$ 13,555,582</u>	<u>140,788,458</u>	<u>154,344,040</u>

The accompanying notes are an integral part of the financial statements.

Denver Museum of Nature and Science
Statement of Functional Expenses
Year Ended December 31, 2018

	Museum, IMAX and Planetarium	Gift shop and food service operations	Physical plant maintenance and acquisitions	Visitor experience	Education	Collections and research	Strategic Initiatives	Total Program Services
Expenses:								
Salaries and benefits	\$ 1,530,860	3,385,465	3,156,666	3,254,794	3,991,027	3,747,465	747,986	19,814,263
Cost of food and merchandise	–	3,103,594	–	–	–	–	–	3,103,594
IMAX and Planetarium lease	560,722	–	–	–	–	–	–	560,722
Insurance	680	–	–	4,331	526	3,461	–	8,998
Professional services	6,871	27,198	359,116	769,469	167,524	524,730	2,890,581	4,745,489
Rental expense	560,317	50,579	16,222	1,468,566	161,163	5,422	1,831	2,264,100
Repairs and maintenance	103,036	81,769	1,436,066	167,940	56,047	99,834	11,559	1,956,251
Telephone and data	5,003	9,206	6,469	53,129	42,245	11,454	427	127,933
Advertising and promotion	2	20,491	–	39,568	101,290	909	9,639	171,899
Printing	8,499	213	1,907	15,555	16,453	16,806	–	59,433
Membership and dues	907	3,345	1,121	830	5,665	9,313	484	21,665
Travel and business expenses	7,284	8,767	6,735	117,246	51,966	308,213	98,277	598,488
Postage and freight	2,984	2,311	22,171	171,530	31,452	12,371	2,797	245,616
Supplies and miscellaneous	155,058	364,838	288,749	557,336	365,615	375,915	209,121	2,316,632
Employee development	8,589	11,632	18,426	54,196	65,175	67,056	11,256	236,330
Utilities	–	–	997,583	–	–	20,569	–	1,018,152
Parking surcharge	606,375	–	–	–	–	–	–	606,375
Bank expense	–	4,362	–	3	–	102	–	4,467
Capital improvements	–	–	753,549	48,618	–	108,007	2,995,905	3,906,079
Depreciation	115,819	109,093	449,161	162,458	92,785	81,166	–	1,010,482
Internal support	(10,706)	(647,917)	(402,416)	321,283	355,947	69,013	1,844	(312,952)
Total expenses by function	<u>3,662,300</u>	<u>6,534,946</u>	<u>7,111,525</u>	<u>7,206,852</u>	<u>5,504,880</u>	<u>5,461,806</u>	<u>6,981,707</u>	<u>42,464,016</u>
Less expenses included with revenue on the statement of activities								
Cost of food and merchandise	–	(3,103,594)	–	–	–	–	–	(3,103,594)
Direct expenses of special events	–	–	–	–	–	–	–	–
	<u>\$ 3,662,300</u>	<u>3,431,352</u>	<u>7,111,525</u>	<u>7,206,852</u>	<u>5,504,880</u>	<u>5,461,806</u>	<u>6,981,707</u>	<u>39,360,422</u>

(continued)

Denver Museum of Nature and Science
Statement of Functional Expenses, Continued
Year Ended December 31, 2018

	Total Program Services	General and administrative	Marketing	Fundraising	Membership	Total Supporting Services	Total Expenses
Expenses:							
Salaries and benefits	\$ 19,814,263	2,611,194	664,815	1,423,705	628,709	5,328,423	25,142,686
Cost of food and merchandise	3,103,594	—	—	—	—	—	3,103,594
IMAX and Planetarium lease	560,722	—	—	—	—	—	560,722
Insurance	8,998	237,146	—	975	9	238,130	247,128
Professional services	4,745,489	428,958	109,990	205,727	155,328	900,003	5,645,492
Rental expense	2,264,100	4,381	136	2,180	2,324	9,021	2,273,121
Repairs and maintenance	1,956,251	359,587	8,168	55,165	66,526	489,446	2,445,697
Telephone and data	127,933	69,456	5,257	4,831	11,906	91,450	219,383
Advertising and promotion	171,899	11,084	1,578,329	52,937	54,238	1,696,588	1,868,487
Printing	59,433	4,798	916	32,027	233,710	271,451	330,884
Membership and dues	21,665	91,860	1,581	3,531	156	97,128	118,793
Travel and business expenses	598,488	40,787	18,907	37,654	4,454	101,802	700,290
Postage and freight	245,616	2,746	2,733	14,022	206,375	225,876	471,492
Supplies and miscellaneous	2,316,632	310,684	18,108	40,995	47,802	417,589	2,734,221
Employee development	236,330	379,020	10,249	21,890	11,700	422,859	659,189
Utilities	1,018,152	10,285	—	—	—	10,285	1,028,437
Parking surcharge	606,375	—	—	—	—	—	606,375
Bank expense	4,467	575,993	3,106	7,553	599	587,251	591,718
Capital improvements	3,906,079	—	—	—	—	—	3,906,079
Depreciation	1,010,482	287,042	7,679	14,712	38,259	347,692	1,358,174
Internal support	(312,952)	23,236	35,203	231,962	22,551	312,952	—
Total expenses by function	<u>42,464,016</u>	<u>5,448,257</u>	<u>2,465,177</u>	<u>2,149,866</u>	<u>1,484,646</u>	<u>11,547,946</u>	<u>54,011,962</u>
Less expenses included with revenue on the statement of activities							
Cost of food and merchandise	(3,103,594)	—	—	—	—	—	(3,103,594)
Direct expenses of special events	—	—	—	(151,998)	—	(151,998)	(151,998)
	<u>\$ 39,360,422</u>	<u>5,448,257</u>	<u>2,465,177</u>	<u>1,997,868</u>	<u>1,484,646</u>	<u>11,395,948</u>	<u>50,756,370</u>

The accompanying notes are an integral part of the financial statements.

Denver Museum of Nature and Science
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (6,235,826)	15,661,746
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in net assets held by DMNS Foundation	18,616,170	(15,268,545)
Depreciation	1,358,174	1,398,294
Amortization of discount on contributions receivable	(19,852)	(6,872)
Net realized and unrealized losses on investments	5,305	6,012
Acquisition and sale of collections, net	—	10,000
Change in operating assets and liabilities		
Accounts receivable	(169,431)	(384,393)
Merchandise held for resale	(42,563)	(21,002)
Prepaid expenses: other	(83,661)	73,958
Prepaid expenses: exhibits	82,080	392,395
Contributions receivable	(9,050,878)	(226,701)
Other assets	(2,680)	(2,635)
Accounts payable and accrued expenses	183,741	(299,135)
Accrued compensation	89,850	94,017
Deferred revenue	450,626	(390,249)
Net cash provided by operating activities	<u>5,181,055</u>	<u>1,036,890</u>
Cash flows from investing activities		
Purchases of furniture and equipment	(949,145)	(1,066,080)
Purchases of short-term investments	(83,859)	(61,998)
Purchases of noncapitalized collection items	—	(10,000)
Net cash used in investing activities	<u>(1,033,004)</u>	<u>(1,138,078)</u>
Net increase (decrease) in cash and cash equivalents	4,148,051	(101,188)
Cash and cash equivalents, beginning of year	5,220,697	5,321,885
Cash and cash equivalents, end of year	<u>9,368,748</u>	<u>5,220,697</u>

The accompanying notes are an integral part of the financial statements.

Denver Museum of Nature and Science

Notes to Financial Statements

December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) Agreement with City and County of Denver

The Denver Museum of Nature and Science (the Museum), an operating name of The Colorado Museum of Natural History, is a not-for-profit corporation formed in 1900 for the purpose of supporting and maintaining, in agreement with the City and County of Denver (the City), a museum of natural history. The Museum entered into an agreement with the City on March 22, 1933 whereby:

1. The Museum would donate to the City for the benefit of the people of the City all its right, title and interest in all exhibits, collections and properties constituting the Museum located in City Park, Denver, Colorado.
2. The Museum would accept the employment from the City as the Natural History Agency of the City, to manage, control and be in charge of the buildings now owned by the City constituting the Museum in City Park, Denver, Colorado. The Museum has the full responsibility and discretion to accept or reject, in whole or in part, any gifts for the purposes of the Museum.
3. The City would compensate the Museum for the proper care, control, maintenance, management and development of the Museum.
4. In return, the Museum agreed to endeavor to open the Museum to the public within reasonable hours not less than four days per week.

During 2018 and 2017, the City appropriated \$1,729,120 and \$1,350,400 respectively for Museum operations and fixed asset replacements. In addition, the City provides telephone and certain types of insurance to the Museum, which are valued at \$256,146 and \$285,998 for the years ended December 31, 2018 and 2017. The City also provided bond funds to the Museum totaling \$1,476,310 in 2018 (see note 10).

The Museum occupies and manages the museum building. This building is unique and has no clear alternative purpose, and therefore the fair value of the building is not determinable; accordingly, the Museum has not recorded the value of the use of the building in the accompanying financial statements. The Museum expenses the costs of any additions or improvements to the building because the City retains title to the building. For insurance purposes, the Museum has assigned a value of \$167,000,000 to the building.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

Information regarding the financial position and activities of the Museum is reported according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. These net assets may be used at the discretion of the Museum's management and the board of trustees and the appropriate provisions of the Museum's charter and bylaws.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

(d) Contributions

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

(e) Contributions Receivable

Unconditional contributions receivable are recognized as revenue in the year the promise is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met.

The Museum uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible contributions receivable at December 31, 2018 and 2017.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Cash and Cash Equivalents

The Museum considers all highly liquid investments with an original maturity of three months or less, and which are not held as part of the short-term investment portfolio, to be cash equivalents.

(g) Short-term Investments

The Museum reports investments at fair value. Fair value is determined as more fully described under the fair value measurements footnote (see note 4). The Museum's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable. Unrealized gains and losses are included in the change in net assets in the statements of activities.

(h) Concentrations of Credit Risk

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, accounts receivable, and contributions receivable. The Museum places its cash accounts and short-term investments with creditworthy, high quality financial institutions. At times, a portion of these cash balances may not be insured by the Federal Deposit Insurance Corporation or related entity.

Accounts receivable consists of program service fees due primarily from government agencies or the Museum's share of undistributed Scientific and Cultural Facilities District (SCFD) tax (see note 13). The Museum is subject to risk of loss from certain government contract receivables if the government determines that certain amounts are unallowable reimbursements. To date, no substantial claims for reimbursement have been adjusted or disallowed, and management does not anticipate this happening in the future.

Concentrations of credit risk with respect to contributions receivable are limited due to the number and creditworthiness of the foundations, corporations and individuals who comprise the contributor base.

(i) Collections

The Museum's collections, which were acquired through purchases, contributions, and active field collecting since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Merchandise Held for Resale

Merchandise held for resale consists of gift shop items and food and beverages. Inventories of merchandise held for resale have been valued at the lower of cost or market with cost determined using the first-in, first-out method.

(k) Accounts Receivable

Accounts receivable represents claims for reimbursement and other fees earned or due under contracts and fee agreements. The allowance for doubtful accounts is based on past collection experience and on analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Receivable balances are considered to be past due based on contractual terms. There was no allowance for doubtful accounts at December 31, 2018 and 2017.

(l) Furniture and Equipment

Furniture and equipment are recorded at cost, if purchased, or fair value at date of donation. The Museum capitalizes furniture and equipment with a cost or fair value at the date of donation in excess of \$10,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

(m) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

(n) Deferred Revenue

Income from advance admissions, fees, and bond proceeds is deferred and recognized when used or earned.

(o) Advertising

The Museum uses advertising to promote its programs among audiences it serves. The production costs of advertising are expensed as incurred. During 2018 and 2017, advertising costs totaled \$1,868,487 and \$1,544,342, respectively.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(p) Donated Goods and Services

Donated goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. No donated goods or services were received in 2018 and 2017.

Many individuals volunteer their time and perform a variety of tasks that assist the Museum in its programs and general operations. The Museum received approximately 224,326 and 228,325 volunteer hours in 2018 and 2017, respectively, but these were not recognized in the financial statements because they did not meet the criteria for recognition under generally accepted accounting principles.

(q) Functional Expenses and Joint Costs

The costs of providing various programs and related supporting services have been summarized on a functional basis in the statement of functional expenses. The Museum incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Museum also conducts a number of activities which benefit both its program objectives as well as supporting service (i.e. fundraising, management and general, and membership). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by Museum personnel.

During 2018 and 2017, the Museum incurred joint costs of \$133,594 and \$128,048, respectively, for informational materials that include fundraising appeals and achieve the Museum's programmatic and management and general goals.

The costs of these activities are allocated as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Visitor experiences	\$ 53,438	51,219
Education expense	53,438	51,219
Membership	13,359	12,805
Fundraising	<u>13,359</u>	<u>12,805</u>
	<u>\$ 133,594</u>	<u>128,048</u>

(r) Income Taxes

The Museum is exempt from federal income taxes on its exempt function income under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Museum qualifies for the charitable contribution deduction.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(r) Income Taxes, Continued

The Museum follows the *Accounting for Uncertainty in Income Taxes* accounting standard which requires the Museum to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. The Museum believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed. No interest or penalties have been assessed in 2018.

The Museum's federal Return of Organization Exempt from Income Tax (Form 990) for the years ended December 31, 2015 through 2018, are subject to examination by the IRS, generally for three years after they were filed.

(s) Subsequent Events

The Museum has evaluated subsequent events through March 13, 2019, the date the financial statements were available to be issued.

(t) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on net assets or the change in net assets.

(u) Not-for-Profit Financial Statement Presentation

During 2018, the Foundation adopted ASU No. 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 Museum has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(2) Liquidity and Availability of Financial Assets

The following represents the Museum's financial assets as of December 31, 2018:

Financial assets at year-end:

Cash and cash equivalents	\$ 9,368,748
Short-term investments	7,267,212
Accounts receivable	3,254,671
Contributions receivable	<u>10,724,705</u>
Total financial assets at year-end	30,615,336

Less amounts not available to be used within one year:

Net assets with donor restrictions	13,973,658
Board designated funds requiring board approval for expenditure	1,414,848
Less contributions receivable to be received within one year	(2,021,964)
Less the Foundation's endowment funds to be appropriated in 2019	<u>(3,792,221)</u>
	9,574,321

Financial assets available for general expenditures within one year \$ 21,041,015

The Museum has a short-term investment policy authorized by the board of trustees that provides guidance and oversight for the management of cash and short-term investments. The policy provides that the Museum maintain an adequate liquidity for working capital purposes, which includes a requirement that the maximum investment maturity is one year from the date of purchase, the maximum average duration of 180 days on the investment portfolio, and a goal to have \$1,000,000 of cash or investments with one day of maturity on hand.

(3) Short-term Investments

The Museum holds its excess cash in a short-term investment portfolio which is reflected at fair value and is invested as follows at December 31:

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$ 6,000,000	4,246,992
Money market fund	<u>1,267,212</u>	<u>2,941,666</u>
Total short-term investments	\$ 7,267,212	7,188,658

Investment return for all investments, including those reflected as cash equivalents, is summarized as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 78,554	56,336
Net realized and unrealized losses	<u>(5,305)</u>	<u>(5,940)</u>
Total investment return	\$ 73,249	50,396

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(4) Fair Value Measurements

The Museum reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Museum to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange, listed derivatives, cash and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(4) Fair Value Measurements, Continued

It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Museum's financial statements.

The following table summarizes the valuation of the Museum's investments by the above fair value hierarchy levels as of December 31, 2018:

Description	Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 6,000,000	6,000,000	—	—
Money market fund	<u>1,267,212</u>	<u>1,267,212</u>	—	—
Total	<u>\$ 7,267,212</u>	<u>7,267,212</u>	—	—

The following table summarizes the valuation of the Museum's investments by the above fair value hierarchy levels as of December 31, 2017:

Description	Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 4,246,992	4,246,992	—	—
Money market fund	<u>2,941,666</u>	<u>2,941,666</u>	—	—
Total	<u>\$ 7,188,658</u>	<u>7,188,658</u>	—	—

In addition, the estimated fair value of the Museum's other financial instruments at December 31, 2018 are as follows:

	Carrying Amount	Fair value
Cash and cash equivalents	\$ 9,368,748	9,368,748
Accounts receivable	3,254,671	3,254,671
Contributions receivable	10,724,705	10,724,705
Accounts payable and accrued liabilities	2,472,826	2,472,826

The following methods and assumptions were used by the Museum in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts approximate fair value because of the short maturity of those instruments.

Accounts receivable - The carrying amount reported approximates fair value because of the immediate or short-term maturities of these financial instruments.

Contributions receivable - The carrying amount of contributions receivable approximates fair value as they are presented on a discounted basis.

Accounts payable and accrued liabilities - The carrying amount reported approximates fair value because of the immediate or short-term maturities of these financial instruments.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(5) Contributions Receivable

Contributions receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 2,021,964	1,215,742
One to five years	<u>9,508,123</u>	<u>464,484</u>
	11,530,087	1,680,226
Less discount to net present value	<u>(805,382)</u>	<u>(26,251)</u>
	<u>\$ 10,724,705</u>	<u>1,653,975</u>

Uncollectible contributions receivable are expected to be insignificant. Amounts due in the future have been discounted to their present values using discount rates ranging from 1.89% to 2.51%.

(6) Furniture and Equipment

Furniture and equipment is stated at cost and consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 6,697,518	6,602,504
Computer hardware and software	6,808,413	6,401,621
Furniture	2,870,688	2,489,141
Vehicles	<u>490,750</u>	<u>424,958</u>
	16,867,369	15,918,224
Less accumulated depreciation	<u>(14,107,971)</u>	<u>(12,749,797)</u>
Net furniture and equipment	<u>\$ 2,759,398</u>	<u>3,168,427</u>

(7) Collections

The Museum's collections are made up of approximately 4.3 million objects of scientific and historical significance that are held for educational, research, scientific, and curatorial purposes. These items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to both accession and de-accession policies including a policy that requires proceeds from their sales to be used to support the Museum's collections.

Pursuant to Museum policy, the Board of Trustees has designated the proceeds from the 2008 sale of collection items totaling \$3,800,000 to be used to support the Museum's collections. At December 31, 2018 and 2017, remaining unspent funds designated for collections totaled \$0 and \$1,721, respectively.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(8) Net Assets

Net Assets Without Donor Restrictions

The Museum's net assets without donor restrictions is comprised of undesignated and Board designated amounts for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 16,402,008	13,553,861
Board designated for:		
Strategic Initiatives	1,414,848	-
Exhibits and collections	<u>—</u>	<u>1,721</u>
Total board designated	<u>1,414,848</u>	<u>1,721</u>
Total net assets without donor restrictions	<u>\$ 17,816,856</u>	<u>13,555,582</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	<u>2018</u>	<u>2017</u>
Specific purposes:		
Strategic Initiatives	\$ 12,310,074	3,414,511
Educational programs	587,884	794,160
Exhibits and collections	950,448	1,457,203
Other projects and programs	125,252	188,714
Net assets held by DMNS Foundation	<u>108,289,432</u>	<u>126,039,696</u>
Total subject to purpose restrictions	<u>122,263,090</u>	<u>131,894,284</u>
Perpetual in nature held by DMNS Foundation	<u>8,028,268</u>	<u>8,894,174</u>
Total net assets with donor restrictions	<u>\$ 130,291,358</u>	<u>140,788,458</u>

During 2018 and 2017, net assets of \$11,932,469 and \$5,379,476 respectively, were released from restrictions due to the purpose or time restrictions being accomplished.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(9) Parking Structure Commitment

The Museum, the Denver Zoological Gardens (the Zoo) and the City and County of Denver (the City) entered into a Memorandum of Understanding agreement (the “Agreement”) to expand the parking capacity in City Park. In connection with the Agreement, two parking structures were constructed, one adjacent to the Zoo and another adjacent to the Museum. The parking structures were completed in 2002 and 2003. The City financed the projects by issuing Certificates of Participation (COPs), under which the City is solely liable for repayment. The Museum raised \$2.5 million for the project. The Museum entered into an amended agreement with the City and agreed to provide, through October 2028, \$1.10 per ticket sold for admission to the Museum, IMAX Theater, or the Planetarium, to retire the City’s obligation under the COPs. The Museum paid \$605,838 and \$606,025 to the City under the agreement in 2018 and 2017, respectively.

Total future estimated maximum amounts to the City by the Museum for the COPs under the Parking Garage Agreement are as follows:

Year ending December 31:	
2019	\$ 606,375
2020	606,375
2021	606,375
2022	636,700
2023	636,700
2024 and thereafter	<u>2,259,799</u>
	<u>\$ 5,352,324</u>

(10) City Bond Financing

In 2018, the Museum entered into a funding and assignment agreement with the City and County of Denver (City) regarding voter approved general obligations bonds (Elevate Denver Bonds) issued by the City for the purpose of financing repairs and improvements to Denver cultural facilities. The Museum was approved to receive \$17,607,000 under the Elevate Denver Bond program to support critical deferred maintenance (the Project). Elevate Denver Bonds are the obligation of the City and thus, are not reflected as a Museum obligation. Contributed support and project costs associated with the bonds are reflected in the statements of activities.

Under the terms of the agreements, the Museum requests support through a quarterly draw process for the reimbursement of eligible costs incurred and an advance estimate for upcoming quarterly eligible project needs. Funding and execution of the deferred maintenance project began in 2018 and the Museum incurred costs totaling \$954,641 in 2018 that are eligible to be paid by the City bond funds. The Museum also received \$521,669 in cash advances related to the City bond funds as of December 31, 2018.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(11) Employee Benefit Plan

The Museum has a voluntary contributory deferred annuity plan for all employees. Employee contributions are matched by the Museum up to 5% of compensation. Museum contributions under the plan were \$769,798 and \$724,957 in 2018 and 2017, respectively.

(12) Letter of Credit

A bank has issued an irrevocable standby letter of credit totaling \$200,165 to the Colorado Department of Labor and Employment which expires April 30, 2020. The letter of credit is to be used should the Museum default on any of its unemployment obligations as it is self-insured. No amounts have been drawn under this letter of credit as of December 31, 2018.

(13) Scientific and Cultural Facilities District

In November, 1988, the voters of the Denver metropolitan area approved formation of a special tax district to support the scientific and cultural institutions within the district (also known as SCFD). Beginning in 1989, revenues for the district were generated through a sales tax and distributed to various institutions, including the Museum, in accordance with the provisions of the act. In 2016, the voters of the Denver Metropolitan area extended the expiration date of the special tax district to June 30, 2028. As part of the SCFD renewal, the Museum has signed a memorandum of understanding with the SCFD to contribute \$150,000 annually, from 2018 to 2029, to support a fund for diversity and inclusion capacity and programming for Tier III organizations under the SCFD structure, the first \$150,000 payment was made in 2018.

The Museum received \$9,523,447 and \$9,423,694 in SCFD support in 2018 and 2017, respectively. At December 31, 2018 and 2017, the Museum recorded a receivable of \$2,310,822 and \$2,435,285, respectively, representing the Museum's portion of the tax for the 4th quarter of 2018 that had been collected but not distributed by the district. Should a significant reduction in the level of this funding occur, it could affect the Museum's programs and activities.

(14) DMNS Foundation

The DMNS Foundation (the Foundation) is a separate, tax-exempt Colorado nonprofit organization established in 1986 with the transfer to the Foundation of the Museum's endowment funds and certain other investments. The Foundation was formed for the purpose of, but not limited to, providing private financial support for the Museum and its programs so long as the Museum remains a tax-exempt entity and so long as its present contract with the City remains in effect.

The Foundation is governed by its Board of Directors, and the Foundation owns and controls all funds within the Foundation, subject to any restrictions imposed by donors, until such funds are distributed to the Museum by resolution of the Foundation's board.

Denver Museum of Nature and Science

Notes to Financial Statements, Continued

(14) DMNS Foundation, Continued

The Museum, as a beneficiary organization of the Foundation, is required to report in its financial statements assets held for its benefit by the Foundation, and to adjust its interest in those assets for the changes in net assets held by the Foundation, notwithstanding that the Museum has no legal claim to those assets until the Foundation makes distributions to the Museum. At December 31, 2018 and 2017, Foundation total net assets were \$116,317,700 and \$134,933,870, respectively.

During 2018 and 2017, the Foundation made contributions of \$7,536,008 and \$3,411,625, respectively, to the Museum for program expenses. Additionally, at December 31, 2018 and 2017 the Museum's financial statements reflect \$51,995 and \$47,651, respectively, due from the Foundation.

During the years ended December 31, 2018 and 2017, the Foundation paid the Museum \$200,000 each year for fundraising, financial reporting, and management services. The Foundation also has an agreement with the Museum to loan certain carvings for display at no cost through March 25, 2020.

Denver Museum of Nature and Science
Supplemental Schedule of Operating Results
Year Ended December 31, 2018

	Museum Operations	Strategic Initiatives	Total
Support and revenue			
Museum, IMAX and Planetarium admissions	\$ 12,038,588	-	12,038,588
Gift shop and food service operations:			
Gross sales	8,912,258	-	8,912,258
Less cost of sales	(3,103,594)	-	(3,103,594)
Memberships	5,886,728	-	5,886,728
Gifts and grants:			
DMNS Foundation	3,469,508	4,066,500	7,536,008
Other	3,902,581	13,245,308	17,147,889
Special event income	501,080	-	501,080
Less direct expense	(151,998)	-	(151,998)
Program revenue	1,358,466	9,975	1,368,441
City and County of Denver support	1,985,266	954,641	2,939,907
Scientific and Cultural Facilities District Support	9,523,447	-	9,523,447
Investment return	73,249	-	73,249
Other	464,711	-	464,711
Total support and revenue	<u>44,860,290</u>	<u>18,276,424</u>	<u>63,136,714</u>
Expenditures			
Program activities:			
Museum, IMAX and Planetarium	3,662,300	-	3,662,300
Gift shop and food service operations	3,431,352	-	3,431,352
Physical plant maintenance and acquisitions	7,111,525	-	7,111,525
Visitor experience	7,206,852	-	7,206,852
Education	5,504,880	-	5,504,880
Collections and research	5,461,806	-	5,461,806
Strategic Initiatives	-	6,981,707	6,981,707
Total program activities	<u>32,378,715</u>	<u>6,981,707</u>	<u>39,360,422</u>
Supporting activities:			
General and administrative	5,448,257	-	5,448,257
Marketing	2,465,177	-	2,465,177
Fundraising	1,881,414	116,454	1,997,868
Membership	1,484,646	-	1,484,646
Total supporting activities	<u>11,279,494</u>	<u>116,454</u>	<u>11,395,948</u>
Total expenditures	<u>43,658,209</u>	<u>7,098,161</u>	<u>50,756,370</u>
Change in net assets before change in net assets held by DMNS Foundation			
Change in net assets held by DMNS Foundation	1,202,081	11,178,263	12,380,344
Change in net assets	<u>(18,616,170)</u>	<u>-</u>	<u>(18,616,170)</u>
Net assets at beginning of year	<u>(17,414,089)</u>	<u>11,178,263</u>	<u>(6,235,826)</u>
Net assets at end of year	<u>\$ 143,680,797</u>	<u>4,427,417</u>	<u>148,108,214</u>

See the accompanying independent auditor's report.