Financial Statements and Report of

Independent Certified Public Accountants

The Franklin Institute

December 31, 2018 and 2017

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
The Franklin Institute
Philadelphia, Pennsylvania

Report on the financial statements
We have audited the accompanying financial statements of The Franklin Institute, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 Franklin Institute as of December 31, 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matters
As discussed in Note B to the financial statements, the Franklin Institute has adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, and ASU 2014-09, *(Topic 606): Revenue from Contracts with Customers*, for the year ended December 31, 2018. Our opinion is not modified with respect to these matters.

Report on 2017 summarized comparative information
We have previously audited The Franklin Institute's 2017 basic financial statements (not presented herein), and we expressed an unmodified opinion on the respective financial statements in our report dated May 10, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Philadelphia, Pennsylvania
May 8, 2019

The Franklin Institute

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS	2018	2017
Cash and cash equivalents	$ 5,872,426	$ 8,375,541
Accounts receivable, net	1,505,482	1,704,498
Pledges receivable, net	8,297,437	3,423,946
Inventory	-	16,578
Prepaid and other assets	1,159,407	1,960,302
Pooled investments	44,816,481	47,661,667
Other investment	30,544	107,519
Beneficial interest in perpetual trusts	14,067,479	15,789,337
Property, buildings and equipment, net	76,350,406	79,934,732
Total assets	$ 152,099,662	$ 158,974,120
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 5,736,315	$ 6,603,533
Deferred revenue and other liabilities	1,420,430	1,939,637
Long-term debt, net of deferred loan costs of $75,963 in 2018 and $86,205 in 2017	9,464,037	10,438,795
Total liabilities	16,620,782	18,981,965
Net assets		
Without donor restrictions	76,822,288	80,569,737
With donor restrictions	58,656,592	59,422,418
Total net assets	135,478,880	139,992,155
Total liabilities and net assets	$ 152,099,662	$ 158,974,120

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

The Franklin Institute

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2018, with summarized information for 2017

	2018			
	Without donor restrictions	With donor restrictions	Total	2017
Revenue, support, and operating investment income				
Program revenue				
Admission fees	$ 10,876,005	$ -	$ 10,876,005	$ 11,377,049
Memberships	3,117,682	-	3,117,682	3,288,079
Ancillary activities	4,923,303	-	4,923,303	5,770,304
Governmental and corporate grants and contributions	1,267,729	1,882,600	3,150,329	3,396,911
Educational programs and services	2,146,937	202,437	2,349,374	2,470,059
Other project revenue	1,414,605	-	1,414,605	2,074,193
Total program revenue	23,746,261	2,085,037	25,831,298	28,376,595
Support				
Contributions and pledges	4,779,762	2,587,233	7,366,995	7,535,806
Bequests and other contributions	111,349	1,098,479	1,209,828	2,385,071
Government appropriations and grants	-	-	-	50,000
Contributions - capital campaigns	-	4,925,757	4,925,757	50,000
Total support	4,891,111	8,611,469	13,502,580	10,020,877
Endowment income designated for current operations	1,707,312	-	1,707,312	1,512,359
Net assets released from restrictions - satisfaction of purpose restrictions	5,573,901	(5,573,901)	-	-
Total revenue, support, operating investment income, and net assets released from restrictions	35,918,585	5,122,605	41,041,190	39,909,831
Expenses				
Program services expenses				
Exhibit services	5,400,274	-	5,400,274	5,440,456
Educational programs, services and grants	6,403,542	-	6,403,542	6,811,851
Visitor and member services	2,604,446	-	2,604,446	2,589,570
Ancillary activities	1,865,994	-	1,865,994	2,296,514
The Franklin Institute Awards	828,755	-	828,755	843,179
Other project expenses	302,311	-	302,311	555,817
Total program services expense	17,405,322	-	17,405,322	18,537,387

(Continued)

The Franklin Institute

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2018, with summarized information for 2017

	2018			
	Without donor restrictions	With donor restrictions	Total	2017
Supporting services expenses				
Museum operations	$ 14,074,280	$ -	$ 14,074,280	$ 13,466,058
General development	2,665,191	-	2,665,191	2,415,729
Interest	449,688	-	449,688	493,308
Total supporting services expense	17,189,159	-	17,189,159	16,375,095
Total expenses	34,594,481	-	34,594,481	34,912,482
Operating income before depreciation and amortization	1,324,104	5,122,605	6,446,709	4,997,349
Depreciation and amortization	4,949,136	-	4,949,136	5,572,253
Total operating (loss) income	(3,625,032)	5,122,605	1,497,573	(574,904)
Non-operating income (loss), expenses and releases				
Net assets released from restrictions - satisfaction of purpose restrictions	644,891	(644,891)	-	-
Endowment return, net	587,320	(3,521,682)	(2,934,362)	6,965,415
Endowment return designated for current operations	(1,707,312)	-	(1,707,312)	(1,512,359)
Net actuarial gain on defined benefit retirement plan and periodic pension cost	59,353	-	59,353	176,741
Unrealized gain on interest rate swap	298,077	-	298,077	339,383
Change in value of beneficial interest in perpetual trusts	-	(1,721,858)	(1,721,858)	566,297
Other	(4,746)	-	(4,746)	-
Total non-operating income (loss), expenses and releases	(122,417)	(5,888,431)	(6,010,848)	6,535,477
Change in net assets	(3,747,449)	(765,826)	(4,513,275)	5,960,573
Net assets				
Beginning of year	80,569,737	59,422,418	139,992,155	134,031,582
End of year	$ 76,822,288	$ 58,656,592	$ 135,478,880	$ 139,992,155

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

The Franklin Institute

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (4,513,275)	$ 5,960,573
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Allowance and discount on pledges receivable	(586,996)	62,799
Amortization of bond discount and deferred loan costs	10,242	10,242
Net actuarial gain on defined benefit retirement plan/ net periodic benefit credit	(59,353)	(176,741)
Unrealized gain on interest rate swap	(298,077)	(339,383)
Depreciation	4,938,894	5,562,011
Stock (net) and cash contributions received for capital campaign	(780,000)	(25,000)
Net realized and unrealized losses (gains) on investments	4,062,295	(5,952,810)
Net depreciation (appreciation) of beneficial interest in perpetual trusts	1,721,858	(561,851)
Impairment of other investment	4,114	140,813
Changes in operating assets and liabilities		
Accounts receivable	199,016	2,117,037
Pledges receivable	(4,286,495)	1,731,291
Inventory	16,578	(10,781)
Prepaid and other assets	800,895	(357,185)
Accounts payable and accrued expenses	(509,788)	(582,989)
Deferred revenue and other liabilities	(519,207)	(1,863,467)
Net cash provided by operating activities	200,701	5,714,559
Cash flows from investing activities		
Purchases of fixed assets	(1,358,682)	(1,584,536)
Purchases of investments	(1,619,828)	(5,939,740)
Proceeds from sale of investments	402,719	1,990,286
Return of capital from other investment	76,975	-
Net cash used in investing activities	(2,498,816)	(5,533,990)
Cash flows from financing activities		
Stock (net) and cash contributions received for capital campaign	780,000	25,000
Repayment of long-term debt	(985,000)	(945,000)
Net cash used in financing activities	(205,000)	(920,000)
Decrease in cash and cash equivalents	(2,503,115)	(739,431)
Cash and cash equivalents		
Beginning of year	8,375,541	9,114,972
End of year	$ 5,872,426	$ 8,375,541
Supplemental disclosure		
Cash paid for interest on long-term debt	$ 449,688	$ 493,308

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

The Franklin Institute

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018

	Program services expenses						Supporting services expenses		
	Exhibit services	Educational programs, services and grants	Visitor and member services	Ancillary activities	The Franklin Institute Awards	Other project expenses	Museum operations	General development	Total
Labor	$ 1,571,501	$ 2,660,592	$ 1,623,119	$ 996,036	$ 78,329	$ 141,680	$ 6,038,344	$ 1,081,966	$ 14,191,567
Fringe	395,384	703,269	420,694	255,496	20,430	30,870	1,506,550	284,293	3,616,986
Occupancy	297,533	52,024	5,068	356,212	1,095	6,396	2,624,093	34,338	3,376,759
Exhibit install, fabrication and rental	2,023,431	420	(48)	-	-	17,921	40,185	14	2,081,923
Professional fees/consulting	17,332	524,912	414,976	18,164	7,204	34,161	1,885,943	227,759	3,130,451
Advertising and public relations	593,039	188,047	3,689	51,579	-	-	297,136	-	1,133,490
Supplies/printing/postage	91,552	443,925	96,192	36,790	15,248	6,400	112,353	146,552	949,012
Travel and entertainment	92,236	415,043	10,122	13,409	73,183	16,701	235,307	110,136	966,137
Grant subcontract expenses	-	293,938	-	-	-	-	-	-	293,938
Event expense	11,251	159,914	21,172	1,354	155,467	-	21,823	300,274	671,255
Insurance	53,358	-	-	-	-	-	496,828	-	550,186
Awards/scholarships/honoraria	600	133,293	145	-	345,887	15,227	3,091	441	498,684
Stipends/reimbursements	755	329,825	-	-	-	4,807	-	-	335,387
Royalties/media rental	-	1,816	34,430	209,025	-	-	-	-	245,271
Computer hardware/software/network	7,733	27,766	-	922	-	4,181	289,478	2,730	332,810
Storage/shipping	190,740	-	-	6,267	-	29,426	-	-	226,433
Equipment	71,481	361	12,304	9,098	-	-	101,846	-	195,090
Cultivation/stewardship	64	17,459	-	-	-	65	18,677	231,613	267,878
Miscellaneous	(17,716)	450,938	(37,417)	(88,358)	131,912	(5,524)	402,626	245,075	1,081,536
Operating expense	5,400,274	6,403,542	2,604,446	1,865,994	828,755	302,311	14,074,280	2,665,191	34,144,793
Interest	71,122	84,335	34,301	24,574	10,915	3,981	185,359	35,101	449,688
Depreciation and amortization	782,746	928,165	377,503	270,466	120,124	43,819	2,040,005	386,308	4,949,136
Grand total	$ 6,254,142	$ 7,416,042	$ 3,016,250	$ 2,161,034	$ 959,794	$ 350,111	$ 16,299,644	$ 3,086,600	$ 39,543,617

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

NOTE A - ORGANIZATION

In the spirit of inquiry and discovery embodied by Benjamin Franklin, the mission of The Franklin Institute (the "Institute") is to inspire a passion for learning about science and technology. The Institute maintains an exemplary, innovative museum of science and internet presence with engaging, educational exhibits and programs; supports a diverse set of partnerships with all levels of the formal educational system; interprets the social and historical impact of science and technology; recognizes outstanding achievement; and provides a forum for discussion of important scientific issues. The Institute also serves to perpetuate the legacy of Benjamin Franklin.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

Net assets are classified with donor restrictions or without donor restrictions in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), based on the existence or absence of donor-imposed restrictions. The two classes of net assets are displayed in the financial statements, and the amounts of changes in each of the classes of net assets are displayed in the statement of activities and changes in net assets.

With Donor Restrictions - Net assets in this class include gifts which have either a time and/or use restriction but which may ultimately be expended. When a donor restriction expires, that is, when a stipulated time restriction ends and/or purpose restriction is accomplished, the net assets are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as "net assets released from restrictions." These types of net assets, with donor restrictions, are intended, by the donors, to be used for lecture series, library resources, medal and awards programs, capital campaigns and other purposes.

Also included in this category of net assets are the historical dollar amounts of gifts, including pledges, trusts and remainder interests, which are required by donors to be permanently retained. Capital appreciation, if permanently restricted by the donor or a third party, is also included in this net asset class.

Without Donor Restrictions - All other net assets are recorded as net assets without donor restrictions.

2. Income Tax Status

The Institute has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and has been classified as an organization, which is not a private foundation under Section 509(a) of the Code. Certain unrelated business income is subject to federal income taxes.

Management has reviewed the tax positions for each of the open tax years (2015 - 2017) or those expected to be taken in the Institute's 2018 tax return and has concluded that there are no material uncertain tax positions that would require recognition in the financial statements.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Use of Estimates

The financial statements of the Institute are prepared in conformity with U.S. GAAP, which 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 revenue and expenses during the reported periods. Some of the more significant estimates include the allowance for doubtful accounts on receivables, allocation of functional expenses, fair value of investments, discount on pledges receivable and assumptions used in the valuation of the retirement plan. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

The Institute considers highly liquid instruments purchased with maturity dates of three months or less to be cash equivalents.

5. Concentration of Credit Risk

The Institute occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification ("ASC") 825, *Financial Instruments*, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

6. Allowance for Doubtful Accounts on Accounts Receivable and Pledges Receivable

The allowance for doubtful accounts is provided based upon management's judgment, including such factors as prior collection history and type of receivable. The Institute writes off receivables when they become uncollectible, and payments subsequently received on such receivables, if any, are credited to the allowance for doubtful accounts. The allowance for doubtful accounts on accounts receivable was $92,262 and $92,488 at December 31, 2018 and 2017, respectively.

7. Fair Value of Financial Instruments

The Institute carries its financial instruments at estimated fair value. The estimated fair values that differ from the carrying amounts have been determined by the Institute using available market information.

The fair values of investments in debt and equity securities are based upon quoted market prices and at fair value for donated securities. The fair value of contributions receivable is determined by discounting the future cash flows to their present value using interest rates adjusted for market conditions. The fair value of long-term debt (Note I) approximates fair value because it bears interest at rates which approximate current market rates for debt with similar maturities and credit quality. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and other accrued expenses, and other current liabilities approximate fair value because of the short maturity of these items.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Inventory

Inventory is stated at the lower of cost or market on a first-in, first-out ("FIFO") basis and consists primarily of office supplies. The Institute dissolved the inventory account in 2018, charging the balance of $16,578 to supplies expense.

9. Investments

The Institute's investments are measured at fair value. Pooled investments include equity securities, fixed income securities and alternative investments. Investment income (interest and dividends) earned on such investments is distributed to each participating net asset category on the basis of its respective interest in the total funds invested, and each has an equity in the gain or loss on investments on the same basis. Realized and unrealized gains and losses on investments are reported in the statement of activities and changes in net assets as increases or decreases in net assets with donor restrictions or net assets without donor restrictions.

10. Collection Assets

Collection assets of the Institute have not been capitalized nor recognized. Collection items are held as historical treasures and are under the stewardship of the Institute acting through its President and curatorial staff. The cost of current collection additions to exhibits, books and scientific literature is charged to expense. A portion of such cost may be reimbursed by designated contributed funds and income of net assets with donor restrictions.

11. Property, Buildings and Equipment

Property, buildings and equipment are stated at cost. Donated property, buildings and equipment are capitalized based upon independent appraisals, and an equivalent amount is recognized as contribution revenue. The Institute receives various federal, local and private grants relating to science and education. The property and equipment is retained by the Institute or returned to the grantor based upon the grant contract.

Maintenance, repairs and minor renewals are charged to expense. Major renewals or improvements which prolong the life of the assets are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives used in determining depreciation rates are as follows:

Buildings and building improvements	5 - 42 years
Equipment, furniture and fixtures	3 - 20 years

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Deferred Revenue

Deferred revenue represents funds received in advance on conditional contributions and on exchange contracts, where revenue is recognized as performance obligations are fulfilled. Additionally, deferred revenue is recorded on fees received on certain exhibits which are recognized over the exhibition period, as performance obligations are fulfilled.

13. Operating Income

The operations of the Institute depend primarily upon the level of program revenue (including admission fees, ancillary activities and grants from the government and private funding sources), support (including annual giving, governmental appropriations and endowments) and investment income. Accordingly, the operations of the Institute are subject to variability due to changes in the number of visitors, political environment, donors' actions and the financial market environment. Restricted capital campaign contributions are presented under the support section in operating activities within the statement of activities and changes in net assets. Refer to Note N for additional details.

14. Contributions

The Institute reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give are included in the financial statements as pledges receivable, and the related contribution revenue is recorded in either net assets with donor restrictions or net assets without donor restrictions depending on donor stipulations. Pledges are recorded after discounting to the present value of the future cash flows. Pledges subject to certain conditions are recorded as contribution revenue when such conditions are met. In-kind contributions are recorded at their estimated fair value on the date of receipt.

15. Government Grants

Revenue from contracts and reimbursement-based government grants is recognized as the work is performed and the costs are incurred; the related costs and expenses are charged to operations as incurred. Funds received in advance of expenses are reported as deferred revenue.

16. Advertising

Advertising is expensed as incurred and amounted to approximately $1,006,000 and $1,503,000 in 2018 and 2017, respectively, and is recorded within program services and support services expense in the statement of activities and changes in net assets.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

17. Functional Expenses

The Institute's chart of accounts is structured to ensure that expenses are categorized into their natural accounts and functional areas appropriately. Depreciation, amortization and interest expense are allocated to each operating expense category based on the total of each functional expense category as a percentage of total operating expense.

18. Prior Year Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Institute's audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

19. Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Institute implemented the guidance using the modified retrospective adoption method during year ended December 31, 2018. Effective January 1, 2018, the Institute adopted ASU 2014-09 using a modified retrospective method of application. The adoption of ASU 2014-09 resulted in changes to the Institute's presentation and disclosure of revenue, primarily related to deferred memberships. For the years ended December 31, 2018 and 2017, the Institute recorded $550,297 and $514,350, respectively, of deferred membership revenues that would have been recorded as membership revenues prior to the adoption of ASU 2014-09. Refer to Note P for additional details.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new guidance attempts to improve the presentation of financial statements of not-for-profit entities to provide more useful information to donors, grantors, and other users. Changes are in the areas of net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The guidance is effective for fiscal years beginning after December 15, 2017. The Institute implemented the guidance during the year ended December 31, 2018, including terminology used to describe categories of net assets throughout the financial statements, disclosure regarding liquidity and the availability of resources (Note O), and the presentation of expenses by both their natural and functional classification.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The guidance was issued to improve the presentation of defined benefit cost by increasing transparency, increasing decision usefulness of the financial information, and reduce costs in analyzing the financial statements. The Institute implemented the guidance during the year ended December 31, 2018.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

20. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new guidance will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The guidance for the organization that owns the assets leased will remain largely unchanged. The guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Institute is currently assessing the impact of this guidance on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance will help entities evaluate whether transactions should be accounted for as contributions, or exchange transactions subject to other guidance. The guidance will also help in determining whether a contribution is conditional. The guidance is effective for fiscal years beginning after June 15, 2018. The Institute is currently evaluating the impact of this guidance on its financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. The other components of net benefit cost must also be presented outside of a subtotal of income from operations, if the subtotal is presented. The guidance improves consistency, transparency, and usefulness of the net benefit cost information. The Institute implemented the guidance during the year ended December 31, 2018, using the practical expedient allowing the use of prior comparative period pension cost disclosures as the basis for applying the retrospective presentation requirements.

21. Reclassifications

Certain footnote information from the prior year financial statements has been reclassified to conform to the current year presentation format, as set forth by ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities,* ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, and ASU 2014-09, *(Topic 606): Revenue from Contracts with Customers*, for the year ended December 31, 2018.

NOTE C - PLEDGES RECEIVABLE

The Institute had pledges receivable as follows at December 31:

	2018	2017
Pledges receivable:		
Due within a year	$ 2,683,028	$ 2,013,249
Due between one and five years	4,230,208	1,439,500
Due greater than five years	2,125,000	125,000
Pledges receivable, gross	9,038,236	3,577,749
Less allowance for doubtful accounts	(46,132)	(100,447)
Discount, at rates ranging from 2.72% to 3.03%	(694,667)	(53,356)
Pledges receivable, net	$ 8,297,437	$ 3,423,946

Pledges receivable, gross, relating to the capital campaigns consisted of $5,021,810 and $170,917 at December 31, 2018 and 2017, respectively.

NOTE D - POOLED INVESTMENTS

Investments are maintained in a common pool, at fair value, which comprise the following at December 31:

	2018		2017	
	Cost	Fair value	Cost	Fair value
Fixed income funds	$ 14,106,561	$ 13,748,450	$ 13,632,944	$ 13,625,314
Equity funds	28,199,927	30,620,585	27,612,403	34,030,470
Cash	447,446	447,446	-	-
Hedge funds	-	-	-	5,883
Total	$ 42,753,934	$ 44,816,481	$ 41,245,347	$ 47,661,667

The Institute has pooled its endowment investments, including net assets without donor restrictions that are designated for investment, and certain net assets with donor restrictions. The Institute uses a total return approach for its pooled investment assets. The Institute's spending rate, as authorized annually by the Institute's Board of Trustees, is determined based upon a percentage of the average market value of the endowment, over the prior 12 quarters. For both 2018 and 2017, the Board approved a spending rate of 4.00%.

(Continued)

NOTE D - POOLED INVESTMENTS - Continued

If the spending rate amount exceeds the actual earnings of the pooled investments in any one year, then the amount needed to fund such excess will be taken from the accumulated excess earnings from prior years and, conversely, any undistributed income after the allocation of the spending rate amount is added back to the accumulated excess earnings in the appropriate net asset category. The Institute had $9,286,566 and $11,043,970 in accumulated excess earnings at December 31, 2018 and 2017, respectively, related to its endowment assets required to be held in perpetuity.

The following schedule summarizes the investment return and its classification in the statement of activities and changes in net assets for the years ended December 31:

	2018	2017
Interest and dividends	$ 1,113,972	$ 1,016,185
Net realized and unrealized (loss) gain	(4,048,334)	5,949,230
	(2,934,362)	6,965,415
Endowment income designated for current operations	1,707,312	1,512,359
Endowment (loss) income, net of amounts designated for current operations	$ (4,641,674)	$ 5,453,056

The Institute utilized various methods to measure the year-end value of its investments. U.S. GAAP establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Institute has the ability to access.

Level 2 Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Institute's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

(Continued)

NOTE D - POOLED INVESTMENTS - Continued

The inputs' methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the Institute's financial instruments as of December 31, 2018 and 2017 is as follows:

	2018			
	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments				
Fixed income funds	$ 13,748,450	$ 13,748,450	$ -	$ -
Equity funds	30,620,585	30,620,585	-	-
Cash	447,446	447,446	-	-
Total investments	$ 44,816,481	$ 44,816,481	$ -	$ -
Beneficial interest in perpetual trusts	$ 14,067,479	$ -	$ -	$ 14,067,479
Liabilities				
Interest rate swap obligation	$ 792,145	$ -	$ 792,145	$ -

	2017			
	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments				
Fixed income funds	$ 13,625,314	$ 13,625,314	$ -	$ -
Equity funds	34,030,470	34,030,470	-	-
Hedge funds	5,883	-	5,883	-
Total investments	$ 47,661,667	$ 47,655,784	$ 5,883	$ -
Beneficial interest in perpetual trusts	$ 15,789,337	$ -	$ -	$ 15,789,337
Liabilities				
Interest rate swap obligation	$ 1,090,222	$ -	$ 1,090,222	$ -

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2018 or 2017. Transfers, when applicable, are recorded at the end of the period of change.

(Continued)

NOTE D - POOLED INVESTMENTS - Continued

The changes in the financial instruments measured at fair value for which the Institute used Level 3 inputs to determine fair value are as follows for the years ended December 31:

	2018	2017
Balance, beginning of year	$ 15,789,337	$ 15,227,486
Change in value	(1,721,858)	561,851
Balance, end of year	$ 14,067,479	$ 15,789,337

The beneficial interest in perpetual trusts is measured at the estimated future cash flows, which involve unobservable inputs. As a result, these present value techniques are Level 3 inputs. Income distributions from the perpetual trusts are included within the other project revenue line item of the statement of activities and changes in net assets and totaled $707,203 and $1,302,772 in 2018 and 2017, respectively.

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with some individual donor-restricted endowment funds may fall below the historic dollar value of the funds. In such instances, the fund is characterized as being an “underwater fund.” Deficiencies of this nature exist in one donor-restricted endowment fund, which has an original gift value of $700,000, a current fair value of $667,727, and a deficiency of $32,273 as of December 31, 2018. The deficiency resulted from unfavorable market conditions that occurred in 2018, along with the relative newness of the perpetually restricted contribution.

Borrowing of Board-Designated Funds

The Institute obtained approval from the Finance and Investment Committee of the Board of Trustees in November 2018 to borrow up to $2 million from board-designated funds, at a 6% return, to cover expenses related to the Master Plan/Capital Campaign of the 2017-2024 Strategic Plan. The Institute borrowed $500,000 from board-designated funds on December 13, 2018 to cover such expenses. The repayment of the borrowed funds occurred on March 5, 2019 with a 6% return totaling $6,785.

NOTE E - OTHER INVESTMENT

During 2011, the Institute invested $780,000 in a newly formed LLC organized to create a new traveling exhibit. The Institute has a 20% interest in this investment and, as such, carries its investment using the equity method. At the close of each year, the Institute is expected to receive distributions of capital and/or the applicable percentage interest of revenue earned by the LLC. Once capital contributions have been returned and a contracted payment to the LLC holding company has been made, the Institute will receive 20% of the remaining available cash derived from revenues from the first five venues, 15% from the sixth venue, and 10% from the seventh and any subsequent venues. In 2018, the Institute received $76,975 in distributions. As of December 31, 2018 and 2017, the Institute’s equity investment was $30,544 and $107,519, respectively. A $140,813 impairment charge was recorded as of December 31, 2017 as the LLC is in the process of winding down, and the full recovery of the remaining equity investment is unlikely. The impairment balance remains unchanged as of December 31, 2018.

NOTE F - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Institute is a beneficiary of the income of certain residual trusts held in perpetuity by third parties. The fair value of the Institute's share of these trusts was $14,067,479 as of December 31, 2018 and $15,789,337 as of December 31, 2017. The Institute recognized income without donor restrictions within other project revenue of $707,203 and $1,302,772 from income distributions of these trusts during 2018 and 2017, respectively. The Institute recognized capital (depreciation) appreciation with donor restrictions of $(1,721,858) and $561,851 during 2018 and 2017, respectively.

NOTE G - PROPERTY, BUILDINGS AND EQUIPMENT

A summary of property, buildings and equipment is as follows at December 31:

	2018	2017
Land	$ 12,000,000	$ 12,000,000
Buildings and improvements	91,144,977	90,538,336
Equipment, furniture, fixtures and exhibits	62,593,255	63,827,071
Construction-in-progress	4,567	54,226
	165,742,799	166,419,633
Less accumulated depreciation	(89,392,393)	(86,484,901)
Property, buildings and equipment, net	$ 76,350,406	$ 79,934,732

During 2018 and 2017, respectively, the Institute incurred $712,745 and $222,591 in capital maintenance, repair and information technology projects and $645,937 and $1,361,945 in new capital projects, exhibits and equipment. The Institute also wrote off $2,016,516 in fully depreciated fixed assets, which was a result of an annual review of fixed assets that are no longer in use and/or are fully depreciated.

NOTE H - NOTE PAYABLE - BANK

The Institute maintains a $7,000,000 line of credit with a bank with a set expiration date of November 30, 2019. Interest is calculated at the London Inter Bank Offered Rate ("LIBOR") plus 0.50% and is payable monthly. At December 31, 2018 and 2017, there was no balance outstanding.

NOTE I - LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	2018	2017
2006 - Revenue Bonds, Variable Rate, 2026	$ 9,540,000	$ 10,525,000
Less deferred loan costs, net	(75,963)	(86,205)
Long-term debt, net	$ 9,464,037	$ 10,438,795

2006 Bonds

On March 22, 2006, the Institute borrowed $14,095,000 through the issuance of Revenue Bonds, Series 2006 Variable Rate Refunding Bonds ("2006 Bonds") through the Philadelphia Authority for Industrial Development. The 2006 Bonds were issued to advance refund the remaining principal amount of the Institute's Revenue Bonds, Series 1998 ("1998 Bonds"). In addition, proceeds of the 2006 Bonds were used to pay certain issuance costs of the 2006 Bonds. The 2006 Bonds bear interest at 70% of the 1-month LIBOR. Monthly interest payments are due through June 1, 2026. Note repayments in the amount of $985,000 and $945,000 were made for the years ended December 31, 2018 and 2017, respectively. Interest expense related to the 2006 Bonds for the years ended December 31, 2018 and 2017 was $449,688 and $493,308, respectively.

Annual principal payments began on June 1, 2014 and continue through June 1, 2026. Concurrent with the issuance of the 2006 Bonds, the Institute entered into an interest rate swap agreement as a hedge against interest rate fluctuations. The swap has the effect of fixing the Institute's borrowing rate on the 2006 Bonds at a rate of 3.82% per annum until the maturity date of the 2006 Bonds. The difference between the fixed and variable rates are either paid to the bank or refunded to the Institute. The 2006 Bonds are secured by a bank irrevocable direct-pay letter of credit which had an undrawn balance as of both December 31, 2018 and 2017 of $14,298,895. The Institute pays an annual fee on the facility equivalent to fifty basis points (.50%). The direct-pay letter of credit securing the long-term debt is scheduled to expire on April 21, 2020. As a result, future annual bond payments through June 1, 2026 are presented as current debt, with full repayment due in 2020. The Institute will be issuing a request for proposal to secure a letter of credit facility extending the facility beyond April 21, 2020, which would extend the future annual payments due beyond one year, and through June 1, 2026. The fair value of the swap agreement was $792,145 and $1,090,222 in favor of the bank as of December 31, 2018 and 2017, respectively. The Institute incurred issuance costs of $206,552 related to the 2006 Bonds, which are being amortized on a straight-line basis over the life of the 2006 Bonds.

Mandatory redemption payments under the terms of the long-term debt as of December 31, 2018 are as follows:

Year ending December 31,	Total
2019	$ 1,025,000
2020	8,515,000
	$ 9,540,000

NOTE J - NET ASSETS

Net assets without donor restrictions at December 31, 2018 and 2017 comprise the following:

	2018	2017
Operations	$ 507,653	$ 872,339
Board-designated endowment funds	10,220,411	11,291,682
Net investment in property, buildings and equipment	66,094,224	68,405,716
	$ 76,822,288	$ 80,569,737

Net assets with donor restrictions at December 31, 2018 and 2017 are restricted for the following purposes:

	2018	2017
Endowment funds		
Bower Award fund	$ 14,195,525	$ 15,704,982
Other endowment funds	2,395,982	2,650,803
Accumulated unrealized gain on permanently restricted endowment investments	9,286,566	11,043,970
Medal funds	409,996	409,996
Library funds	97,314	97,314
Lecture funds	62,205	62,205
Miscellaneous funds	6,106,871	4,401,634
Endowment funds - unrestricted as to income	2,041,614	1,999,082
Total endowment funds	34,596,073	36,369,986
Purpose restrictions		
Capital campaigns	3,691,282	902,178
Grants and contributions	5,001,758	4,460,917
Time restrictions		
Contribution receivable	1,300,000	1,900,000
Beneficial interest in perpetual trusts	14,067,479	15,789,337
	$ 58,656,592	$ 59,422,418

(Continued)

NOTE J - NET ASSETS - Continued

Net assets with donor restrictions at December 31, 2018 and 2017, with accumulated endowment income and unrealized gains allocated includes:

	2018	2017
Endowment funds		
Bower Award fund	$ 14,195,525	$ 15,704,982
Endowment funds - special purpose	6,790,602	8,081,676
Endowment funds - unrestricted as to income	6,933,560	7,612,179
Medal funds	409,996	409,996
Library funds	97,314	97,314
Lecture funds	62,205	62,205
Miscellaneous funds	6,106,871	4,401,634
	34,596,073	36,369,986
Capital campaigns	3,691,282	902,178
Grants and contributions	5,001,758	4,460,917
Contribution receivable	1,300,000	1,900,000
Beneficial interest in perpetual trusts	14,067,479	15,789,337
	$ 58,656,592	$ 59,422,418

Net assets were released from donor restrictions for the years ended December 31, 2018 and 2017 by satisfying the restricted purpose, as follows:

	2018	2017
Purpose and time restrictions accomplished:		
Operating releases		
Capital campaign development/administrative	$ 1,781,840	$ 4,082
Education and other programs	3,178,937	2,674,512
Time restrictions met	613,124	956,750
Total operating releases	5,573,901	3,635,344
Non-operating releases		
Capital campaign funds used for capitalized assets	644,891	285,564
Total non-operating releases	644,891	285,564
Total net assets released from restrictions	$ 6,218,792	$ 3,920,908

(Continued)

NOTE J - NET ASSETS - Continued

Endowment net asset composition by type of fund, excluding beneficial interest in perpetual trusts, as of December 31, 2018 and 2017:

	2018		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 34,596,070	$ 34,596,070
Board-designated endowment funds	10,220,411	-	10,220,411
Total funds	$ 10,220,411	$ 34,596,070	$ 44,816,481

	2017		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 36,369,985	$ 36,369,985
Board-designated endowment funds	11,291,682	-	11,291,682
Total funds	$ 11,291,682	$ 36,369,985	$ 47,661,667

The Institute classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as net assets with donor restrictions. Income earned on such gifts is classified as net assets with donor restrictions until it is expended in accordance with state law and/or the donor restriction. The Institute's Board of Trustees may also designate certain gifts without donor restrictions to function as endowment funds; such gifts are classified net assets without donor restrictions, and as board-designated endowment funds. The Institute's Board of Trustees has also designated proceeds from the deaccession and disposition of a curatorial collection item, Empress Josephine Clock, for refining and upgrading the Institute's historical and interpretive collections. The clock was sold in 2016 for $680,000, as the interpretive value of the clock did not fit with the mission of the Institute.

NOTE J - NET ASSETS - Continued

Changes in endowment net assets for the years ended December 31, 2018 and 2017:

	2018		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 11,291,682	$ 36,369,985	$ 47,661,667
Investment return	(706,017)	(2,228,345)	(2,934,362)
Contributions	-	1,747,767	1,747,767
Capital campaign draws	(500,000)	-	(500,000)
Terra Cotta repayment	471,746	-	471,746
West Wall Exhibits investment repayment	76,975	-	76,975
Endowment income designated for current operations	(413,975)	(1,293,337)	(1,707,312)
Endowment net assets, end of year	$ 10,220,411	$ 34,596,070	$ 44,816,481

	2017		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 9,926,999	$ 27,832,404	$ 37,759,403
Investment return	1,752,495	5,212,920	6,965,415
Contributions	-	4,430,760	4,430,760
Terra Cotta draws	18,448	-	18,448
Endowment income designated for current operations	(406,260)	(1,106,099)	(1,512,359)
Endowment net assets, end of year	$ 11,291,682	$ 36,369,985	$ 47,661,667

At December 31, 2018 and 2017, there was one deficiency and no deficiency of net assets with donor restrictions, respectively, for which the fair value of the assets was less than the level required by donor stipulations. The Institute's endowment policy is to preserve and grow the purchasing power of the fund and to provide a constant stream of steady income to meet annual operating needs in accordance with the Institute's spending policy (see Note D). The objective is achieved by monitoring the investment performance throughout the year.

NOTE K - SPECIAL EXHIBITIONS

The Institute hosts rental exhibits and/or partner exhibits in any given year. The Institute records all revenues and all expenses relating to rental exhibits. All revenues relating to rental exhibits are included in the statement of activities and changes in net assets under revenue on a gross basis as admissions fees, while corresponding expenses are included under exhibit services. All revenues and expenses relating to partner exhibits are put into a shared pool, and any net profit is split between the Institute and the exhibit partner based on a contractual agreement. The Institute's portion of the net profit for a partner exhibit is included in the statement of activities and changes in net assets under revenue, on a net basis, as admission fees. Special exhibitions, net contributions of $3,104,545 and $4,272,715, were recorded for the years ended December 31, 2018 and 2017, respectively.

NOTE L - RETIREMENT PLANS

Defined Benefit Pension Plan

The Institute maintains a defined benefit pension plan. Benefits under the plan are based on employees' years of service and compensation. On October 10, 2006, the Board of Trustees voted to freeze participation in The Franklin Institute Retirement Income Plan (II) (the "Plan") as of October 11, 2006, and to cease all benefit accruals no later than April 1, 2007.

The Institute has presented financial information related to the defined benefit plan in accordance with ASC 715, *Compensation - Retirement Benefits*. ASC 715 requires the funded status of the defined benefit pension plan be fully recognized in the statements of financial position and the measurement date of plan assets and benefit obligations coincide with the statements of financial position. The plan assets and pension obligation have been consistently presented as of the date of the statements of financial position and, as such, there is no effect on the financial statements related to the measurement date provision of the statement.

The Plan's assets are held by a trustee, Vanguard Fiduciary Trust Company, and are not included within the assets presented in these financial statements.

The following amounts relate to the Institute's defined benefit pension plan:

	2018	2017
Pension benefit obligation	$ 9,992,648	$ 11,335,152
Fair value of plan assets	8,293,165	9,576,316
Plan assets in deficiency of the pension benefit obligation	$ (1,699,483)	$ (1,758,836)
Accumulated benefit obligation	$ 9,992,648	$ 11,335,152

(Continued)

NOTE L - RETIREMENT PLANS - Continued

The principal assumptions used in determining the actuarial present value of the projected benefit obligation were as follows:

	2018	2017
Weighted average discount rate	4.10%	3.45%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

Following are the defined benefit periodic pension expense, Institute contributions, and benefits paid for the years ended December 31:

	2018	2017
Periodic pension (income) expense	$ (87,630)	$ 53,765
Benefits paid	779,664	374,452

Periodic pension expense, excluding the service cost component, has been reclassified from operating expenses to the "Net actuarial gain on defined benefit retirement plan and periodic pension cost" line of the "non-operating income (loss), expenses and releases" section of the statement of activities and changes in net assets for the years ended December 31, 2018 and 2017 in accordance with ASU 2017-07 Topic 715 - *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

The following item has not been recognized as a component of net periodic pension cost:

	2018	2017
Other changes in plan assets and benefit obligations	$ 28,277	$ (230,506)
Components of net periodic benefit cost		
Interest cost on projected benefit obligation	$ 384,121	$ 412,236
Actual return on plan assets	(654,744)	(585,243)
Amortization of loss	182,993	226,772
Total net periodic benefit cost	$ (87,630)	$ 53,765

(Continued)

NOTE L - RETIREMENT PLANS - Continued

The principal assumptions used in determining the net periodic pension benefit cost were as follows:

	2018	2017
Discount rate	3.45%	3.95%
Rate of increase in compensation	N/A	N/A
Expected long-term rate of return on plan assets	7.00%	7.00%
Corridor	10.00%	10.00%
Average future working lifetime	7.62	8.00

The expected long-term rate of return on the Plan assets is based on a weighted average rate of return based on historical investment returns for each respective investment category.

For the year ended December 31, 2018, the Institute does not expect to recognize any of the unrecognized actuarial gain or loss as a component of the net periodic benefit cost, due to its election of the 10% corridor in calculating the Plan's projected benefit obligation in accordance with ASC 715. The 10% corridor requires the Plan to amortize the actuarial gain or loss in excess of the greater of 10% of the fair value of Plan assets or projected benefit obligation over the average working lifetime of participants expected to receive benefits. The Plan's actuary does not anticipate that the unrecognized gain or loss will meet the 10% requirement and, accordingly, no amortization will be recognized.

The pension plan asset allocations by asset category are as follows:

Asset Category	2018	2017
Domestic equity securities	38.00%	40.67%
International equity securities	25.20	26.47
Fixed income	36.38	32.54
Cash and cash equivalents	0.42	0.32
Total	100.00%	100.00%

The fair value by major category of plan assets at December 31, 2018 and 2017 is as follows:

	2018	2017
Cash and cash equivalents	$ 34,498	$ 30,784
Fixed income	3,017,221	3,116,489
Equities	5,241,446	6,429,043
	$ 8,293,165	$ 9,576,316

(Continued)

NOTE L - RETIREMENT PLANS - Continued

The summary of inputs used to value the Institute's Plan assets carried at fair value as of December 31, 2018 and 2017 is as follows:

	2018			
	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 34,498	$ 34,498	$ -	$ -
Fixed income	3,017,221	3,017,221	-	-
Equities	5,241,446	5,241,446	-	-
	$ 8,293,165	$ 8,293,165	$ -	$ -

	2017			
	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 30,784	$ 30,784	$ -	$ -
Fixed income	3,116,489	3,116,489	-	-
Equities	6,429,043	6,429,043	-	-
	$ 9,576,316	$ 9,576,316	$ -	$ -

The Institute attempts to mitigate the investment risk by rebalancing the portfolio at least quarterly to reestablish target allocation percentages as defined by the Plan's investment policy. The investment policy specifies diversification and liquidity guidelines for investment managers to maintain.

The Institute's funding policy for the Plan has been to contribute the minimum required contribution. There is no estimated required contribution for the year ended December 31, 2018.

The Institute's primary investment objective is to ensure that sufficient assets are available to provide the benefits at the time they are payable and, secondly, to achieve optimal return within specified risk tolerances. In order to achieve its investment objective, an investment strategy defines acceptable investment composition and ranges within each investment category which can be broadly defined as a 65%/35% allocation between equities and fixed income securities with an allowable range of ±5% from target for the actual investment composition.

(Continued)

NOTE L - RETIREMENT PLANS - Continued

Estimated future benefit payments for the fiscal years ending December 31 are as follows:

Year ending	Benefits
2019	$ 457,243
2020	494,311
2021	506,145
2022	551,090
2023	588,856
2024-2028	3,110,250

Defined Contribution Plan

As a result of the freezing of the defined benefit pension plan, a tax-favored defined contribution 401(k) retirement plan was adopted for the benefit of eligible employees. The Institute makes a 2% nonelective contribution for all eligible compensation of the 401(k) plan participants, when certain service requirements are met. In addition, the Institute contributes a matching contribution up to 4% of the participants' eligible compensation when the service requirements are met. The Institute contributed $583,312 and $572,396 to the 401(k) plan for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation Plan

The Institute also maintains a voluntary deferred compensation plan. The Institute does not match employee contributions to this plan.

NOTE M - CONTINGENCIES

At December 31, 2018, the Institute is a party to certain lawsuits in the ordinary course of business. While any litigation has an element of uncertainty, after reviewing these actions with legal counsel, management is of the opinion that the liability, if any, resulting from these actions will not have a material effect on the financial condition of the Institute.

NOTE N - CAPITAL CAMPAIGN

The Institute launched the 2018-2024 capital campaign in 2018 to raise $150 million for the following goals: facility upgrades, architectural soft/hard costs, new exhibitions and interpretive soft/hard costs. As of December 31, 2018, the Institute has raised approximately $5.7 million and has expended approximately $1.7 million. Capital campaign contributions are classified as "with donor restrictions," as part of the Institute's support revenue, since campaigns are a major and central activity, and normally part of the Institute's strategy. Campaign release from restrictions are recorded and categorized as either operating or non-operating releases based on the nature of specific expenditures. Refer to Note B.13 for additional details.

NOTE O - LIQUIDITY AND AVAILABILITY

The following reflects the Institute's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long-term investing. Board-designated endowment is included in assets available for general expenditures within one year. Use of board-designated endowment requires an action of the Board.

Asset Category	2018	2017
Cash and cash equivalents	$ 5,872,426	$ 8,375,541
Accounts receivable, net	1,505,482	1,704,498
Pledges receivable, net	8,297,437	3,423,946
Investments	58,914,504	63,558,523
	$ 74,589,849	$ 77,062,508
Pledges receivable scheduled to be collected in more than one year	$ (6,230,208)	$ (1,439,500)
Contractual or donor-imposed restrictions		
Endowment funds, excluding board-designated	$ (34,596,070)	$ (36,369,985)
Beneficial interest in perpetual trusts	(14,067,479)	(15,789,337)
Other donor restrictions	(4,766,543)	(5,963,096)
Other investment (West Wall Exhibits)	(30,544)	(107,518)
Assets available for general expenditures within one year	$ 14,899,006	$ 17,393,072

The Institute is substantially supported by program and support revenue. As part of the Institute's liquidity management, it has policies and procedures in place to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. The Institute could also draw upon its $7 million unused line of credit (as further discussed in Note H).

NOTE P - REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers due to transfer of goods or services for the years ended December 31, 2018 and 2017 were recognized as follows:

	2018	2017
Membership revenue (over time)	$ 464,153	$ 502,449
Program revenue, excluding memberships (point in time)	22,713,618	25,088,515

(Continued)

NOTE P - REVENUE FROM CONTRACTS WITH CUSTOMERS - Continued

General performance obligations associated with revenue from contracts with customers may include: general admission to the Institute, admission to special exhibits, facility rentals within the Institute, use of parking garage, viewing of movies in theaters, etc. The performance obligations are fulfilled, and revenue is recognized when admission is delivered to the customer, or space use occurs in the case of facility rentals. Membership performance obligations vary depending on membership level purchased, but can include unlimited admission to the Institute and planetarium, guest passes, theater passes, parking garage vouchers, special exhibit benefits, discounts, etc. The membership performance obligations are fulfilled over the duration of the membership. As a result, the exchange transaction portion of membership revenue is recognized ratably over the life of the membership.

The Institute uses standalone selling prices from its rate cards in determining transaction prices.

Implementation of the revenue from contracts with customers standard for memberships resulted in a balance of $550,297 and $514,350 in membership deferred revenue as of December 31, 2018 and 2017, respectively, as a result of members purchasing memberships at a point in time, while membership goods or services are provided by the Institute over a period of time. Prior to implementation of the new standard, all membership revenue was recognized at the time of membership purchase. All other revenue/deferred revenue associated with contracts from customers is quantified and/or recorded by the Institute's ticketing system, or by the Institute's accounting department based on contract terms, and is not recognized as revenue until performance obligations within the contract have been fulfilled. This has been the Institute's practice even prior to the implementation of the new standard. The Institute has applied this guidance to contracts that were not completed as the date of initial application. The exchange transaction portion of membership revenue is recognized ratably over the life of the membership, and the balance sheet date is compared to membership expiration date to determine deferred revenue at the balance sheet date.

Deferred revenue associated with all contracts with customers as of December 31, 2018 and 2017 totaled:

	2018	2017
Memberships	$ 550,297	$ 514,350
Sales and catering	250,176	249,339
Gift certificates/advance sales	193,928	549,174
Special exhibits	32,348	109,940
Awards	205,330	257,373
Other	120,989	110,278
	$ 1,353,068	$ 1,790,454

The deferred revenue will be recognized over the next one to three years, with the longest duration pertaining to facility rentals.

Significant reductions in gift certificates/advance sales deferred revenue year over year was primarily a result of the implementation of the Institute's policy on recognizing unredeemed advance sales passes.

Refunds or exchanges are generally prohibited.

NOTE Q - RELATED PARTY TRANSACTIONS

The Institute has recorded revenue related to pledges receivable from directors. As of December 31, 2018 and 2017, pledges receivable due from directors amounted to $5,991,500 and $1,995,000, respectively. Director contributions for 2018 and 2017 totaled $7,449,030 and $4,994,034, respectively.

NOTE R - SUBSEQUENT EVENTS

Subsequent events after the statement of financial position date through the date that the financial statements were available for issuance, May 8, 2019, have been evaluated in the preparation of the financial statements. Other than as noted below, no subsequent events have been identified for disclosure.

As noted in Note D, the Institute repaid $500,000, along with $6,785 in interest, to the board-designated endowment on March 5, 2019.

Also on March 5, 2019, the Institute repaid the remaining $171,358 of the $780,000 borrowed from the board-designated endowment in 2011 for the West Wall Exhibits investment (see Note E - Other Investment).