

 **Museum of Science**

Financial Statements
June 30, 2015 and 2014



Museum of Science
Financial Statements — June 30, 2015 and 2014

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Independent Auditors' Report

Board of Trustees
Museum of Science
Boston, Massachusetts

We have audited the accompanying financial statements of the Museum of Science (the "Museum"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum of Science as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Schedules of Functional Expenses 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 audits 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.

Mayer Hoffmann McCann P.C.

October 15, 2015
Boston, Massachusetts

Museum of Science
Statements of Financial Position — June 30, 2015 and 2014

| <i>(in thousands)</i> | 2015 | 2014 |
|--|------------|------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 23,140 | \$ 21,265 |
| Accounts receivable | 1,765 | 1,341 |
| Grants receivable | 1,801 | 2,919 |
| Pledges receivable, net (Note 3) | 7,687 | 6,632 |
| Prepaid expenses and other current assets | 1,007 | 1,964 |
| Total current assets | 35,400 | 34,121 |
| Noncurrent assets | | |
| Pledges receivable, net (Note 3) | 10,648 | 11,433 |
| Investments (Notes 4 and 5) | 111,191 | 113,189 |
| Assets of split interest agreements (Note 4) | 15,795 | 16,186 |
| Other assets, net of amortization | 952 | 841 |
| Property, plant and equipment, net (Note 7) | 68,379 | 61,249 |
| Total assets | \$ 242,365 | \$ 237,019 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 5,105 | \$ 5,105 |
| Deferred revenue | 5,856 | 4,670 |
| Total current liabilities | 10,961 | 9,775 |
| Noncurrent liabilities | | |
| Annuity payable and deferred compensation (Note 9) | 753 | 561 |
| Liability under split interest agreements | 1,447 | 1,505 |
| Liability under management agreement (Note 8) | 1,795 | 2,000 |
| Asset retirement obligation | 1,331 | 1,253 |
| Capital leases (Note 10) | 4,010 | 3,922 |
| Total liabilities | 20,297 | 19,016 |
| Net assets (Note 11) | | |
| Unrestricted | | |
| Unrestricted operating | 303 | 295 |
| Board designated operating | 8,137 | 8,591 |
| Board designated quasi-endowment | 10,506 | 10,822 |
| Net investment in plant | 60,040 | 54,045 |
| Total unrestricted | 78,986 | 73,753 |
| Temporarily restricted | | |
| Gifts, grants, and endowment income | 35,291 | 34,909 |
| Temporary endowment principal | 1,964 | 1,964 |
| Unappropriated endowment gains | 59,347 | 63,191 |
| Total temporarily restricted | 96,602 | 100,064 |
| Permanently restricted | | |
| Endowment principal and other | 46,480 | 44,186 |
| Total permanently restricted | 46,480 | 44,186 |
| Total net assets | 222,068 | 218,003 |
| Total liabilities and net assets | \$ 242,365 | \$ 237,019 |

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

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Statement of Activities for the Year Ended June 30, 2015
(with comparative totals for the year ended June 30, 2014)

(in thousands)

| | Unrestricted | | | | Total unrestricted | Temporarily restricted | Permanently restricted | 2015 Total | 2014 Total |
|---|--------------|---------------------|---------------------|---------------|-----------------------|---------------------------|---------------------------|---------------|---------------|
| | Operating | Designated Funds | Quasi- Endowment | Plant Fund | | | | | |
| Income | | | | | | | | | |
| Support | | | | | | | | | |
| Contributions, grants, and pledges (Note 3) | \$ 3,183 | \$ 2,103 | \$ 5 | | \$ 5,291 | \$ 12,885 | \$ 1,080 | \$ 19,256 | \$ 15,390 |
| Contributed services and gifts in kind (Note 12) | 2,558 | - | - | \$ 4,577 | 7,135 | - | - | 7,135 | 3,205 |
| Government grants (Note 13) | 6,333 | 820 | - | 326 | 7,479 | - | - | 7,479 | 7,513 |
| Total support | 12,074 | 2,923 | 5 | 4,903 | 19,905 | 12,885 | 1,080 | 33,870 | 26,108 |
| Revenue | | | | | | | | | |
| Admissions | 12,135 | - | - | - | 12,135 | - | - | 12,135 | 11,800 |
| Memberships | 6,918 | - | - | 15 | 6,933 | - | - | 6,933 | 7,233 |
| Program fees | 9,738 | 287 | - | - | 10,025 | - | - | 10,025 | 7,715 |
| Ancillary services | 6,360 | - | - | - | 6,360 | - | - | 6,360 | 6,561 |
| Endowment income allocated per spending policy (Note 5) | 1,116 | 537 | - | - | 1,653 | 2,831 | - | 4,484 | 4,404 |
| Other income | 1,339 | 470 | 2 | 358 | 2,169 | 26 | - | 2,195 | 2,126 |
| Net assets released from restrictions (Note 11) | 7,600 | 1,258 | - | 5,073 | 13,931 | (13,931) | - | - | - |
| Use of designated funds | 5,824 | (9,135) | - | 3,311 | - | - | - | - | - |
| Total revenue | 51,030 | (6,583) | 2 | 8,757 | 53,206 | (11,074) | - | 42,132 | 39,839 |
| Total income | 63,104 | (3,660) | 7 | 13,660 | 73,111 | 1,811 | 1,080 | 76,002 | 65,947 |
| Expenses | | | | | | | | | |
| Program services | | | | | | | | | |
| Exhibits | 7,276 | - | - | - | 7,276 | - | - | 7,276 | 7,894 |
| Visitor and outreach programs | 13,031 | - | - | - | 13,031 | - | - | 13,031 | 11,280 |
| Formal education programs | 9,445 | - | - | - | 9,445 | - | - | 9,445 | 7,837 |
| Visitor and member services | 4,229 | - | - | - | 4,229 | - | - | 4,229 | 4,518 |
| Other program activities | 9,585 | - | - | - | 9,585 | - | - | 9,585 | 9,285 |
| Total program services | 43,566 | - | - | - | 43,566 | - | - | 43,566 | 40,814 |
| Supporting services | | | | | | | | | |
| Administration and general | 5,847 | - | - | - | 5,847 | - | - | 5,847 | 5,734 |
| Facility operations | 5,089 | - | - | - | 5,089 | - | - | 5,089 | 5,456 |
| Fundraising | 4,820 | - | - | - | 4,820 | - | - | 4,820 | 4,243 |
| Interest expense | 233 | - | - | - | 233 | - | - | 233 | 144 |
| Depreciation, amortization, and losses on disposal | 5 | - | - | 7,895 | 7,900 | - | - | 7,900 | 7,612 |
| Transfers from operating fund | 3,536 | (3,212) | (94) | (230) | - | - | - | - | - |
| Total supporting services | 19,530 | (3,212) | (94) | 7,665 | 23,889 | - | - | 23,889 | 23,189 |
| Total expenses | 63,096 | (3,212) | (94) | 7,665 | 67,455 | - | - | 67,455 | 64,003 |
| Change in net assets from income and expenses | 8 | (448) | 101 | 5,995 | 5,656 | 1,811 | 1,080 | 8,547 | 1,944 |
| Other transfers | - | (6) | - | - | (6) | (1,280) | 1,286 | - | - |
| Investment earnings, net of endowment income per spending policy (Notes 4 & 5) | - | - | (417) | - | (417) | (3,851) | (1) | (4,269) | 10,782 |
| Change in value of split-interest agreements | - | - | - | - | - | (142) | (71) | (213) | 1,856 |
| Change in net assets | 8 | (454) | (316) | 5,995 | 5,233 | (3,462) | 2,294 | 4,065 | 14,582 |
| Net assets, beginning of year | 295 | 8,591 | 10,822 | 54,045 | 73,753 | 100,064 | 44,186 | 218,003 | 203,421 |
| Net assets, end of year | \$ 303 | \$ 8,137 | \$ 10,506 | \$ 60,040 | \$ 78,986 | \$ 96,602 | \$ 46,480 | \$ 222,068 | \$ 218,003 |

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

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Statement of Activities for the Year Ended June 30, 2014

| (in thousands) | Unrestricted | | | | Total unrestricted | Temporarily restricted | Permanently restricted | Total |
|--|--------------|------------------|-----------------|------------|--------------------|------------------------|------------------------|------------|
| | Operating | Designated Funds | Quasi-Endowment | Plant Fund | | | | |
| Income | | | | | | | | |
| Support | | | | | | | | |
| Contributions, grants, and pledges (Note 3) | \$ 3,230 | \$ 1,869 | | | \$ 5,099 | \$ 6,995 | \$ 3,296 | \$ 15,390 |
| Contributed services and gifts in kind (Note 12) | 2,836 | - | | \$ 369 | 3,205 | - | - | 3,205 |
| Government grants (Note 13) | 6,193 | 768 | | 552 | 7,513 | - | - | 7,513 |
| Total support | 12,259 | 2,637 | | 921 | 15,817 | 6,995 | 3,296 | 26,108 |
| Revenue | | | | | | | | |
| Admissions | 11,800 | - | | - | 11,800 | - | - | 11,800 |
| Memberships | 7,233 | - | | - | 7,233 | - | - | 7,233 |
| Program fees | 6,630 | 1,085 | | - | 7,715 | - | - | 7,715 |
| Ancillary services | 6,561 | - | | - | 6,561 | - | - | 6,561 |
| Endowment income allocated per spending policy (Note 5) | 1,120 | 539 | | - | 1,659 | 2,745 | - | 4,404 |
| Other income | 1,360 | 468 | | 205 | 2,033 | 93 | - | 2,126 |
| Net assets released from restrictions (Note 11) | 6,751 | 784 | \$ 32 | 2,665 | 10,232 | (10,232) | - | - |
| Use of designated funds | 5,229 | (8,119) | 505 | 2,385 | - | - | - | - |
| Total revenue | 46,684 | (5,243) | 537 | 5,255 | 47,233 | (7,394) | - | 39,839 |
| Total income | 58,943 | (2,606) | 537 | 6,176 | 63,050 | (399) | 3,296 | 65,947 |
| Expenses | | | | | | | | |
| Program services | | | | | | | | |
| Exhibits | 7,894 | - | - | - | 7,894 | - | - | 7,894 |
| Visitor and outreach programs | 11,280 | - | - | - | 11,280 | - | - | 11,280 |
| Formal education programs | 7,837 | - | - | - | 7,837 | - | - | 7,837 |
| Visitor and member services | 4,518 | - | - | - | 4,518 | - | - | 4,518 |
| Other program activities | 9,285 | - | - | - | 9,285 | - | - | 9,285 |
| Total program services | 40,814 | - | - | - | 40,814 | - | - | 40,814 |
| Supporting services | | | | | | | | |
| Administration and general | 5,734 | - | - | - | 5,734 | - | - | 5,734 |
| Facility operations | 5,456 | - | - | - | 5,456 | - | - | 5,456 |
| Fundraising | 4,243 | - | - | - | 4,243 | - | - | 4,243 |
| Interest expense | 144 | - | - | - | 144 | - | - | 144 |
| Depreciation, amortization, and losses on disposal | 53 | - | - | 7,559 | 7,612 | - | - | 7,612 |
| Transfers from operating fund | 2,468 | (2,219) | - | (249) | - | - | - | - |
| Total supporting services | 18,098 | (2,219) | - | 7,310 | 23,189 | - | - | 23,189 |
| Total expenses | 58,912 | (2,219) | - | 7,310 | 64,003 | - | - | 64,003 |
| Change in net assets from income and expenses | 31 | (387) | 537 | (1,134) | (953) | (399) | 3,296 | 1,944 |
| Other transfers | - | 2 | - | - | 2 | (18) | 16 | - |
| Investment earnings, net of endowment income per spending policy (Notes 4 and 5) | - | - | 1,033 | - | 1,033 | 9,711 | 38 | 10,782 |
| Change in value of split-interest agreements | - | - | - | - | - | 1,630 | 226 | 1,856 |
| Change in net assets | 31 | (385) | 1,570 | (1,134) | 82 | 10,924 | 3,576 | 14,582 |
| Net assets, beginning of year | 264 | 8,976 | 9,252 | 55,179 | 73,671 | 89,140 | 40,610 | 203,421 |
| Net assets, end of year | \$ 295 | \$ 8,591 | \$ 10,822 | \$ 54,045 | \$ 73,753 | \$ 100,064 | \$ 44,186 | \$ 218,003 |

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

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Statements of Cash Flows for the Years Ended June 30, 2015 and 2014

| <i>(in thousands)</i> | 2015 | 2014 |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 4,065 | \$ 14,582 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation, capital amortization, and loss on disposal | 7,895 | 7,559 |
| Net realized and unrealized investment losses (gains) before appropriation for endowment spending policy | 214 | (14,729) |
| Dividends and interest retained for investing activities | (221) | (323) |
| Contributions of capitalized assets | (4,577) | (369) |
| Contributions and grants restricted to endowment | (2,115) | (2,410) |
| Contributions and grants restricted for capital projects | (5,129) | (5,730) |
| Change in value of split interest agreements | 213 | (1,856) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (424) | 245 |
| Grants receivable | 1,118 | 501 |
| Pledges receivable for operating activities | (4,855) | 636 |
| Prepaid expenses and other assets | 975 | (368) |
| Accounts payable, accrued liabilities, and other liabilities | (206) | (784) |
| Deferred revenue | 1,186 | (134) |
| Net cash used in operating activities | <u>(1,861)</u> | <u>(3,180)</u> |
| Cash flows from investing activities | | |
| Purchases of investments | (45,904) | (25,326) |
| Sales of investments | 47,909 | 25,332 |
| Purchases of other investment assets | (202) | (85) |
| Cash paid to acquire property, plant, and equipment | (9,632) | (4,924) |
| Net cash used in investing activities | <u>(7,829)</u> | <u>(5,003)</u> |
| Cash flows from financing activities | | |
| Contributions and grants restricted to endowment | 2,115 | 2,410 |
| Contributions and grants restricted for capital projects | 5,129 | 5,730 |
| Net decrease in pledges receivable for financing activities | 4,585 | 2,193 |
| Payments on capital leases | (384) | (256) |
| Net increase in split interest agreements | 120 | 15 |
| Net cash provided by financing activities | <u>11,565</u> | <u>10,092</u> |
| Net change in cash and cash equivalents | 1,875 | 1,909 |
| Cash and cash equivalents at beginning of year | 21,265 | 19,356 |
| Cash and cash equivalents at end of year | <u>\$ 23,140</u> | <u>\$ 21,265</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest on capital leases | \$ 233 | \$ 144 |

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

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Notes to Financial Statements – June 30, 2015 and 2014

NOTE 1 – ORGANIZATION

The Museum of Science (the “Museum”) is a private, non-profit corporation chartered in 1831 as the Boston Society of Natural History by a special act of the Legislature of the Commonwealth of Massachusetts. In 1968, the legal name of the corporation was changed to Museum of Science by another special act of the Massachusetts Legislature. The Museum is accredited by the American Alliance of Museums, the Association of Science-Technology Centers, and the Association of Zoos and Aquariums.

The Museum serves approximately 1.4 million on-site visitors annually through informal science- and technology-related programs and exhibits, as well as large national and international audiences through curriculum programs and networks with other formal and informal educational institutions.

NOTE 2 – ACCOUNTING POLICIES

The Museum prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States (“US GAAP”). The significant accounting policies followed by the Museum are as follows:

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose having been accomplished and/or the stipulated time period having elapsed, are reported as net assets released from restrictions between the applicable classes of net assets.

Unrestricted net assets are divided into four categories:

Unrestricted operating funds are funds with neither donor-imposed restrictions nor board- or management-imposed limitations on use.

Board designated operating funds are funds which the Museum’s Board of Trustees, or management on their behalf, have placed purpose or time-related limitations on use.

Board designated quasi-endowment funds are funds which the Museum’s Board has designated to function as endowments (see Note 5).

Net investment in plant is the book value of the Museum’s capitalized assets, net of accumulated depreciation and amortization, less outstanding liabilities on management agreements (see Note 8), capital leases (see Note 10), asset retirement obligations (see below within this Note), and other liabilities management considers capital-related.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts, unconditional promises to give (pledges), trusts and remainder interests, income, and gains which can be expended but for which restrictions have not yet been met. Such restrictions include restrictions where donors have specified the purpose for which the net assets are to be spent, or time limitations imposed by donors or implied by the nature of the gift (capital projects, unconditional promises to give to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period).

Permanently Restricted Net Assets

Permanently restricted net assets include the historical dollar amount of gifts (including unconditional promises to give), trusts and remainder interests and investment earnings required by donors to be permanently retained.

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Notes to Financial Statements – June 30, 2015 and 2014

Fair Value

The Museum reports certain assets and liabilities at fair value on a recurring and non-recurring basis depending on the underlying accounting policy. Fair value is defined as the price that would be received or paid in the most advantageous market on the measurement date. Recurring fair value measures include the Museum's investments and assets and liabilities of split interest agreements. Non-recurring measures include pledges receivable and asset retirement obligations. Fair value standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, the Museum measures certain investments using the net asset value ("NAV") per share (or its equivalent) as reported by its investment managers under the so-called "practical expedient" to reflect fair value. The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the Museum to classify its assets and liabilities into a three-level hierarchy, based on the priority of inputs to the valuation technique, as discussed below, except for investments which measure fair value using the NAV practical expedient, for which classification into the fair value hierarchy is not required.

Instruments measured and reported at fair value other than those using the NAV practical expedient 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 mutual funds and listed equity and debt securities traded on a stock exchange. Level 1 valuations involve a lesser degree of judgement than Level 2 or Level 3.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 – Pricing inputs are unobservable for the instrument and/or include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgement or estimation.

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.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to that instrument. Subsequent market fluctuations could materially affect the fair value of instruments reported in these financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market funds, and treasury bills with a maturity of ninety days or less when acquired. Bank deposits are often in excess of federally insured limits. However, management monitors its banking partners relative to their credit standing and has not experienced any losses on such accounts.

Pledges Receivable and Contribution Revenue

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the period committed. Conditional promises to give are not recognized until such time as the conditions on which they depend are substantially met. Intentions to give which are not legally enforceable are recorded when the gift is received.

Contributions of assets other than cash are recorded at their estimated fair value when originally pledged or donated. The initially recorded fair value is generally considered a Level 1 or Level 2 measurement depending on the nature of the donated asset. Contributions to be received after one year are discounted using risk-

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Notes to Financial Statements – June 30, 2015 and 2014

adjusted discount rates at the date of the pledge agreement. These discount rates range from approximately one to five percent. This is considered a Level 2 fair value measurement. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based on management's judgement of potential defaults based on the performance and circumstances associated with each pledge.

Investments

Investments are carried at fair value, as described earlier. Investments associated with the Museum's endowment are pooled, with returns net of investment fees being allocated based on the source of the funds.

Interest, dividends, and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the use of income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

Assets and Liabilities under Split Interest Agreements

Assets and liabilities under split-interest agreements are recorded at fair value and in the appropriate net asset category based on donor stipulation. Contributions related to these agreements are recognized as contribution revenue equal to the present value of future benefits less the liability for income payable to the donor or the donor's designee. Separate liabilities have been established for those agreements for which the Museum is a trustee. Agreements for which the Museum is not the trustee are recorded as assets net of the associated liability.

During the term of these agreements, changes in the value of split interest agreements are recognized in the Statement of Activities based on accretion of the discounted amount of the contribution, reevaluations of the expected future benefits to be received by the Museum, and reevaluations of the expected future payment to other beneficiaries, based on changes in life expectancy and other actuarial assumptions. The initially recorded fair value of the donated investments are determined based on the nature of the investment received, and have generally represented Level 1 measurements. Due to unobservable inputs relating to actuarial assumptions made with respect to the income beneficiaries, the initial measurement of the related obligations are Level 2 or Level 3, depending on the existence of comparable instruments in the market.

Museum Collections

The Museum's collections consist of approximately 30,000 artifacts used primarily for educational activities encompassing interpretations, discovery spaces, exhibits, lectures, classes, demonstrations, reference services, or other programs. The Museum also has a historical and archival collection that documents the history of the institution. The composition of the Museum's collections by artifact type is as follows:

| | |
|---------------------------|-----------------|
| Natural Sciences | 20,000 items |
| Cultural/Physical Science | 5,000 items |
| Artwork | 2,000 items |
| Institutional History | 3,000 items |
| Archives | 300 linear feet |

The Museum's Collections Management Policy stipulates that the Museum will only acquire objects useful in fulfilling the educational purpose stated in its mission. The Museum accepts only those objects that can be immediately put on display in an exhibit, used in educational programs, or used in future programming.

Items may be de-accessioned from the collections if they are determined to be no longer useful or relevant in assisting the Museum in fulfilling its mission. Consistent with the American Alliance of Museums' Code of Ethics, Museum policy specifies that proceeds from the de-accessioning of an item may only be used for the conservation or acquisition of other collections items.

In accordance with current practice generally followed by museums, collections are not recorded as assets in the accompanying financial statements. Purchased additions to the collections are recorded as expenses at the time acquired. Although artifacts from the collections may from time to time be incorporated into exhibits, the

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Museum's exhibits themselves are not considered part of its collections and may be capitalized under the Museum's property, plant, and equipment policies.

Property, Plant, and Equipment

Property, plant and equipment are stated at cost, or fair value at the date of donation in the case of gifts. The level of the fair value measurement depends on the nature of the donated asset. Betterments which materially add to the value of the related assets or materially extend the useful life of the assets are capitalized. Normal replacements and minor equipment purchases are included as operating expenses. The Museum capitalizes the cost of standing exhibits and traveling exhibits produced by the Museum for rent by other institutions. The cost of hosted traveling exhibitions produced by others and other exhibits of a short-term duration are expensed as incurred.

Depreciation is recorded on the straight-line basis over the following estimated useful lives:

| | |
|---------------------------|---------------|
| Building and improvements | 10 – 40 years |
| Equipment | 3 – 20 years |
| Exhibits | 5 – 40 years |

Recognition of Earned Revenue and Deferred Revenue

Government grant revenue consists of federal, state, and international government funds awarded in support of the Museum's exhibits and programs, and is recorded as revenue as expenditures are made for the supported activities. Grants received in support of the Museum's general operations are recorded as revenue when received.

Admissions revenue consists of fees paid for entrance to the Museum's exhibit halls, theaters, and special attractions, and is recorded as revenue on the date of visit.

Membership revenue consists of fees paid for household, library, and corporate memberships, and is recorded proportionally over the period of the membership.

Program fees include revenue received for the Museum's overnights program, courses, traveling and outreach programs, professional development, rental of traveling exhibits, and sale of curriculum materials. These fees are recorded at the time the related service is provided.

Ancillary services revenue includes income derived from the Museum's events and conference services, garage, food services, and store, and is recorded on the date the related service is provided.

Other income includes facility rental income, fund-raising and other event ticket sales, and corporate sponsorships. Sponsorship agreements provide for the sponsors' name and/or logo to be displayed on Museum signage, exhibits, advertising, and website, and also provide certain admission and event privileges. Sponsorship revenue is recognized proportionally over the term of the sponsorship agreement. The remaining components of other income are recognized as the related services are provided.

In accordance with these revenue recognition policies, prepayments and deposits are recorded as deferred revenue until the corresponding revenue recognition processes are complete.

Asset Retirement Obligation

The Museum recognizes the initial fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. This is considered a Level 2 fair value measurement. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. The asset retirement obligations will be adjusted on an ongoing basis due to the passage of time, new laws and regulations and revisions to either the timing or amounts of original estimates. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

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Notes to Financial Statements – June 30, 2015 and 2014

Contributed Services and Gifts in Kind

Donated materials are reported as contributions in the accompanying financial statements at their estimated fair values at the time of receipt. Donated services are reported when services are performed which would otherwise have been purchased or performed by Museum personnel, and are recorded at the estimated amount the Museum would have paid for their performance. Fair value determination of these contributions is generally a Level 1 or Level 2 measurement depending on the nature of the donated goods or services.

Use of Designated Funds

Use of designated funds represents allocations from reserves, quasi-endowment income, and other board designated funds to fund operating activities and capital projects.

Transfers from Operating Funds

Transfers from the operating fund include the use of operating funds to fund capital projects, additions to reserves, and other discretionary transfers.

Other Transfers

Other transfers include the redesignation of temporarily restricted funds to endowment, either as a result of donor stipulations that unused endowment income revert to principal at year-end, or as part of special fund-raising programs whereby funds in excess of a capital project's needs are to be used to create an endowment to support the ongoing operations or maintenance of the funded assets. Other transfers also includes transfers related to the funding or recovery of underwater endowment funds.

Income Taxes

The Museum is exempt from income taxation on activities related to its charitable purposes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is qualified to receive tax-deductible gifts and bequests under the U.S. tax code. The Museum is subject to tax on income from any business it conducts which is unrelated to its charitable purposes. The Museum's unrelated business income tax is limited and no tax provision has been made in the accompanying financial statements.

The Museum accounts for the effect of any uncertain tax positions based on a "more-likely-than-not" threshold applied to the likelihood of positions taken or expected to be taken in a tax return being sustained upon examination by the relevant taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Museum has identified its status as a tax-exempt entity and the determination of income as related or unrelated to its exempt purpose to be its only significant tax positions and has determined that such tax positions do not result in an uncertainty requiring recognition. The Museum is not currently under examination by any taxing jurisdiction. The Museum's Federal and state tax returns are generally open for examination for three years following the date filed.

Use of Accounting Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include allowances for doubtful accounts and pledges receivable, present value factors used for pledges, fair values of certain investments, capitalization of assets and determination of useful lives assigned to depreciable assets, asset and liability values associated with leased equipment, obligations under annuity and split-interest arrangements, and liabilities associated with asset retirement obligations.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform with the current year presentation. These reclassifications include changes resulting from the Museum's early application of the provisions of the Financial Accounting Standards Board's Accounting Standards Update No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)".

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Notes to Financial Statements – June 30, 2015 and 2014

NOTE 3 – PLEDGES RECEIVABLE

Pledges are expected to be realized in the following time frame as of June 30, 2015 and 2014:

| <i>(in thousands)</i> | 2015 | 2014 |
|--|------------------|------------------|
| In one year or less | \$ 7,923 | \$ 6,862 |
| Between one and five years | 11,014 | 12,021 |
| Greater than five years | 90 | - |
| Less allowance for unfulfilled pledges | (344) | (347) |
| Less discount to present value | (348) | (471) |
| Net present value of pledges receivable, net of allowances | <u>\$ 18,335</u> | <u>\$ 18,065</u> |

Net present value of pledges by purpose as of June 30, 2015 and 2014 are as follows:

| <i>(in thousands)</i> | 2015 | 2014 |
|--|------------------|------------------|
| Purpose Restrictions | | |
| Operating and similar funds | | |
| Exhibits | \$ 536 | |
| Visitor and outreach programs | 2,792 | \$ 515 |
| Formal education programs | 1,792 | 453 |
| Other program activities | 154 | 103 |
| General and other | 2,228 | 1,621 |
| Capital exhibits, property, plant, and equipment | 4,566 | 8,105 |
| Total operating and similar funds | <u>12,068</u> | <u>10,797</u> |
| Endowment and quasi-endowment | | |
| Visitor and outreach programs | 5,748 | 6,804 |
| Total endowment and quasi-endowment | <u>5,748</u> | <u>6,804</u> |
| Unrestricted pledges with effective time restrictions | 863 | 811 |
| Less allowance for unfulfilled pledges | (344) | (347) |
| Net present value of pledges receivable, net of allowances | <u>\$ 18,335</u> | <u>\$ 18,065</u> |

Concentration of Risk

As of June 30, 2015 and 2014, 78% and 83%, respectively, of gross pledges consisted of pledges from three major donors.

Conditional Promises to Give

As of June 30, 2015 and 2014, the Museum had \$1,840,000 and \$2,120,000, respectively, in conditional pledges.

Non-binding Intentions

In addition to enforceable promises to give, the Museum often receives promises that an individual will recommend that a gift be made from a donor-advised fund or a foundation over which the individual does not have control. As donor-advised funds and foundations are not legally bound to honor such recommendations, these promises are not recorded in the financial statements. Any gifts resulting from these recommendations are recorded when received. As of June 30, 2015 and 2014, the Museum had \$4,667,000 and \$4,127,000, respectively, in outstanding non-binding intentions.

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Notes to Financial Statements – June 30, 2015 and 2014

NOTE 4 – INVESTMENTS AND ASSETS OF SPLIT INTEREST AGREEMENTS

The Museum's investments include both its endowment and miscellaneous non-endowment holdings. Investments and assets of split interest agreements at June 30 were as follows:

| | 2015 | | | | | 2014 | | | | |
|---|--|---|---|---|------------------|--|---|---|---|------------------|
| | Investments measuring fair value using net asset value per share | Investments within the Level 1 hierarchy Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value | Investments measuring fair value using net asset value per share | Investments within the Level 1 hierarchy Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| <i>(in thousands)</i> | | | | | | | | | | |
| Investments | | | | | | | | | | |
| Cash and cash equivalents | | \$ 2,732 | | | \$ 2,732 | | \$ 1,900 | | | \$ 1,900 |
| Domestic equities | | - | | | - | | 4,560 | | | 4,560 |
| Fixed income | | - | | | - | | 113 | | | 113 |
| Mutual funds | | | | | | | | | | |
| Asset allocation funds | | 10,159 | | | 10,159 | | | | | - |
| Domestic equity (growth) | | - | | | - | | 4,620 | | | 4,620 |
| International equity | | 8,673 | | | 8,673 | | 3,744 | | | 3,744 |
| Natural resources | | 2,530 | | | 2,530 | | 3,712 | | | 3,712 |
| US government debt | | 4,958 | | | 4,958 | | 7,008 | | | 7,008 |
| Commingled trust funds | | | | | | | | | | |
| Global fixed income | \$ 4,282 | - | | | 4,282 | \$ 3,629 | - | | | 3,629 |
| Small / mid cap int'l equity | 3,350 | - | | | 3,350 | 3,605 | - | | | 3,605 |
| Large cap int'l equity | 3,815 | - | | | 3,815 | 4,071 | - | | | 4,071 |
| All-cap int'l equity | 4,903 | - | | | 4,903 | - | - | | | - |
| Emerging market | 2,899 | - | | | 2,899 | 3,200 | - | | | 3,200 |
| Natural resources | - | - | | | - | 3,295 | - | | | 3,295 |
| Equity hedge funds | | | | | | | | | | |
| Domestic equity | 15,685 | - | | | 15,685 | 14,127 | - | | | 14,127 |
| Hedge fund of funds | | | | | | | | | | |
| Equity long/short | 14,275 | - | | | 14,275 | 17,087 | - | | | 17,087 |
| Multi-strategy | 7,006 | - | | | 7,006 | 6,812 | - | | | 6,812 |
| Private investments | | | | | | | | | | |
| Debt | 4,181 | - | | | 4,181 | 3,534 | - | | | 3,534 |
| Distressed / undervalued | 1,189 | - | | | 1,189 | 801 | - | | | 801 |
| Natural resources | 773 | - | | | 773 | 395 | - | | | 395 |
| Private equities | 5,977 | - | | | 5,977 | 4,568 | - | | | 4,568 |
| Real estate | 2,788 | - | | | 2,788 | 2,711 | - | | | 2,711 |
| Tech / healthcare | 92 | - | | | 92 | - | - | | | - |
| Other alternative investments | | | | | | | | | | |
| Emerging market debt | - | - | | | - | 2,354 | - | | | 2,354 |
| Other debt | - | - | | | - | 5,676 | - | | | 5,676 |
| Emerging market equity | 7,157 | - | | | 7,157 | 8,011 | - | | | 8,011 |
| Real estate | 3,644 | - | | | 3,644 | 3,539 | - | | | 3,539 |
| Other | 123 | - | | | 123 | 117 | - | | | 117 |
| Total investments | 82,139 | 29,052 | | | 111,191 | 87,532 | 25,657 | | | 113,189 |
| Assets of split interest agreements | | | | | | | | | | |
| Internally managed | - | 2,929 | | | 2,929 | - | 3,106 | | | 3,106 |
| Administered by external trustees | - | - | \$ 1,514 | \$ 11,352 | 12,866 | - | - | \$ 1,497 | \$ 11,583 | 13,080 |
| Total assets of split interest agreements | - | 2,929 | 1,514 | 11,352 | 15,795 | - | 3,106 | 1,497 | 11,583 | 16,186 |
| Total investments and assets of split interest agreements | \$ 82,139 | \$ 31,981 | \$ 1,514 | \$ 11,352 | \$ 126,986 | \$ 87,532 | \$ 28,763 | \$ 1,497 | \$ 11,583 | \$ 129,375 |

Included in Levels 2 and 3 are interests in split-interest agreements of which the Museum is not the trustee. The fair value consists of market values of assets held as reported by the trustees, net of the present value of the distributions expected to be paid to the income beneficiaries during their lives. Market price data is generally

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Notes to Financial Statements – June 30, 2015 and 2014

available for the assets held by these trusts, however the actuarial assumptions relating to the income beneficiaries introduce significant uncertainties into the valuations.

Liquidity

As of June 30, 2015, the liquidity of the Museum's investments is as follows:

| Redemption Frequency | Fair value (in thousands) |
|----------------------|------------------------------|
| Daily | \$ 29,052 |
| Weekly | 2,899 |
| Monthly | 23,506 |
| Quarterly | 27,796 |
| Annually | 3,644 |
| Less than annually | 9,116 |
| Illiquid | 15,178 |
| Total investments | <u>\$ 111,191</u> |

Certain funds are subject to further lock-up periods. Some investment managers reserve the right under unusual circumstances to suspend withdrawals notwithstanding the redemption frequencies noted above; however, none of the Museum's managers has exercised those rights for the two years ended June 30, 2015 and 2014.

Management has no intentions or plans to liquidate any fund for which NAV per share is used to measure fair value at other than NAV per share.

Capital Commitments

Unfunded commitments totaled \$10,030,000 as of June 30, 2015.

Rollforward of Level 3 Valuations

The following table shows the changes in instruments for which Level 3 inputs were used to determine fair value:

| <i>(in thousands)</i> | Split interest agreements |
|------------------------------------|------------------------------|
| Fair Value, June 30, 2013 | \$ 10,144 |
| Change in value of split interests | <u>1,439</u> |
| Fair Value, June 30, 2014 | 11,583 |
| Remainder distributions | (94) |
| Change in value of split interests | <u>(137)</u> |
| Fair Value, June 30, 2015 | <u>\$ 11,352</u> |

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Notes to Financial Statements – June 30, 2015 and 2014

NOTE 5 – ENDOWMENT

The Museum's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments ("quasi-endowments"). The endowment consists of 114 individual donor-restricted endowment funds and 28 quasi-endowment funds established for a variety of purposes. The net assets associated with endowment funds including quasi-endowments, are classified and reported based on the existence or absence of donor imposed restrictions. As of June 30, 2015 and 2014, the endowment accounted for \$109,296,000 and \$110,077,000 of the Museum's investments, respectively. These figures do not include \$1,016,000 and \$994,000, respectively, of additions to the endowment which had been received but not yet invested at each year-end.

The Museum follows the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as promulgated in Massachusetts. The Board of Trustees of the Museum has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Museum and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Museum
- 7) The investment policies of the Museum.

Endowment funds segregated by net asset class at June 30, 2015 and 2014 are as follows:

| <i>(in thousands)</i> | 2015 | | | |
|----------------------------|------------------|------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted funds | \$ (6) | \$ 61,311 | \$ 38,501 | \$ 99,806 |
| Board-designated funds | 10,506 | - | - | 10,506 |
| Total endowment net assets | <u>\$ 10,500</u> | <u>\$ 61,311</u> | <u>\$ 38,501</u> | <u>\$ 110,312</u> |

| | 2014 | | | |
|----------------------------|------------------|------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted funds | | \$ 65,156 | \$ 35,093 | \$ 100,249 |
| Board-designated funds | \$ 10,822 | - | - | 10,822 |
| Total endowment net assets | <u>\$ 10,822</u> | <u>\$ 65,156</u> | <u>\$ 35,093</u> | <u>\$ 111,071</u> |

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Notes to Financial Statements – June 30, 2015 and 2014

The following schedules summarize the change in endowment net assets for the years ended June 30, 2015 and 2014:

| <i>(in thousands)</i> | 2015 | | | |
|--|------------------|------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment net assets, beginning of year | \$ 10,822 | \$ 65,156 | \$ 35,093 | \$ 111,071 |
| Investment return: | | | | |
| Investment income, net of fees | 158 | 272 | - | 430 |
| Net depreciation (realized and unrealized) | (21) | (193) | (1) | (215) |
| Total investment return | 137 | 79 | (1) | 215 |
| Contributions and other additions to corpus | 101 | - | 3,409 | 3,510 |
| Endowment income allocated per spending policy | (554) | (3,930) | - | (4,484) |
| Other changes: | | | | |
| Funding of underwater funds | (6) | 6 | - | - |
| Endowment net assets, end of year | <u>\$ 10,500</u> | <u>\$ 61,311</u> | <u>\$ 38,501</u> | <u>\$ 110,312</u> |
| | | | | |
| | 2014 | | | |
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment net assets, beginning of year | \$ 9,250 | \$ 55,453 | \$ 32,686 | \$ 97,389 |
| Investment return: | | | | |
| Investment income, net of fees | 155 | 302 | - | 457 |
| Net appreciation (realized and unrealized) | 1,416 | 13,270 | 38 | 14,724 |
| Total investment return | 1,571 | 13,572 | 38 | 15,181 |
| Contributions and other additions to corpus | 536 | - | 2,369 | 2,905 |
| Endowment income allocated per spending policy | (537) | (3,867) | - | (4,404) |
| Other changes: | | | | |
| Recovery of underwater funds | 2 | (2) | - | - |
| Endowment net assets, end of year | <u>\$ 10,822</u> | <u>\$ 65,156</u> | <u>\$ 35,093</u> | <u>\$ 111,071</u> |

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Notes to Financial Statements – June 30, 2015 and 2014

Endowment Funds with Deficits (i.e. Underwater funds)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When such endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$6,000 as of June 30, 2015. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or other endowment additions. There were no deficits as of June 30, 2014.

In order to preserve the original gift in accordance with the Board's interpretation of UPMIFA, the Museum does not appropriate for expenditure that portion of a fund which represents the value of the initial and subsequent gift amounts. For donor-restricted endowment funds, the Museum's 5% Spending Allocation Policy (see below) is suspended during any month when such appropriation would leave the fund in deficit, and only current period interest and dividend income is allocated for spending.

Return Objectives and Risk Parameters

The Museum has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target asset allocation applied to the appropriate individual benchmarks.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places greater emphasis on investments whose underlying holdings are equity-based to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation Policy and Relationship to Investment Objectives

The Museum has a policy of appropriating for expenditure an amount of up to 5 percent of the 20-quarter moving average of the fair value of the endowment as measured at the December 31 preceding the fiscal year in which the distribution is planned. On a monthly basis, one twelfth of this amount is allocated among the individual endowment funds on the basis of each fund's fair value as compared to the pool as a whole. Donor-restricted funds with deficits in any month are excepted from this policy during that month and allocated only their share of interest and dividend income received. In establishing this policy, the Board considered the expected long term rate of return on its endowment. Accordingly, over the long term, the Museum expects its current asset allocation policy to provide sufficient endowment growth to fund its spending policy and also maintain the purchasing power of the endowment assets. The asset allocation and spending policies are reviewed periodically and may be adjusted as necessary to meet these objectives.

NOTE 6 – BENEFICIAL INTEREST IN PERPETUAL TRUST

The Museum receives distributions from certain funds held by a community foundation. The underlying fair value of the funds was \$1,593,000 and \$1,644,000 at June 30, 2015 and 2014, respectively. These funds are not recorded by the Museum given the variance power the community foundation holds over them. Distributions were approximately \$58,000 and \$70,000 during the years ended June 30, 2015 and 2014, respectively, and have been included in other income.

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Notes to Financial Statements – June 30, 2015 and 2014

NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2015 and 2014 consist of the following:

| <i>(in thousands)</i> | 2015 | | | | |
|---------------------------|-------------------|--------------------------|---------------------------|--------------------------|------------------|
| | In service | Construction in progress | Total before depreciation | Accumulated depreciation | Net |
| Building and improvements | \$ 77,136 | \$ 3,586 | \$ 80,722 | \$ (49,187) | \$ 31,535 |
| Equipment | 29,051 | 2,395 | 31,446 | (13,186) | 18,260 |
| Exhibits | 35,955 | 1,967 | 37,922 | (19,338) | 18,584 |
| | <u>\$ 142,142</u> | <u>\$ 7,948</u> | <u>\$ 150,090</u> | <u>\$ (81,711)</u> | <u>\$ 68,379</u> |

| | 2014 | | | | |
|---------------------------|-------------------|--------------------------|---------------------------|--------------------------|------------------|
| | In service | Construction in progress | Total before depreciation | Accumulated depreciation | Net |
| Building and improvements | \$ 73,975 | \$ 4,595 | \$ 78,570 | \$ (46,868) | \$ 31,702 |
| Equipment | 27,443 | 2,328 | 29,771 | (17,069) | 12,702 |
| Exhibits | 32,428 | 2,009 | 34,437 | (17,592) | 16,845 |
| | <u>\$ 133,846</u> | <u>\$ 8,932</u> | <u>\$ 142,778</u> | <u>\$ (81,529)</u> | <u>\$ 61,249</u> |

Depreciation expense amounted to \$6,713,000 and \$7,018,000 for the years ended June 30, 2015 and 2014, respectively.

Net losses on disposal of property, plant, and equipment were \$1,032,000 and \$416,000 for the years ended June 30, 2015 and 2014, respectively.

The Museum's total expenditures for constructing, hosting, and refurbishing exhibits for the years ended June 30, 2015 and 2014 were as follows:

| <i>(in thousands)</i> | 2015 | 2014 |
|--|-----------------|-----------------|
| Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations | \$ 2,331 | \$ 3,407 |
| Standing exhibits added to property, plant, and equipment | 4,163 | 2,013 |
| | <u>\$ 6,494</u> | <u>\$ 5,420</u> |

The Museum has a 99-year lease with the Massachusetts Department of Conservation and Recreation for the land occupied by the Museum's buildings. The lease calls for payment of \$1 per year over the term of the lease and expires on December 1, 2047, with an option to renew for another 99 years under the same terms and conditions as the original lease. Management does not assign a value to this agreement due to the nature of the parcel at the time the Museum entered into the agreement. Therefore no value is recorded on the statement of financial position, nor is any contribution recognized on the statement of activities.

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Notes to Financial Statements – June 30, 2015 and 2014

NOTE 8 – MANAGEMENT AGREEMENTS AND OTHER VENDOR CONTRACTS

In March 2005 the Museum entered into a 10-year food services agreement with an outside vendor. The agreement includes a provision for two additional 5 year terms by mutual consent between the Museum and the vendor. In 2015 the Museum and the vendor exercised the first 5-year extension option. Under the original agreement, the vendor made capital improvements totaling \$4,056,000 associated with the food service facilities, with these outlays being amortized on a straight-line basis over a 20-year schedule. The Museum is permitted to terminate the agreement with notice by paying the vendor the unamortized balance of the capital investment, which was \$2,000,000 and \$2,205,000, as of June 30, 2015 and 2014, respectively. The current portion of \$205,000 is reflected in accounts payable and accrued liabilities each year.

The Museum has also contracted with an outside vendor to operate its gift shop. This contract was extended in 2014 and expires in 2020.

Both agreements provide for minimum annual rental payments to the Museum, with additional amounts due based on each vendor's revenue. The combined minimum rent due each year under these contracts is \$1,825,000. Total actual revenue realized was \$2,301,000 and \$2,286,000 for the years ended June 30, 2015 and 2014, respectively, which is included in ancillary services and other income.

In 2014, the Museum entered into a contract with a movie studio to develop a large traveling exhibition. The agreement licenses the Museum to use intellectual property and custom-developed materials for a period of 10 years. The exhibit will be hosted at the Museum for 6 months, after which it is management's intention to rent the exhibit to two institutions per year over the course of the license period, with the expectation that such rentals will cover the initial investment and generate additional revenue for future projects.

NOTE 9 – ANNUITY PAYABLE, DEFERRED COMPENSATION, AND BENEFIT PLANS

The Museum has an annuity agreement with a related party individual which provides for fixed annual payments for life. Using standard actuarial methods and life tables, management has estimated the net present value of this obligation as \$232,000 and \$242,000 at June 30, 2015 and 2014, respectively. Of these amounts, the current portion of \$45,000 is included in accounts payable and accrued expenses each year.

In addition, the Museum has a non-qualified deferred compensation plan under section 457 of the Internal Revenue Code covering certain employees. Assets associated with this plan in the amount of \$566,000 and \$364,000 at June 30, 2015 and 2014, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. For the years ended June 30, 2015 and 2014, the Museum contributed \$36,000 and \$22,000, respectively, to the 457 plan.

The Museum has a long-term employment agreement with its President and Director that provides for severance payments upon termination. As these provisions are conditional on the President and Director's continued employment in good standing, no amount is recorded for the future portion of this contract on the financial statements.

The Museum has two defined contribution plans for the benefit of its employees: a 403(b) savings plan ("the Savings Plan") and a 401(a) retirement plan ("the Retirement Plan").

The Savings Plan allows employees to defer a percentage of their compensation on a pre- or post-tax basis (or both) subject to IRS limits. All employees, excluding interns, are automatically enrolled in the Savings Plan on the first day of the month following their date of hire at a rate of 3% of the employee's compensation. All employees are eligible to participate in the Savings Plan, and may cease or resume participation at any time.

The Museum contributes between 2.25% and 4.5% (depending on age) of eligible employees' compensation to the Retirement Plan. The Retirement Plan also provides for a match of up to 50% of the first 6% of an employee's contributions to the Savings Plan, with a maximum match of 3% of the employee's compensation. Employees scheduled to work at least 17.5 hours per week who have completed one year of service are automatically enrolled in the Retirement Plan. Vesting provisions for Retirement Plan vary according to length of service.

For the years ended June 30, 2015 and 2014, the Museum incurred \$1,142,000 and \$1,084,000, respectively, in contribution costs to the Retirement Plan. The Museum does not make contributions to the Savings Plan.

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Notes to Financial Statements – June 30, 2015 and 2014

NOTE 10 – LEASES

The Museum leases certain energy conservation and other facility equipment under a capital lease which expires in July, 2024. The lease allows for an annual prepayment at the election of the Museum with a modest prepayment penalty.

The Museum leases certain equipment for its 4-D theater under a capital lease which expires in July, 2024. The Museum's agreement with the vendor also includes the provision of programs, supplies, and maintenance services for the theater. The portion of the annual payments representing those items are expensed in the year paid. Future payments on the programs, supplies, and maintenance portion of the agreement totaled \$3,068,000 as of June 30, 2015.

The Museum leases network equipment under a capital lease which expires in June, 2018.

The Museum also leases certain pieces of office equipment under capital leases which expire at various dates through July, 2019.

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2015 are as follows:

| <i>(in thousands)</i> | Capital leases | 4-D programs and services |
|--|---------------------------|--------------------------------------|
| 2016 | \$ 822 | \$ 286 |
| 2017 | 813 | 298 |
| 2018 | 802 | 311 |
| 2019 | 595 | 324 |
| 2020 | 541 | 337 |
| After 2020 | 2,134 | 1,512 |
| Total minimum lease payments | <u>5,707</u> | <u>\$ 3,068</u> |
| Interest | (1,109) | |
| Present value of net minimum lease payments | 4,598 | |
| Current portion of capital lease obligations included in accounts payable and accrued liabilities | (588) | |
| Long term obligations under capital leases | <u>\$ 4,010</u> | |

The net book value of assets acquired under capital leases was \$4,589,000 and \$4,392,000 as of June 30, 2015 and 2014, respectively.

Future Commitments

After June 30, 2015, the Museum entered into an agreement to lease data storage equipment. The agreement calls for payments totaling \$241,000 over three years.

Museum of Science

Notes to Financial Statements – June 30, 2015 and 2014

NOTE 11 – NET ASSETS

The following tables present the three categories of net assets by purpose as of June 30:

| | 2015 | | | Total |
|---|--------------|------------------------|------------------------|------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | |
| <i>(in thousands)</i> | | | | |
| Operating funds, gifts and grants, and endowment income available for spending | | | | |
| Exhibits | \$ 1,191 | \$ 1,600 | | \$ 2,791 |
| Visitor and outreach programs | 935 | 3,703 | | 4,638 |
| Formal education programs | 990 | 873 | | 1,863 |
| Visitor and member services | (1) | 5 | | 4 |
| Other program activities | 18 | 121 | | 139 |
| General and other | 1,712 | 226 | | 1,938 |
| Capital exhibits, property, plant, and equipment | 63,641 | 4,059 | | 67,700 |
| Split interest agreements | - | 12,060 | \$ 2,288 | 14,348 |
| Total operating and similar funds | 68,486 | 22,647 | 2,288 | 93,421 |
| Endowment and quasi-endowment corpus and accumulated gains not allocated for spending | | | | |
| Exhibits | 2,325 | 30,363 | 11,524 | 44,212 |
| Visitor and outreach programs | 6,800 | 12,765 | 19,497 | 39,062 |
| Formal education programs | 449 | 821 | 324 | 1,594 |
| Visitor and member services | - | 44 | 8 | 52 |
| Other program activities | 663 | 1,029 | 1,793 | 3,485 |
| General and other | 263 | 16,289 | 5,355 | 21,907 |
| Total endowment and quasi-endowment | 10,500 | 61,311 | 38,501 | 110,312 |
| Pledges receivable | - | 12,644 | 5,691 | 18,335 |
| Total net assets | \$ 78,986 | \$ 96,602 | \$ 46,480 | \$ 222,068 |
| | | | | |
| | 2014 | | | |
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Operating funds, gifts and grants, and endowment income available for spending | | | | |
| Exhibits | \$ 2,240 | \$ 1,633 | | \$ 3,873 |
| Visitor and outreach programs | 501 | 3,860 | | 4,361 |
| Formal education programs | 537 | 543 | | 1,080 |
| Visitor and member services | - | 105 | | 105 |
| Other program activities | 10 | 173 | | 183 |
| General and other | 6,596 | 325 | | 6,921 |
| Capital exhibits, property, plant, and equipment | 53,045 | 4,616 | | 57,661 |
| Split interest agreements | - | 12,324 | \$ 2,357 | 14,681 |
| Total operating and similar funds | 62,929 | 23,579 | 2,357 | 88,865 |
| Endowment and quasi-endowment corpus and accumulated gains not allocated for spending | | | | |
| Exhibits | 2,320 | 32,033 | 11,525 | 45,878 |
| Visitor and outreach programs | 7,071 | 13,915 | 16,232 | 37,218 |
| Formal education programs | 467 | 867 | 315 | 1,649 |
| Visitor and member services | - | 47 | 8 | 55 |
| Other program activities | 690 | 1,143 | 1,787 | 3,620 |
| General and other | 276 | 17,151 | 5,226 | 22,653 |
| Total endowment and quasi-endowment | 10,824 | 65,156 | 35,093 | 111,073 |
| Pledges receivable | - | 11,329 | 6,736 | 18,065 |
| Total net assets | \$ 73,753 | \$ 100,064 | \$ 44,186 | \$ 218,003 |

Museum of Science

Notes to Financial Statements – June 30, 2015 and 2014

Temporarily restricted net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by the occurrence of other events specified by the donors or implied by the nature of the gift. For the years ended June 30, 2015 and 2014 restricted net assets were released for the following uses:

| <i>(in thousands)</i> | 2015 | 2014 |
|--|------------------|------------------|
| Operating funds | | |
| Exhibits | \$ 1,086 | \$ 1,451 |
| Visitor and outreach programs | 4,794 | 3,446 |
| Formal education programs | 1,013 | 1,233 |
| Visitor and member services | 100 | 105 |
| Other program activities | 103 | 224 |
| Administration and general | 163 | (12) |
| Facility operations | 67 | 20 |
| Fundraising | 274 | 255 |
| Total operating funds | <u>7,600</u> | <u>6,722</u> |
| Board designated funds and quasi-endowment | | |
| Designated funds and reserves | 1,258 | 784 |
| Quasi-endowment principal | - | 32 |
| Total board designated funds and quasi-endowment | <u>1,258</u> | <u>816</u> |
| Plant fund | | |
| Capital exhibits | 2,580 | 1,708 |
| Other property, plant, and equipment | 2,493 | 957 |
| Total plant fund | <u>5,073</u> | <u>2,665</u> |
| Total net assets released from restrictions | <u>\$ 13,931</u> | <u>\$ 10,203</u> |

NOTE 12 – CONTRIBUTED SERVICES AND GIFTS IN KIND

Contributed services and gifts in kind for the years ended June 30, 2015 and 2014 were as follows:

| <i>(in thousands)</i> | 2015 | 2014 |
|----------------------------|-----------------|-----------------|
| Pro bono outside services: | | |
| Legal | \$ 67 | \$ 140 |
| Marketing | 1,786 | 1,838 |
| Miscellaneous | 51 | 51 |
| In-house volunteers | 650 | 790 |
| Gifts in kind: | | |
| Capital software | 4,540 | 367 |
| Miscellaneous | 41 | 19 |
| Total | <u>\$ 7,135</u> | <u>\$ 3,205</u> |

The Museum receives contributed services from over 550 volunteers working in various capacities across the institution. US GAAP specifies that the value of volunteer time may be recognized as income and expense when the service provided requires specialized skills for which the Museum would otherwise have paid. For the year ended June 30, 2015, the value of contributed services meeting those criteria was \$650,000. The value of contributed time not meeting the recognition criteria was \$91,000. Volunteer time contributed across all categories totaled 22 full-time employee equivalents.

Museum of Science

Notes to Financial Statements – June 30, 2015 and 2014

NOTE 13 – GOVERNMENT AWARDS

The Museum has received federal, state, and non-U.S. government awards to support both its general operations and specific projects and programs. Funds expended in connection with these grants are subject to review or audit by the granting agencies. Government support for the years ended June 30, 2015 and 2014 was as follows:

| <i>(in thousands)</i> | 2015 | 2014 |
|---|-----------------|-----------------|
| Direct cost support | | |
| General operating support | \$ 68 | \$ 55 |
| Exhibits | 3,930 | 3,404 |
| Programs | 2,288 | 2,611 |
| Capital projects | 315 | 508 |
| | <u>6,601</u> | <u>6,578</u> |
| Indirect cost recovery | 831 | 811 |
| Net change in estimate for unbilled subawards | 47 | 124 |
| Total | <u>\$ 7,479</u> | <u>\$ 7,513</u> |

These figures include only transactions under awards as that term is defined in applicable government regulations. Revenue under contracts and other agreements whereby a government entity procures goods or services from the Museum in the same manner as a non-government customer are recorded on the revenue line associated with the goods or services procured.

The Museum's federal awards include substantial subawards. At the end of each fiscal year, the Museum estimates and accrues charges incurred, but not yet billed, by its subawardees in order to more accurately reflect total program costs. The accrual is reversed in the subsequent fiscal year as actual subaward billings are received. These accrued charges are not billed to government funders; only actual charges are billed for reimbursement.

NOTE 14 – RELATED PARTIES

The Museum maintains vendor relationships with several companies, the principals of which are members or related to members of the Museum's Board of Trustees or Senior Management Team. All such relationships are subject to the same procurement requirements, policies, and controls as the Museum applies to its other vendors. For the years ended June 30, 2015 and 2014 the Museum expended funds totaling \$292,000 and \$236,000, respectively, under these relationships.

Certain companies whose principals are members of the Museum's Board may also from time to time procure the services of the Museum's Event and Conference Services department. Trustees receive a 15% discount on pricing for such events; otherwise related-party companies are subject to the same policies and controls as the Museum applies to its other customers. For the years ended June 30, 2015 and 2014 the Museum earned \$108,000 and \$117,000, respectively, from these transactions.

NOTE 15 – NON-CASH ACTIVITIES

Non-cash investing and financing activities included \$664,000 and \$1,622,000 of additions to property, plant and equipment purchased with capital leases and \$5,540,000 and \$367,000 received as gifts-in-kind or in-kind payment on corporate sponsorship and membership agreements for the years ended June 30, 2015 and 2014, respectively.

Museum of Science

Notes to Financial Statements – June 30, 2015 and 2014

NOTE 16 – SUBSEQUENT EVENTS

The Museum has performed an evaluation of subsequent events through October 15, 2015, which is the date the financial statements were issued. No material subsequent events were noted.

NOTE 17 – CONTINGENCIES

The Museum generally is subject to claims which arise in the normal course of its operations. In the opinion of management, the outcome of these actions will not have a material adverse effect on the financial position of the Museum.

Museum of Science

Supplemental Schedules of Functional Expenses

For the Years Ended June 30, 2015 and 2014

(in thousands)

| | Year Ended June 30, 2015 | | | | | | | | | | | |
|--|--------------------------|-------------------------------|---------------------------|-----------------------------|--------------------------|------------------------|---------------------|---------------------|-------------|---------------------------|-----------|-------|
| | Program services | | | | | | Supporting services | | | | | Total |
| | Exhibits | Visitor and outreach programs | Formal education programs | Visitor and member services | Other program activities | Total program services | Admin. and general | Facility operations | Fundraising | Total supporting services | | |
| Personnel costs | \$ 2,113 | \$ 7,478 | \$ 3,354 | \$ 2,702 | \$ 3,448 | \$ 19,095 | \$ 4,231 | \$ 2,218 | \$ 3,514 | \$ 9,963 | \$ 29,058 | |
| Cost of goods sold | - | - | 3,835 | - | - | 3,835 | - | - | - | - | 3,835 | |
| Equipment and fixtures | 47 | 81 | 37 | 9 | 71 | 245 | 129 | 80 | 28 | 237 | 482 | |
| Conference and travel | 101 | 330 | 254 | 8 | 73 | 766 | 188 | - | 34 | 222 | 988 | |
| Participant support | 397 | 1,300 | 639 | - | 36 | 2,372 | - | - | 5 | 5 | 2,377 | |
| Supplies and materials | 178 | 753 | 154 | 56 | 59 | 1,200 | 38 | 194 | 98 | 330 | 1,530 | |
| Outside services | 569 | 833 | 795 | 696 | 5,327 | 8,220 | 1,489 | 624 | 829 | 2,942 | 11,162 | |
| Occupancy | 4 | 5 | 7 | 8 | 14 | 38 | 66 | 1,963 | 1 | 2,030 | 2,068 | |
| Subawards | 3,153 | 563 | 127 | - | 41 | 3,884 | - | - | - | - | 3,884 | |
| Miscellaneous and other | 714 | 1,688 | 243 | 750 | 516 | 3,911 | (294) | 10 | 311 | 27 | 3,938 | |
| Total operating expenses | 7,276 | 13,031 | 9,445 | 4,229 | 9,585 | 43,566 | 5,847 | 5,089 | 4,820 | 15,756 | 59,322 | |
| Interest | - | - | - | - | - | - | 233 | - | - | 233 | 233 | |
| Depreciation, amortization, and loss on disposal | 2,367 | 5 | - | - | - | 2,372 | 72 | 5,456 | - | 5,528 | 7,900 | |
| Total expenses | \$ 9,643 | \$ 13,036 | \$ 9,445 | \$ 4,229 | \$ 9,585 | \$ 45,938 | \$ 6,152 | \$ 10,545 | \$ 4,820 | \$ 21,517 | \$ 67,455 | |

| | Year Ended June 30, 2014 | | | | | | | | | | | |
|--|--------------------------|-------------------------------|---------------------------|-----------------------------|--------------------------|------------------------|---------------------|---------------------|-------------|---------------------------|-----------|-------|
| | Program services | | | | | | Supporting services | | | | | Total |
| | Exhibits | Visitor and outreach programs | Formal education programs | Visitor and member services | Other program activities | Total program services | Admin. and general | Facility operations | Fundraising | Total supporting services | | |
| Personnel costs | \$ 2,178 | \$ 7,310 | \$ 2,928 | \$ 2,769 | \$ 3,443 | \$ 18,628 | \$ 4,190 | \$ 2,240 | \$ 3,151 | \$ 9,581 | \$ 28,209 | |
| Cost of goods sold | - | - | 2,409 | - | - | 2,409 | - | - | - | - | 2,409 | |
| Equipment and fixtures | 20 | 58 | 23 | 17 | 91 | 209 | 118 | 70 | 11 | 199 | 408 | |
| Conference and travel | 253 | 228 | 228 | 6 | 85 | 800 | 159 | 1 | 35 | 195 | 995 | |
| Participant support | 140 | 758 | 958 | - | 15 | 1,871 | - | - | 5 | 5 | 1,876 | |
| Supplies and materials | 134 | 370 | 78 | 47 | 62 | 691 | 74 | 181 | 90 | 345 | 1,036 | |
| Outside services | 771 | 623 | 766 | 908 | 5,083 | 8,151 | 1,361 | 865 | 733 | 2,959 | 11,110 | |
| Occupancy | - | 4 | - | 11 | 9 | 24 | 65 | 2,090 | 1 | 2,156 | 2,180 | |
| Subawards | 3,118 | 438 | 128 | - | 22 | 3,706 | - | - | - | - | 3,706 | |
| Miscellaneous and other | 1,280 | 1,491 | 319 | 760 | 475 | 4,325 | (233) | 9 | 217 | (7) | 4,318 | |
| Total operating expenses | 7,894 | 11,280 | 7,837 | 4,518 | 9,285 | 40,814 | 5,734 | 5,456 | 4,243 | 15,433 | 56,247 | |
| Interest | - | - | - | - | - | - | 144 | - | - | 144 | 144 | |
| Depreciation, amortization, and loss on disposal | 1,602 | 53 | - | - | - | 1,655 | 51 | 5,906 | - | 5,957 | 7,612 | |
| Total expenses | \$ 9,496 | \$ 11,333 | \$ 7,837 | \$ 4,518 | \$ 9,285 | \$ 42,469 | \$ 5,929 | \$ 11,362 | \$ 4,243 | \$ 21,534 | \$ 64,003 | |