



Financial Statements

June 30, 2017 and 2016



Museum of Science
Financial Statements — June 30, 2017 and 2016

Table of Contents

Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Notes to the Financial Statements.....	7-24
Supplemental Schedules of Functional Expenses.....	26



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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, 2017 and 2016, 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, 2017 and 2016, 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.



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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 Hoffman McCann P.C.

October 18, 2017

Boston, Massachusetts

Museum of Science
Statements of Financial Position — June 30, 2017 and 2016

<i>(in thousands)</i>	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23,840	\$ 16,797
Accounts receivable	1,671	3,108
Grants receivable	975	1,790
Pledges receivable, net	4,272	5,036
Prepaid expenses and other current assets	1,078	1,377
Total current assets	31,836	28,108
Noncurrent assets		
Pledges receivable, net	5,822	6,672
Investments	150,179	107,871
Assets of split interest agreements	15,342	15,186
Other assets, net of amortization	1,025	941
Property, plant and equipment, net	72,154	73,610
Total assets	\$ 276,358	\$ 232,388
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,616	\$ 5,555
Deferred revenue	5,160	5,137
Total current liabilities	10,776	10,692
Noncurrent liabilities		
Annuity payable and deferred compensation	913	771
Liability under split interest agreements	1,416	1,337
Liability under management agreement	1,385	1,590
Asset retirement obligation	1,502	1,414
Capital leases	2,828	3,532
Total liabilities	18,820	19,336
Net assets		
Unrestricted		
Operating funds	376	356
Designated funds	3,525	8,253
Quasi-endowment	11,184	10,117
Net investment in plant	65,651	66,051
Total unrestricted	80,736	84,777
Temporarily restricted		
Gifts, grants, and endowment income	37,281	26,572
Temporary endowment principal	1,964	1,964
Unappropriated endowment gains	62,125	53,179
Total temporarily restricted	101,370	81,715
Permanently restricted		
Endowment principal and other	75,432	46,560
Total permanently restricted	75,432	46,560
Total net assets	257,538	213,052
Total liabilities and net assets	\$ 276,358	\$ 232,388

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

Museum of Science
Statement of Activities for the Year Ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)

(in thousands)	Unrestricted						2017 Total	2016 Total
	Operating	Designated Funds	Quasi- Endowment	Plant	Total unrestricted	Temporarily restricted	Permanently restricted	
Income								
Support								
Contributions, grants, and pledges	\$ 4,040	\$ 32	\$ 195		\$ 4,267	\$ 15,508	\$ 28,539	\$ 48,314
Contributed services and gifts-in-kind	2,187	-	-		2,187	-	-	2,187
Government grants	3,546	859	-	\$ 215	4,620	-	-	4,620
Total support	<u>9,773</u>	<u>891</u>	<u>195</u>	<u>215</u>	<u>11,074</u>	<u>15,508</u>	<u>28,539</u>	<u>55,121</u>
Revenue								
Admissions	12,941	-	-	-	12,941	-	-	12,941
Memberships	7,423	-	-	30	7,453	-	-	7,453
Educational programs	9,999	771	-	-	10,770	-	-	10,770
Ancillary services	6,975	-	-	-	6,975	1	-	6,976
Endowment income allocated per spending policy	1,166	754	-	-	1,920	3,206	-	5,126
Other income	1,610	456	10	508	2,584	237	-	2,821
Net assets released from restrictions	7,765	343	-	1,434	9,542	(9,542)	-	-
Use of designated funds	<u>4,489</u>	<u>(10,927)</u>	-	<u>6,438</u>	-	-	-	-
Total revenue	<u>52,368</u>	<u>(8,603)</u>	<u>10</u>	<u>8,410</u>	<u>52,185</u>	<u>(6,098)</u>	-	<u>46,087</u>
Total income	<u>62,141</u>	<u>(7,712)</u>	<u>205</u>	<u>8,625</u>	<u>63,259</u>	<u>9,410</u>	<u>28,539</u>	<u>101,208</u>
Expenses								
Program services								
Exhibits	7,326	-	-	-	7,326	-	-	7,326
Visitor and outreach programs	9,720	-	-	-	9,720	-	-	9,720
Formal education programs	9,984	-	-	-	9,984	-	-	9,984
Visitor and member services	4,121	-	-	-	4,121	-	-	4,121
Other program activities	9,365	-	-	-	9,365	-	-	9,365
Total program services	<u>40,516</u>	-	-	-	<u>40,516</u>	-	-	<u>40,516</u>
Supporting services								
Administration and general	6,871	-	-	-	6,871	-	-	6,871
Facility operations	5,512	-	-	-	5,512	-	-	5,512
Fundraising	5,333	-	-	-	5,333	-	-	5,333
Total supporting services	<u>17,716</u>	-	-	-	<u>17,716</u>	-	-	<u>17,716</u>
Other expenses								
Interest expense	210	-	-	2	212	-	-	212
Depreciation and amortization	4	-	-	9,426	9,430	-	-	9,430
Losses on disposal	-	-	-	311	311	-	-	311
Transfers from operating fund	3,675	(2,961)	-	(714)	-	-	-	-
Total other expenses	<u>3,889</u>	<u>(2,961)</u>	-	<u>9,025</u>	<u>9,953</u>	-	-	<u>9,953</u>
Total expenses	<u>62,121</u>	<u>(2,961)</u>	-	<u>9,025</u>	<u>68,185</u>	-	-	<u>68,185</u>
Change in net assets from income and expenses	20	(4,751)	205	(400)	(4,926)	9,410	28,539	33,023
Other transfers	-	23	40	-	63	(86)	23	-
Investment earnings, net of endowment income per spending policy	-	-	822	-	822	9,016	36	9,874
Change in value of split-interest agreements	-	-	-	-	-	1,315	274	1,589
Change in net assets	20	(4,728)	1,067	(400)	(4,041)	19,655	28,872	44,486
Net assets, beginning of year	356	8,253	10,117	66,051	84,777	81,715	46,560	213,052
Net assets, end of year	<u>\$ 376</u>	<u>\$ 3,525</u>	<u>\$ 11,184</u>	<u>\$ 65,651</u>	<u>\$ 80,736</u>	<u>\$ 101,370</u>	<u>\$ 75,432</u>	<u>\$ 257,538</u>
								<u>\$ 213,052</u>

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

Museum of Science

Statement of Activities for the Year Ended June 30, 2016

(in thousands)	Unrestricted							
	Operating	Designated Funds	Quasi-Endowment	Plant	Total unrestricted	Temporarily restricted	Permanently restricted	Total
Income								
Support								
Contributions, grants, and pledges	\$ 3,265	\$ 346	\$ 256		\$ 3,867	\$ 8,201	\$ 240	\$ 12,308
Contributed services and gifts-in-kind	2,780	-	-	\$ 1,849	4,629	-	-	4,629
Government grants	4,498	768	-	152	5,418	-	-	5,418
Total support	10,543	1,114	256	2,001	13,914	8,201	240	22,355
Revenue								
Admissions	15,747	-	-	-	15,747	-	-	15,747
Memberships	7,680	-	-	30	7,710	-	-	7,710
Educational programs	10,737	379	-	-	11,116	-	-	11,116
Ancillary services	7,449	-	-	-	7,449	-	-	7,449
Endowment income allocated per spending policy	1,158	545	-	-	1,703	2,824	-	4,527
Other income	1,370	182	7	508	2,067	111	-	2,178
Net assets released from restrictions	6,611	1,253	-	11,593	19,457	(19,457)	-	-
Use of designated funds	4,874	(9,654)	-	4,780	-	-	-	-
Total revenue	55,626	(7,295)	7	16,911	65,249	(16,522)	-	48,727
Total income	66,169	(6,181)	263	18,912	79,163	(8,321)	240	71,082
Expenses								
Program services								
Exhibits	7,571	-	-	-	7,571	-	-	7,571
Visitor and outreach programs	9,471	-	-	-	9,471	-	-	9,471
Formal education programs	10,171	-	-	-	10,171	-	-	10,171
Visitor and member services	4,397	-	-	-	4,397	-	-	4,397
Other program activities	10,035	-	-	-	10,035	-	-	10,035
Total program services	41,645	-	-	-	41,645	-	-	41,645
Supporting services								
Administration and general	6,894	-	-	-	6,894	-	-	6,894
Facility operations	5,250	-	-	-	5,250	-	-	5,250
Fundraising	5,054	-	-	-	5,054	-	-	5,054
Total supporting services	17,198	-	-	-	17,198	-	-	17,198
Other expenses								
Interest expense	237	-	-	-	237	-	-	237
Depreciation and amortization	5	-	-	8,485	8,490	-	-	8,490
Losses on disposal	-	-	-	5,058	5,058	-	-	5,058
Transfers from operating fund	7,031	(6,389)	-	(642)	-	-	-	-
Total other expenses	7,273	(6,389)	-	12,901	13,785	-	-	13,785
Total expenses	66,116	(6,389)	-	12,901	72,628	-	-	72,628
Change in net assets from income and expenses	53	208	263	6,011	6,535	(8,321)	240	(1,546)
Other transfers	-	(92)	34	-	(58)	38	20	-
Investment earnings, net of endowment income per spending policy	-	-	(686)	-	(686)	(6,276)	(8)	(6,970)
Change in value of split-interest agreements	-	-	-	-	-	(328)	(172)	(500)
Change in net assets	53	116	(389)	6,011	5,791	(14,887)	80	(9,016)
Net assets, beginning of year	303	8,137	10,506	60,040	78,986	96,602	46,480	222,068
Net assets, end of year	\$ 356	\$ 8,253	\$ 10,117	\$ 66,051	\$ 84,777	\$ 81,715	\$ 46,560	\$ 213,052

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

Museum of Science
Statements of Cash Flows for the Years Ended June 30, 2017 and 2016

<i>(in thousands)</i>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 44,486	\$ (9,016)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and capital amortization	9,426	8,485
Loss on disposal of capital assets	311	5,058
Net realized and unrealized investment (gains) losses before appropriation for endowment spending policy	(14,734)	3,108
Dividends and interest retained for investing activities	(563)	(580)
Contributions of capitalized assets	-	(1,849)
Contributions and grants restricted to endowment	(29,561)	(1,387)
Contributions and grants restricted for capital projects	(7,516)	(6,184)
Change in value of split interest agreements	(1,589)	500
Changes in assets and liabilities:		
Accounts receivable	1,437	(1,343)
Grants receivable	815	11
Pledges receivable	1,614	6,627
Prepaid expenses and other assets	292	(438)
Accounts payable, accrued liabilities, and other liabilities	296	(804)
Deferred revenue	23	(719)
Net cash provided by operating activities	4,737	1,469
Cash flows from investing activities		
Purchases of investments	(58,680)	(14,486)
Sales of investments	31,670	15,277
Purchases of other investment assets	(153)	(10)
Cash paid to acquire property, plant, and equipment	(8,432)	(15,545)
Net cash used in investing activities	(35,595)	(14,764)
Cash flows from financing activities		
Contributions and grants restricted to endowment	29,561	1,387
Contributions and grants restricted for capital projects	7,516	6,184
Payments on capital leases	(688)	(618)
Net increase (decrease) in split interest agreements	1,512	(1)
Net cash provided by financing activities	37,901	6,952
Net change in cash and cash equivalents	7,043	(6,343)
Cash and cash equivalents at beginning of year	16,797	23,140
Cash and cash equivalents at end of year	\$ 23,840	\$ 16,797
Supplemental disclosure of cash flow information		
Cash paid during the year for interest on capital leases	\$ 212	\$ 237
Additions to property, plant, and equipment via capital leases	\$ 10	\$ 259
In-kind additions to property, plant, and equipment	\$ -	\$ 1,849

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

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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 between 1.4 and 1.5 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.

Unrestricted net assets are divided into four categories:

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

Designated funds are funds on which the Museum’s Board of Trustees or management has placed purpose- or time-related spending limitations. These funds include reserves and income generated by quasi-endowment funds.

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). Expirations of temporary restrictions on net assets, that is, the donor-imposed 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.

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.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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 used to value them, as discussed below, except for investments measured 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 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access. Assets in this category generally include mutual funds and listed equity and debt securities traded on an exchange.

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 as 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 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 the credit standing of its banking partners 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-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

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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. Revenue related to these agreements is recognized as a contribution equal to the present value of expected future benefits. Agreements for which the Museum is not the trustee are recorded as assets net of the associated liability, while agreements for which the Museum holds the assets are reported gross, with the associated liability reflected separately as a liability under split interest agreement.

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 and reevaluations of the expected future benefits to be received by the Museum given life expectancies and other factors, including changes in discount rates. The initially recorded fair value of the donated investments is determined based on the nature of the investment received, and generally represent Level 1 measurements, while the initial measurement of the related obligations are Level 2 or Level 3, given life expectancy and other factors used in determining the effect of these obligations on measurement.

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 short-term exhibits 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

Certain extraordinary exhibit components, such as fossils, are considered inexhaustible assets with an indefinite useful life and are therefore not depreciated.

Museum Collections and Archives

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	1,100 linear feet

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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 generally 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 Museum's exhibits themselves are not considered part of its collections, and may be capitalized under the Museum's property, plant, and equipment policies. However, artifacts and artworks with a value of \$250,000 or greater acquired specifically for incorporation into an exhibit and capitalized as part of that exhibit may be formally accessioned into the Museum's collections in order to be afforded the protections of the Museum's Collections Management Policy.

Recognition of Earned Revenue and Deferred Revenue

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

Educational programs includes 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 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.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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 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 per donor stipulations that unused endowment income revert to principal at year-end, or as part of fund-raising programs whereby funds raised 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 include transfers related to the funding or recovery of underwater endowment funds and redesignation of reserves to quasi-endowment.

Income and Other 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 is also responsible for calculating, collecting, and remitting sales and liquor taxes in various jurisdictions.

The Museum accounts for the effect of any uncertain tax positions on the basis of whether it is more likely than not that positions taken, or expected to be taken, in a tax return will be 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 liability for all uncertain tax positions. The Museum considers 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 income tax positions, and has determined that such positions do not result in an uncertainty requiring recognition. The Museum is not currently under income tax examination by any 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, liabilities associated with asset retirement obligations, and indirect cost and employee fringe benefit allocation rates.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

Reclassifications and Change in Accounting Principle

Certain reclassifications have been made to the prior year financial statements in order to conform with the current year presentation.

During 2017, the Museum retrospectively adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Prior to this change, the Museum's policy was to present these costs in other assets, net of amortization, on the statement of financial position. Debt issuance costs are now presented as a deduction of capital leases on the financial statements for each year. Accordingly, other assets, net of amortization, and capital leases, originally stated in the June 30, 2016 financial statements at \$959,000 and \$3,550,000, respectively, have been restated to \$941,000 and \$3,532,000, respectively.

Also during 2017, the Museum undertook a significant reorganization of its exhibits and education divisions. In order to preserve comparability across fiscal years, prior year information in the statement of activities and in Notes 11 and 13 has been restated as if the reorganization had already occurred in that year.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

NOTE 3 – PLEDGES RECEIVABLE

Pledges are expected to be realized in the following time frame as of June 30, 2017 and 2016:

<i>(in thousands)</i>	2017	2016
In one year or less	\$ 4,315	\$ 5,092
Between one and five years	6,115	7,107
Less allowance for unfulfilled pledges	(102)	(124)
Less discount to present value	(234)	(367)
Net present value of pledges receivable, net of allowances	\$ 10,094	\$ 11,708

Net present value of pledges by purpose as of June 30, 2017 and 2016 are as follows:

<i>(in thousands)</i>	2017	2016
Purpose Restrictions		
Operating and similar funds		
Exhibits	\$ 1,339	\$ 1,832
Visitor and outreach programs	594	794
Formal education programs	633	1,292
Other program activities	160	104
General and other	753	821
Capital exhibits, property, plant, and equipment	2,829	1,888
Total operating and similar funds	6,308	6,731
Endowment and quasi-endowment		
Exhibits	574	1,351
Visitor and outreach programs	2,982	3,237
Total endowment and quasi-endowment	3,556	4,588
Unrestricted pledges with effective time restrictions	332	514
Less allowance for unfulfilled pledges	(102)	(125)
Net present value of pledges receivable, net of allowances	\$ 10,094	\$ 11,708

Concentration of Risk

As of June 30, 2017 and 2016, 74% and 84%, respectively, of gross pledges consisted of pledges from three major donors.

Conditional Promises to Give

As of June 30, 2017 and 2016, the Museum had \$19,030,000 and \$310,000, 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, 2017 and 2016, the Museum had \$1,504,000 and \$1,466,000, respectively, in outstanding non-binding intentions.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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:

(in thousands)	2017						2016					
	<i>Investments within the Level 1-3 hierarchy</i>				Total fair value		<i>Investments within the Level 1-3 hierarchy</i>				Total fair value	
	Investments measuring fair value using net asset value per share	Quoted prices in active markets	Significant other inputs	Significant observable inputs			Investments measuring fair value using net asset value per share	Quoted prices in active markets	Significant other inputs	Significant observable inputs		
Investments												
Cash and cash equivalents	\$ 15,539				\$ 15,539		\$ 1,050					\$ 1,050
Mutual funds	32,630				32,630		23,284					23,284
Commingled trust funds	\$ 21,888	-			21,888	\$ 18,109	-					18,109
Equity hedge funds	23,258	-			23,258	15,860	-					15,860
Hedge fund of funds	20,112	-			20,112	20,092	-					20,092
Private investments	17,764	-			17,764	15,530	-					15,530
Other alternative investments	18,837	-			\$ 151	18,988	13,806	-			\$ 140	13,946
Total investments	101,859	48,169			151	150,179	83,397	24,334			140	107,871
Assets of split interest agreements												
Internally managed	-	2,638				2,638	-	2,380				2,716
Administered by external trustees	-	351	\$ 1,656	10,697	12,704	-	336	\$ 1,483	10,987			12,470
Total assets of split interest agreements	-	2,989	1,656	10,697	15,342	-	2,380	1,483	10,987			15,186
Total investments and assets of split interest agreements	\$ 101,859	\$ 51,158	\$ 1,656	\$ 10,848	\$ 165,521	\$ 83,397	\$ 26,714	\$ 1,483	\$ 11,127			\$ 123,057

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 available for the assets held by these trusts, however the actuarial assumptions relating to the income beneficiaries renders final measurement less observable.

Liquidity

As of June 30, 2017 and 2016, the liquidity of the Museum's investments is as follows:

Redemption Frequency	Fair value (in thousands)	
	2017	2016
Daily	\$ 48,169	\$ 24,334
Weekly	4,607	2,513
Monthly	36,326	26,029
Quarterly	31,337	27,058
Annually	4,051	3,373
Less than annually	7,747	8,859
Illiquid	17,942	15,705
Total investments	\$ 150,179	\$ 107,871

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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, 2017 and 2016.

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 \$23,156,000 as of June 30, 2017.

Rollforward of Level 3 Valuations

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

(in thousands)	Alternative investments	Split interest agreements	Total Level 3 investments
Fair Value, June 30, 2015	\$ 125	\$ 11,352	\$ 11,477
Sales	(2)	-	(2)
Income net of expenses, fees, and distributions	5	-	5
Realized gains/(losses)	17	-	17
Unrealized gains	(5)	-	(5)
Change in value of split interests	-	(365)	(365)
Fair Value, June 30, 2016	140	10,987	11,127
Remainder distributions		(1,547)	(1,547)
Income net of expenses, fees, and distributions	5	-	5
Realized gains/(losses)	1	-	1
Unrealized gains/(losses)	5	-	5
Change in value of split interests	-	1,257	1,257
Fair Value, June 30, 2017	\$ 151	\$ 10,697	\$ 10,848

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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 117 individual donor-restricted endowment funds and 29 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, 2017 and 2016, the endowment accounted for \$146,327,000 and \$105,087,000 of the Museum's investments, respectively. These figures include \$13,221,000 and \$210,000, 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, 2017 and 2016 are as follows:

	<i>(in thousands)</i>			2017
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds		\$ 64,079	\$ 71,064	\$ 135,143
Board-designated funds	\$ 11,184	-	-	11,184
Total endowment net assets	\$ 11,184	\$ 64,079	\$ 71,064	\$ 146,327
				2016
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	\$ (64)	\$ 55,133	\$ 39,901	\$ 94,970
Board-designated funds	10,117	-	-	10,117
Total endowment net assets	\$ 10,053	\$ 55,133	\$ 39,901	\$ 105,087

Museum of Science
Notes to Financial Statements – June 30, 2017 and 2016

The following schedules summarize the change in endowment net assets for the years ended June 30, 2017 and 2016:

(in thousands)	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 10,053	\$ 55,133	\$ 39,901	\$ 105,087
Investment return:				
Investment income, net of fees	120	147	-	267
Net appreciation (realized and unrealized)	1,278	13,415	36	14,729
Total investment return	<u>1,398</u>	<u>13,562</u>	<u>36</u>	<u>14,996</u>
Contributions	192	-	29,557	29,749
Other additions to corpus	51	-	1,570	1,621
Endowment income per spending policy	(574)	(4,552)	-	(5,126)
Other changes:				
Recovery of underwater funds	64	(64)	-	-
Endowment net assets, end of year	<u>\$ 11,184</u>	<u>\$ 64,079</u>	<u>\$ 71,064</u>	<u>\$ 146,327</u>
2016				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 10,500	\$ 61,311	\$ 38,501	\$ 110,312
Investment return:				
Investment income, net of fees	239	426	-	665
Net depreciation (realized and unrealized)	(291)	(2,769)	(8)	(3,068)
Total investment return	<u>(52)</u>	<u>(2,343)</u>	<u>(8)</u>	<u>(2,403)</u>
Contributions	256	-	1,388	1,644
Other additions to corpus	41	-	20	61
Endowment income per spending policy	(634)	(3,893)	-	(4,527)
Other changes:				
Funding of underwater funds	(58)	58	-	-
Endowment net assets, end of year	<u>\$ 10,053</u>	<u>\$ 55,133</u>	<u>\$ 39,901</u>	<u>\$ 105,087</u>

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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 \$64,000 as of June 30, 2016. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or other endowment additions. There were no such deficits as of June 30, 2017.

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 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 the 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

Prior to July 1, 2017, the Museum's spending allocation policy appropriated 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. For the year beginning July 1, 2017, the policy was changed to 4.75% of the 16-quarter moving average. On a monthly basis, one twelfth of the pre-determined annual amount is allocated among the individual endowment funds on the basis of each fund's fair value as compared to that of 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.

Under the base spending allocation policy, large gifts may have a distorting effect on the allocation of income to existing funds until such time as they are fully absorbed into the lookback period. Therefore, the Board reserves the right to exempt unusually large endowment additions from the standard procedure and subject those gifts to a separate allocation policy. When it does so, the Board will seek to approximate the allocation rate applied to the main endowment, while protecting the future earning power of the exempted fund. Funds with special allocation policies may be migrated back into the standard policy at such time as the effect on other funds of doing so is negligible.

In July 2016, the Museum received a 3-year endowment pledge of unprecedented size, and has chosen to exempt it from participation in the standard allocation policy.

Museum of Science
Notes to Financial Statements – June 30, 2017 and 2016

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 \$1,581,000 and \$1,483,000 at June 30, 2017 and 2016, respectively. These funds are not recorded by the Museum given the variance power the community foundation holds over them. Distributions were approximately \$66,000 and \$68,000 during the years ended June 30, 2017 and 2016, respectively, and have been included in other income.

NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2017 and 2016 consist of the following:

<i>(in thousands)</i>	2017				
	In service	Construction in progress	Total before depreciation	Accumulated depreciation	Net
Building and improvements	\$ 87,650		\$ 87,650	\$ (53,552)	\$ 34,098
Equipment	33,466	\$ 14	33,480	(16,970)	16,510
Exhibits	42,934	799	43,733	(22,187)	21,546
	<u>\$ 164,050</u>	<u>\$ 813</u>	<u>\$ 164,863</u>	<u>\$ (92,709)</u>	<u>\$ 72,154</u>
2016					
	In service	Construction in progress	Total before depreciation	Accumulated depreciation	Net
Building and improvements	\$ 82,685	\$ 2,952	\$ 85,637	\$ (51,075)	\$ 34,562
Equipment	32,138	302	32,440	(14,539)	17,901
Exhibits	41,734	510	42,244	(21,097)	21,147
	<u>\$ 156,557</u>	<u>\$ 3,764</u>	<u>\$ 160,321</u>	<u>\$ (86,711)</u>	<u>\$ 73,610</u>

Depreciation expense amounted to \$9,262,000 and \$8,329,000 for the years ended June 30, 2017 and 2016, respectively.

Net losses on disposal of property, plant, and equipment were \$311,000 and \$5,058,000 for the years ended June 30, 2017 and 2016, respectively. The high losses for the year ended June 30, 2016 related to removal and replacement of several large exhibits and other equipment before the end of their originally estimated useful lives, as well as the write-off at the end of the Museum's capital campaign of significant planning and design costs for building renovations determined to not be of future utility.

The Museum's total expenditures for constructing, hosting, and refurbishing exhibits for the years ended June 30, 2017 and 2016 were as follows:

<i>(in thousands)</i>	2017	2016
Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations	\$ 1,789	\$ 1,210
Standing exhibits added to property, plant, and equipment	<u>3,938</u>	<u>6,681</u>
	<u>\$ 5,727</u>	<u>\$ 7,891</u>

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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.

NOTE 8 – MANAGEMENT AGREEMENTS AND OTHER VENDOR CONTRACTS

The Museum has contracted with an outside vendor to operate its food services. This contract expires in 2020 and is cancelable with notice. The vendor has 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. Should the Museum terminate the agreement, it is obligated to pay the vendor the unamortized balance of the liability under management agreement, which was \$1,590,000 and \$1,795,000, as of June 30, 2017 and 2016, 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 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 \$2,324,000 and \$2,628,000 for the years ended June 30, 2017 and 2016, 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. Two copies of the exhibit are on tour nationally and internationally and are expected to be rented to 3-5 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 \$229,000 and \$240,000 at June 30, 2017 and 2016, 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 \$729,000 and \$576,000 at June 30, 2017 and 2016, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. For the years ended June 30, 2017 and 2016, the Museum contributed \$41,000 and \$32,000, 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 are eligible to participate in the Savings Plan. All employees, except 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, and may cease or resume participation at any time.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

The Museum contributes between 2.25% and 4.5% (depending on age) of eligible employees' compensation to the Retirement Plan. These percentages are subject to annual review and may be changed at the discretion of the Museum's management. In addition, the Retirement Plan provides a match of up to 50% of the first 6% of an employee's contributions to the Savings Plan. 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, 2017 and 2016, the Museum incurred \$1,341,000 and \$1,130,000, respectively, in contribution costs to the Retirement Plan. The Museum does not make contributions to the Savings Plan.

NOTE 10 – LEASES

The Museum leases energy conservation, office, 4-D theater, and other equipment under capital leases that expire at various dates through July, 2024.

The 4-D theater equipment lease agreement 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 \$2,484,000 as of June 30, 2017.

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2017 are as follows:

<i>(in thousands)</i>	Capital leases	4-D programs and services
2018	\$ 893	\$ 311
2019	654	324
2020	547	337
2021	540	350
2022	527	363
After 2022	1,073	799
Total minimum lease payments	<u>4,234</u>	<u>\$ 2,484</u>
Interest	<u>(675)</u>	
Present value of net minimum lease payments	<u>3,559</u>	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	(715)	
Unamortized debt issuance costs	(16)	
Net long term obligations under capital leases	<u>\$ 2,828</u>	

The net book value of assets acquired under capital leases was \$3,622,000 and \$4,270,000 as of June 30, 2017 and 2016, respectively.

Museum of Science
Notes to Financial Statements – June 30, 2017 and 2016

NOTE 11 – NET ASSETS

Net asset balances by donor-restricted or internally designated purpose as of June 30 are as follows:

(in thousands)	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating funds, gifts and grants, and endowment income available for spending				
Exhibits	\$ (1,461)	\$ 2,639		\$ 1,178
Visitor and outreach programs	391	4,494		4,885
Formal education programs	1,309	1,620		2,929
Visitor and member services	-	7		7
Other program activities	31	337		368
General and other	3,128	2,388		5,516
Capital exhibits, property, plant, and equipment	66,154	6,154		72,308
Split interest agreements	-	13,078	\$ 848	13,926
Total operating and similar funds	<u>69,552</u>	<u>30,717</u>	<u>848</u>	<u>101,117</u>
Endowment and quasi-endowment corpus and accumulated gains not allocated for spending				
Exhibits	6,080	31,575	16,654	54,309
Visitor and outreach programs	3,154	13,956	45,317	62,427
Formal education programs	453	834	373	1,660
Visitor and member services	-	45	8	53
Other program activities	746	1,060	1,793	3,599
General and other	751	16,609	6,919	24,279
Total endowment and quasi-endowment	<u>11,184</u>	<u>64,079</u>	<u>71,064</u>	<u>146,327</u>
Pledges receivable	-	6,574	3,520	10,094
Total net assets	<u>\$ 80,736</u>	<u>\$ 101,370</u>	<u>\$ 75,432</u>	<u>\$ 257,538</u>
(in thousands)	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating funds, gifts and grants, and endowment income available for spending				
Exhibits	\$ 823	\$ 2,971		\$ 3,794
Visitor and outreach programs	634	3,839		4,473
Formal education programs	1,484	994		2,478
Visitor and member services	-	105		105
Other program activities	25	170		195
General and other	3,998	429		4,427
Capital exhibits, property, plant, and equipment	67,760	(824)		66,936
Split interest agreements	-	11,732	\$ 2,117	13,849
Total operating and similar funds	<u>74,724</u>	<u>19,416</u>	<u>2,117</u>	<u>96,257</u>
Endowment and quasi-endowment corpus and accumulated gains not allocated for spending				
Exhibits	4,727	27,637	15,683	48,047
Visitor and outreach programs	3,811	10,982	16,713	31,506
Formal education programs	420	746	345	1,511
Visitor and member services	-	41	8	49
Other program activities	654	848	1,793	3,295
General and other	441	14,879	5,359	20,679
Total endowment and quasi-endowment	<u>10,053</u>	<u>55,133</u>	<u>39,901</u>	<u>105,087</u>
Pledges receivable	-	7,166	4,542	11,708
Total net assets	<u>\$ 84,777</u>	<u>\$ 81,715</u>	<u>\$ 46,560</u>	<u>\$ 213,052</u>

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

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, 2017 and 2016 restricted net assets were released for the following uses:

<i>(in thousands)</i>	2017	2016
Operating funds		
Exhibits	\$ 2,410	\$ 1,207
Visitor and outreach programs	3,029	3,429
Formal education programs	702	788
Visitor and member services	101	101
Other program activities	417	178
Administration and general	816	14
Facility operations	75	71
Fundraising	215	823
Total operating funds	7,765	6,611
 Board designated funds and quasi-endowment		
Designated funds and reserves	343	1,253
Total board designated funds and quasi-endowment	343	1,253
 Plant fund		
Capital exhibits	1,287	2,471
Other property, plant, and equipment	147	9,122
Total plant fund	1,434	11,593
Total net assets released from restrictions	\$ 9,542	\$ 19,457

NOTE 12 – CONTRIBUTED SERVICES AND GIFTS IN KIND

Contributed services and gifts in kind for the years ended June 30, 2017 and 2016 were as follows:

<i>(in thousands)</i>	2017	2016
Pro bono outside services:		
Legal	\$ 335	\$ 368
Marketing	1,271	1,794
Miscellaneous	51	70
In-house volunteers	522	544
Gifts in kind:		
Capital exhibits	-	1,849
Miscellaneous	8	4
Total	\$ 2,187	\$ 4,629

The Museum receives contributed services from over 350 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, 2017, the value of contributed services meeting those criteria was \$522,000. The value of contributed time not meeting the recognition criteria was \$78,000. Volunteer time contributed across all categories totaled 17 full-time employee equivalents.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

NOTE 13 – GOVERNMENT AWARDS

The Museum has received federal and state 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, 2017 and 2016 was as follows:

<i>(in thousands)</i>	2017	2016
Direct cost support		
General operating support	\$ 68	\$ 45
Exhibits	1,740	2,760
Programs	1,983	1,909
Capital projects	208	130
	<hr/> 3,999	<hr/> 4,844
Indirect cost recovery	866	790
Net change in estimate for unbilled subawards	(245)	(216)
Total	<hr/> \$ 4,620	<hr/> \$ 5,418

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, 2017 and 2016 the Museum expended funds totaling \$338,000 and \$384,000, 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, pricing, and controls as the Museum applies to its other customers. For the years ended June 30, 2017 and 2016 the Museum earned \$132,000 and \$152,000, respectively, from these transactions.

NOTE 15 – SUBSEQUENT EVENTS

The Museum has performed an evaluation of subsequent events through October 18, 2017, which is the date the financial statements were issued.

No material subsequent events were noted.

Museum of Science

Notes to Financial Statements – June 30, 2017 and 2016

NOTE 16 – 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, 2017 and 2016

(in thousands)

Year Ended June 30, 2017

	Program services										Supporting services				Total	
	Visitor and outreach programs		Formal education programs		Visitor and member services		Other program activities		Total program services		Admin. and general		Facility operations Fundraising			
	Exhibits	programs	education	programs	member	services	activities	program	services	general	operations	Fundraising	operations	Fundraising	services	
Personnel costs	\$ 4,308	\$ 5,787	\$ 3,631	\$ 2,672	\$ 3,893	\$ 20,291	\$ 4,891	\$ 2,349	\$ 3,475	\$ 10,715	\$ 31,006					
Cost of goods sold	-	-	4,095	-	-	4,095	-	-	-	-	-	4,095				
Equipment and fixtures	78	53	29	57	180	397	114	119	59	292	689					
Conferences and travel	255	158	283	13	91	800	165	-	79	244	1,044					
Participant support	111	768	562	-	2	1,443	-	-	8	8	1,451					
Supplies and materials	430	139	136	51	101	857	81	208	116	405	1,262					
Outside services	520	544	863	635	4,564	7,126	1,891	692	1,199	3,782	10,908					
Occupancy	12	69	5	10	29	125	76	2,079	6	2,161	2,286					
Subawards	887	670	25	-	65	1,647	-	-	-	-	1,647					
Miscellaneous and other	725	1,532	355	683	440	3,735	(347)	65	391	109	3,844					
Total operating expenses	7,326	9,720	9,984	4,121	9,365	40,516	6,871	5,512	5,333	17,716	58,232					
Interest	-	-	-	-	-	-	212	-	-	212	212					
Depreciation and amortization	3,422	4	-	-	-	3,426	75	5,929	-	6,004	9,430					
Losses on disposal	117	-	-	-	-	117	-	194	-	194	311					
Total expenses	\$ 10,865	\$ 9,724	\$ 9,984	\$ 4,121	\$ 9,365	\$ 44,059	\$ 7,158	\$ 11,635	\$ 5,333	\$ 24,126	\$ 68,185					

Year Ended June 30, 2016

	Program services										Supporting services				Total	
	Visitor and outreach programs		Formal education programs		Visitor and member services		Other program activities		Total program services		Admin. and general		Facility operations Fundraising			
	Exhibits	programs	education	programs	member	services	activities	program	services	general	operations	Fundraising	operations	Fundraising	services	
Personnel costs	\$ 3,917	\$ 5,701	\$ 3,214	\$ 2,867	\$ 3,593	\$ 19,292	\$ 4,575	\$ 2,229	\$ 3,289	\$ 10,093	\$ 29,385					
Cost of goods sold	-	-	4,485	-	-	4,485	-	-	-	-	4,485					
Equipment and fixtures	44	61	24	4	118	251	96	70	19	185	436					
Conferences and travel	176	167	214	7	73	637	191	-	53	244	881					
Participant support	229	552	690	-	13	1,484	-	-	1	1	1,485					
Supplies and materials	354	167	146	26	46	739	104	190	110	404	1,143					
Outside services	523	525	974	714	5,521	8,257	2,108	683	737	3,528	11,785					
Occupancy	26	10	33	9	15	93	85	2,071	2	2,158	2,251					
Subawards	1,925	699	22	-	32	2,678	-	-	-	-	2,678					
Miscellaneous and other	377	1,589	369	770	624	3,729	(265)	7	843	585	4,314					
Total operating expenses	7,571	9,471	10,171	4,397	10,035	41,645	6,894	5,250	5,054	17,198	58,843					
Interest	-	-	-	-	-	-	237	-	-	237	237					
Depreciation and amortization	2,897	5	-	-	-	2,902	73	5,515	-	5,588	8,490					
Losses on disposal	1,221	-	-	-	-	1,221	-	3,837	-	3,837	5,058					
Total expenses	\$ 11,689	\$ 9,476	\$ 10,171	\$ 4,397	\$ 10,035	\$ 45,768	\$ 7,204	\$ 14,602	\$ 5,054	\$ 26,860	\$ 72,628					

See Independent Auditors' report.