

 **Museum of Science**

**Financial Statements**  
**June 30, 2018 and 2017**



# Museum of Science

## Financial Statements — June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



*Other 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 are 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.

*Maya Hoffman McCann P.C.*

October 18, 2018  
Boston, Massachusetts

**Museum of Science**  
**Statements of Financial Position — June 30, 2018 and 2017**

<i>(in thousands)</i>	2018	2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 32,471	\$ 23,840
Accounts receivable	1,315	1,671
Grants receivable	1,372	975
Pledges receivable, net	5,160	4,272
Prepaid expenses and other current assets	1,146	1,078
Total current assets	41,464	31,836
Noncurrent assets		
Pledges receivable, net	2,387	5,822
Investments	160,961	150,179
Assets of split interest agreements	16,535	15,342
Other assets, net of amortization	1,035	1,025
Property, plant and equipment, net	68,330	72,154
Total assets	\$ 290,712	\$ 276,358
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,666	\$ 5,616
Deferred revenue	4,752	5,160
Total current liabilities	10,418	10,776
Noncurrent liabilities		
Annuity payable and deferred compensation	1,037	913
Liability under split interest agreements	1,523	1,416
Liability under management agreement	1,180	1,385
Asset retirement obligation	1,596	1,502
Capital leases	2,323	2,828
Total liabilities	18,077	18,820
Net assets		
Unrestricted		
Operating funds	418	376
Designated funds	1,241	3,525
Quasi-endowment	10,465	11,184
Net investment in plant	62,771	65,651
Total unrestricted	74,895	80,736
Temporarily restricted		
Gifts, grants, and endowment income	47,862	37,281
Temporary endowment principal	1,964	1,964
Unappropriated endowment gains	69,466	62,125
Total temporarily restricted	119,292	101,370
Permanently restricted		
Endowment principal and other	78,448	75,432
Total permanently restricted	78,448	75,432
Total net assets	272,635	257,538
Total liabilities and net assets	\$ 290,712	\$ 276,358

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

**Museum of Science**  
**Statement of Activities for the Year Ended June 30, 2018**  
**(with comparative totals for the year ended June 30, 2017)**

(in thousands)	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	2018 Total	2017 Total
	Operating	Designated Funds	Quasi-Endowment	Plant					
<b>Income</b>									
Support									
Contributions, grants, and pledges	\$ 5,372	\$ 180	\$ 99		\$ 5,651	\$ 16,978	\$ 2,836	\$ 25,465	\$ 48,314
Contributed services and gifts-in-kind	2,293	-	-	\$ 373	2,666	-	-	2,666	2,187
Government grants	3,157	793	-	515	4,465	-	-	4,465	4,620
Total support	10,822	973	99	888	12,782	16,978	2,836	32,596	55,121
Revenue									
Admissions	12,535	-	-	-	12,535	-	-	12,535	12,941
Memberships	7,222	-	-	15	7,237	-	-	7,237	7,453
Educational programs	9,537	1,298	-	-	10,835	-	18	10,853	10,770
Ancillary services	7,303	-	-	-	7,303	-	-	7,303	6,976
Endowment income allocated per spending policy	1,154	876	-	-	2,030	3,437	-	5,467	5,126
Other income	1,546	304	15	357	2,222	146	-	2,368	2,821
Net assets released from restrictions	7,550	387	150	2,492	10,579	(10,579)	-	-	-
Use of designated funds	6,276	(7,403)	(610)	1,737	-	-	-	-	-
Total revenue	53,123	(4,538)	(445)	4,601	52,741	(6,996)	18	45,763	46,087
Total income	63,945	(3,565)	(346)	5,489	65,523	9,982	2,854	78,359	101,208
<b>Expenses</b>									
Program services									
Exhibits	7,891	-	-	-	7,891	-	-	7,891	7,326
Education and outreach programs	9,185	-	-	-	9,185	-	-	9,185	9,720
Teacher and curriculum programs	9,508	-	-	-	9,508	-	-	9,508	9,984
Visitor and member services	4,534	-	-	-	4,534	-	-	4,534	4,121
Other program activities	11,502	-	-	-	11,502	-	-	11,502	9,365
Total program services	42,620	-	-	-	42,620	-	-	42,620	40,516
Supporting services									
Administration and general	7,397	-	-	-	7,397	-	-	7,397	6,871
Facility operations	5,762	-	-	-	5,762	-	-	5,762	5,512
Fundraising	5,792	-	-	-	5,792	-	-	5,792	5,333
Total supporting services	18,951	-	-	-	18,951	-	-	18,951	17,716
Other expenses									
Interest expense	178	-	-	2	180	-	-	180	212
Depreciation and amortization	-	-	-	8,943	8,943	-	-	8,943	9,430
Losses on disposal	-	-	-	166	166	-	-	166	311
Transfers from operating fund	2,153	(1,368)	-	(742)	43	-	(43)	-	-
Total other expenses	2,331	(1,368)	-	8,369	9,332	-	(43)	9,289	9,953
Total expenses	63,902	(1,368)	-	8,369	70,903	-	(43)	70,860	68,185
Change in net assets from income and expenses	43	(2,197)	(346)	(2,880)	(5,380)	9,982	2,897	7,499	33,023
Other transfers	-	-	-	-	-	(25)	25	-	-
Investment earnings, net of endowment income per spending policy	-	-	558	-	558	7,360	27	7,945	9,874
Change in value of split-interest agreements	-	-	-	-	-	1,058	67	1,125	1,589
Change due to separation of business unit	(1)	(87)	(931)	-	(1,019)	(453)	-	(1,472)	-
Change in net assets	42	(2,284)	(719)	(2,880)	(5,841)	17,922	3,016	15,097	44,486
Net assets, beginning of year	376	3,525	11,184	65,651	80,736	101,370	75,432	257,538	213,052
Net assets, end of year	\$ 418	\$ 1,241	\$ 10,465	\$ 62,771	\$ 74,895	\$ 119,292	\$ 78,448	\$ 272,635	\$ 257,538

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

# Museum of Science

## Statement of Activities for the Year Ended June 30, 2017

(in thousands)	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operating	Designated Funds	Quasi-Endowment	Plant				
<b>Income</b>								
<b>Support</b>								
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	9,773	891	195	215	11,074	15,508	28,539	55,121
<b>Revenue</b>								
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	4,489	(10,927)	-	6,438	-	-	-	-
Total revenue	52,368	(8,603)	10	8,410	52,185	(6,098)	-	46,087
Total income	62,141	(7,712)	205	8,625	63,259	9,410	28,539	101,208
<b>Expenses</b>								
<b>Program services</b>								
Exhibits	7,326	-	-	-	7,326	-	-	7,326
Education and outreach programs	9,720	-	-	-	9,720	-	-	9,720
Teacher and curriculum 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	40,516	-	-	-	40,516	-	-	40,516
<b>Supporting services</b>								
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	17,716	-	-	-	17,716	-	-	17,716
<b>Other expenses</b>								
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	3,889	(2,961)	-	9,025	9,953	-	-	9,953
Total expenses	62,121	(2,961)	-	9,025	68,185	-	-	68,185
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	\$ 376	\$ 3,525	\$ 11,184	\$ 65,651	\$ 80,736	\$ 101,370	\$ 75,432	\$ 257,538

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

# Museum of Science

## Statements of Cash Flows for the Years Ended June 30, 2018 and 2017

<i>(in thousands)</i>	2018	2017
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 15,097	\$ 44,486
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and capital amortization	8,943	9,426
Loss on disposal of capital assets	166	311
Net realized and unrealized investment gains before appropriation for endowment spending policy	(12,716)	(14,734)
Dividends and interest retained for investing activities	(997)	(563)
Contributions of capitalized assets	(373)	-
Contributions and grants restricted to endowment	(3,305)	(29,561)
Contributions and grants restricted for capital projects	(10,395)	(7,516)
Change in value of split interest agreements	(1,125)	(1,589)
Changes in assets and liabilities:		
Accounts receivable	356	1,437
Grants receivable	(397)	815
Pledges receivable	2,547	1,614
Prepaid expenses and other assets	15	292
Accounts payable, accrued liabilities, and other liabilities	(38)	296
Deferred revenue	(408)	23
Net cash provided by (used in) operating activities	<u>(2,630)</u>	<u>4,737</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(100,222)	(58,680)
Sales of investments	103,153	31,670
Purchases of other investment assets	(134)	(153)
Cash paid to acquire property, plant, and equipment	(4,557)	(8,432)
Net cash used in investing activities	<u>(1,760)</u>	<u>(35,595)</u>
<b>Cash flows from financing activities</b>		
Contributions and grants restricted to endowment	3,305	29,561
Contributions and grants restricted for capital projects	10,395	7,516
Payments on capital leases	(718)	(688)
Net increase in split interest agreements	39	1,512
Net cash provided by financing activities	<u>13,021</u>	<u>37,901</u>
Net change in cash and cash equivalents	8,631	7,043
Cash and cash equivalents at beginning of year	23,840	16,797
Cash and cash equivalents at end of year	<u>\$ 32,471</u>	<u>\$ 23,840</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest on capital leases	\$ 180	\$ 212
Additions to property, plant, and equipment via capital leases	\$ 11	\$ 10
In-kind additions to property, plant, and equipment	\$ 373	\$ -

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



# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

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### 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, 2018 and 2017

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### 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, 2018 and 2017

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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, 2018 and 2017

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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, 2018 and 2017

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### **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. These activities generally include event and conference services revenue for events of a purely social nature, rental income from parking spaces in the Museum's garage, investment income from certain endowment investments, and ticket income from non-scientific offerings in the Museum's planetarium and Omni and 4-D theaters. Taxes paid for these activities are recorded in the accompanying financial statements as expenses of the department generating the associated unrelated income.

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, 2018 and 2017**

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### **Reclassifications**

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

# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

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### NOTE 3 – PLEDGES RECEIVABLE

Pledges are expected to be realized in the following time frame as of June 30, 2018 and 2017:

<i>(in thousands)</i>	2018	2017
In one year or less	\$ 5,215	\$ 4,315
Between one and five years	2,468	6,115
Greater than five years	30	-
Less allowance for unfulfilled pledges	(79)	(102)
Less discount to present value	(87)	(234)
Net present value of pledges receivable, net of allowances	<u>\$ 7,547</u>	<u>\$ 10,094</u>

Net present value of pledges by purpose as of June 30, 2018 and 2017 are as follows:

<i>(in thousands)</i>	2018	2017
Purpose Restrictions		
Operating and similar funds		
Exhibits	\$ 1,179	\$ 1,339
Education and outreach programs	588	594
Teacher and curriculum programs	594	633
Other program activities	161	160
General and other	416	753
Capital exhibits, property, plant, and equipment	1,452	2,829
Total operating and similar funds	<u>4,390</u>	<u>6,308</u>
Endowment and quasi-endowment		
Exhibits	-	574
Education and outreach programs	3,082	2,982
Total endowment and quasi-endowment	<u>3,082</u>	<u>3,556</u>
Unrestricted pledges with effective time restrictions	154	332
Less allowance for unfulfilled pledges	(79)	(102)
Net present value of pledges receivable, net of allowances	<u>\$ 7,547</u>	<u>\$ 10,094</u>

#### Concentration of Risk

As of June 30, 2018 and 2017, 85% and 74%, respectively, of gross pledges consisted of pledges from two major donors.

#### Conditional Promises to Give

As of June 30, 2018 and 2017, the Museum had \$19,250,000 and \$19,030,000, 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, 2018 and 2017, the Museum had \$1,671,000 and \$1,504,000, respectively, in outstanding non-binding intentions.

# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

### 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)

	2018					2017				
	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
<b>Investments</b>										
Cash and cash equivalents		\$ 11,102			\$ 11,102		\$ 15,539			\$ 15,539
Mutual funds		29,649			29,649		32,630			32,630
Commingled trust funds	\$ 25,953	-			25,953	\$ 21,888	-			21,888
Equity hedge funds	39,926	-			39,926	23,258	-			23,258
Hedge fund of funds	13,576	-			13,576	20,112	-			20,112
Private investments	16,418	-			16,418	17,764	-			17,764
Other alternative investments	24,171	-		\$ 166	24,337	18,837	-		\$ 151	18,988
<b>Total investments</b>	<b>120,044</b>	<b>40,751</b>		<b>166</b>	<b>160,961</b>	<b>101,859</b>	<b>48,169</b>		<b>151</b>	<b>150,179</b>
<b>Assets of split interest agreements</b>										
Internally managed	-	2,862			2,862	-	2,638			2,638
Administered by external trustees	-	363		13,310	13,673	-	351	\$ 1,656	10,697	12,704
<b>Total assets of split interest agreements</b>	<b>-</b>	<b>3,225</b>		<b>13,310</b>	<b>16,535</b>	<b>-</b>	<b>2,989</b>	<b>1,656</b>	<b>10,697</b>	<b>15,342</b>
<b>Total investments and assets of split interest agreements</b>	<b>\$ 120,044</b>	<b>\$ 43,976</b>	<b>\$ -</b>	<b>\$ 13,476</b>	<b>\$ 177,496</b>	<b>\$ 101,859</b>	<b>\$ 51,158</b>	<b>\$ 1,656</b>	<b>\$ 10,848</b>	<b>\$ 165,521</b>

Included in Level 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, 2018 and 2017, the liquidity of the Museum's investments is as follows:

Redemption Frequency	Fair value (in thousands)			
	2018		2017	
Daily	\$ 40,751	25.3%	\$ 48,169	32.1%
Weekly	5,072	3.2%	4,607	3.1%
Monthly	50,118	31.1%	36,326	24.2%
Quarterly	31,271	19.4%	31,337	20.9%
Quarterly or more frequently	127,212	79.0%	120,439	80.2%
Semi-annually	524	0.3%	-	0.0%
Annually	3,918	2.4%	4,051	2.7%
Less frequently than annually	12,874	8.0%	7,747	5.2%
Illiquid	16,433	10.2%	17,942	11.9%
<b>Total investments</b>	<b>\$ 160,961</b>	<b>100.0%</b>	<b>\$ 150,179</b>	<b>100.0%</b>



## Museum of Science

### Notes to Financial Statements – June 30, 2018 and 2017

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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, 2018 and 2017.

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 \$25,682,000 as of June 30, 2018.

#### 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>	Alternative investments	Split interest agreements	Total Level 3 investments
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	1	-	1
Unrealized gains	5	-	5
Change in value of split interests	-	1,257	1,257
Fair Value, June 30, 2017	151	10,697	10,848
Transfers into Level 3	-	1,827	1,827
Income net of expenses, fees, and distributions	(4)	-	(4)
Realized gains	19	-	19
Change in value of split interests	-	786	786
Fair Value, June 30, 2018	<u>\$ 166</u>	<u>\$ 13,310</u>	<u>\$ 13,476</u>

# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

### 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 118 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, 2018 and 2017, the endowment accounted for \$156,367,000 and \$146,327,000 of the Museum's investments, respectively, inclusive of additions to the endowment which had been received and liquidations which had been recorded but not yet invested/withdrawn at each year-end.

In 2018, the Museum liquidated \$610,000 of its board-designated quasi-endowment to fund marketing, advancement, and facility projects associated with its long range plan. In 2018, the Museum also liquidated \$931,000 of its quasi-endowment and transferred the funds to the newly separated Clubhouse Network as part of its obligations under the separation agreement (see Note 14).

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, 2018 and 2017 are as follows:

<i>(in thousands)</i>	2018			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted funds		\$ 71,420	\$ 74,482	\$ 145,902
Board-designated funds	\$ 10,465	-	-	10,465
Total endowment net assets	<u>\$ 10,465</u>	<u>\$ 71,420</u>	<u>\$ 74,482</u>	<u>\$ 156,367</u>
	2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted funds		\$ 64,079	\$ 71,064	\$ 135,143
Board-designated funds	\$ 11,184	-	-	11,184
Total endowment net assets	<u>\$ 11,184</u>	<u>\$ 64,079</u>	<u>\$ 71,064</u>	<u>\$ 146,327</u>

## Museum of Science

### Notes to Financial Statements – June 30, 2018 and 2017

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The following schedules summarize the change in endowment net assets for the years ended June 30, 2018 and 2017:

(in thousands)

	2018			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ 11,184	\$ 64,079	\$ 71,064	\$ 146,327
Investment return:				
Investment income, net of fees	330	366	-	696
Net appreciation	970	11,699	27	12,696
Total investment return	1,300	12,065	27	13,392
Contributions	99	-	3,305	3,404
Other additions to corpus	166	-	86	252
Endowment income per spending policy	(743)	(4,724)	-	(5,467)
Other changes:				
Liquidation for long range plan	(610)	-	-	(610)
Liquidation for separation of business unit	(931)	-	-	(931)
Endowment net assets, end of year	\$ 10,465	\$ 71,420	\$ 74,482	\$ 156,367

	2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
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	1,278	13,415	36	14,729
Total investment return	1,398	13,562	36	14,996
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:				
Funding of underwater funds	64	(64)	-	-
Endowment net assets, end of year	\$ 11,184	\$ 64,079	\$ 71,064	\$ 146,327

# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

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### **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. There were no such deficits as of June 30, 2018 and 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 income allocation policy and instead apply a specific policy agreed to by the donor. This policy calls for increasing predetermined annual appropriation amounts until June 2024, after which each fiscal year's appropriation is to be 4 percent of the 20 quarter moving average of the fair value of the fund as measured at the preceding December 31.

# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

### 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 \$1,634,000 and \$1,581,000 at June 30, 2018 and 2017, respectively. These funds are not recorded by the Museum given the variance power the community foundation holds over them. Distributions were approximately \$65,000 and \$66,000 during the years ended June 30, 2018 and 2017, respectively, and have been included in other income.

### NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2018 and 2017 consist of the following:

<i>(in thousands)</i>	<b>2018</b>				
	In service	Construction in progress	Total before depreciation	Accumulated depreciation	Net
Building and improvements	\$ 87,652	\$ 405	\$ 88,057	\$ (56,231)	\$ 31,826
Equipment	34,989	571	35,560	(19,303)	16,257
Exhibits	42,085	1,496	43,581	(23,334)	20,247
	<u>\$ 164,726</u>	<u>\$ 2,472</u>	<u>\$ 167,198</u>	<u>\$ (98,868)</u>	<u>\$ 68,330</u>
			<b>2017</b>		
	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>

Depreciation expense amounted to \$8,768,000 and \$9,262,000 for the years ended June 30, 2018 and 2017, respectively.

Net losses on disposal of property, plant, and equipment were \$166,000 and \$311,000 for the years ended June 30, 2018 and 2017, respectively.

The Museum's total expenditures for constructing, hosting, and refurbishing exhibits for the years ended June 30, 2018 and 2017 were as follows:

<i>(in thousands)</i>	2018	2017
Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations	\$ 2,134	\$ 1,789
Standing exhibits added to property, plant, and equipment	1,628	3,938
	<u>\$ 3,762</u>	<u>\$ 5,727</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

## **Museum of Science**

### **Notes to Financial Statements – June 30, 2018 and 2017**

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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 \$1,385,000 and \$1,590,000, as of June 30, 2018 and 2017, 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 \$2,242,000 and \$2,324,000 for the years ended June 30, 2018 and 2017, 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. In 2017, the Museum entered into another contract with the same studio to produce a second copy of the exhibit under similar terms. The 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 \$219,000 and \$229,000 at June 30, 2018 and 2017, 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 \$863,000 and \$729,000 at June 30, 2018 and 2017, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. For the years ended June 30, 2018 and 2017, the Museum contributed \$48,000 and \$41,000, 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 employees 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. These percentages are subject to annual review and may be changed at the discretion of the

## Museum of Science

### Notes to Financial Statements – June 30, 2018 and 2017

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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, 2018 and 2017, the Museum incurred \$1,187,000 and \$1,341,000, 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 \$2,173,000 as of June 30, 2018.

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2018 are as follows:

<i>(in thousands)</i>	<b>Capital leases</b>	<b>4-D programs and services</b>
2019	\$ 661	\$ 324
2020	547	337
2021	540	350
2022	527	363
2023	520	376
After 2023	554	423
Total minimum lease payments	<u>3,349</u>	<u>\$ 2,173</u>
Interest	(498)	
Present value of net minimum lease payments	<u>2,851</u>	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	(514)	
Unamortized debt issuance costs	(14)	
Net long term obligations under capital leases	<u>\$ 2,323</u>	

The net book value of assets acquired under capital leases was \$2,987,000 and \$3,622,000 as of June 30, 2018 and 2017, respectively.





# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

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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, 2018 and 2017 restricted net assets were released for the following uses:

<i>(in thousands)</i>	2018	2017
Operating funds		
Exhibits	\$ 2,752	\$ 2,410
Education and outreach programs	2,439	3,029
Teacher and curriculum programs	1,079	702
Visitor and member services	100	101
Other program activities	443	417
Administration and general	160	816
Facility operations	14	75
Fundraising	563	215
Total operating funds	<u>7,550</u>	<u>7,765</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	387	343
Quasi-endowment principal	150	-
Total board designated funds and quasi-endowment	<u>537</u>	<u>343</u>
Plant fund		
Capital exhibits	1,528	1,287
Other property, plant, and equipment	964	147
Total plant fund	<u>2,492</u>	<u>1,434</u>
Total net assets released from restrictions	<u>\$ 10,579</u>	<u>\$ 9,542</u>

### NOTE 12 – CONTRIBUTED SERVICES AND GIFTS IN KIND

Contributed services and gifts in kind for the years ended June 30, 2018 and 2017 were as follows:

<i>(in thousands)</i>	2018	2017
Pro bono outside services:		
Legal	\$ 510	\$ 335
Marketing	1,201	1,271
Miscellaneous	50	51
In-house volunteers	525	522
Gifts in kind:		
Capital equipment	333	-
Miscellaneous	47	8
Total	<u>\$ 2,666</u>	<u>\$ 2,187</u>

The Museum receives contributed services from over 400 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, 2018, the value of contributed services meeting those criteria was \$525,000. The value of contributed time not meeting the recognition criteria was \$71,000. Volunteer time contributed across all categories totaled 16 full-time employee equivalents.

# Museum of Science

## Notes to Financial Statements – June 30, 2018 and 2017

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### NOTE 13 – GOVERNMENT AWARDS

The Museum has received federal, state, and international 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, 2018 and 2017 was as follows:

<i>(in thousands)</i>	2018				2017
	State	Federal	Int'l	Total	
Direct cost support					
General operating support	\$ 57			\$ 57	\$ 68
Exhibits	-	\$ 808		808	1,740
Programs	16	1,783	\$ 39	1,838	1,983
Capital projects	212	277	-	489	208
Other	-	11	-	11	-
	<u>285</u>	<u>2,879</u>	<u>39</u>	<u>3,203</u>	<u>3,999</u>
Indirect cost recovery	-	803	15	818	866
Net change in estimate for unbilled subawards	-	444	-	444	(245)
Total	<u>\$ 285</u>	<u>\$ 4,126</u>	<u>\$ 54</u>	<u>\$ 4,465</u>	<u>\$ 4,620</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 – SEPARATION OF BUSINESS UNIT

On February 2, 2018, the Museum signed an agreement separating its Clubhouse Network program into an independent 501(c)(3) corporation. The Clubhouse Network is a community of 100 clubhouses located in 18 countries providing mentored afterschool programs to underserved teenagers to develop technological skills. Individual member clubhouses are independent organizations, while the flagship site and network administration were, prior to the separation, part of the Museum.

The separation agreement required the Museum to transfer certain financial assets to the new organization, including various unexpended gifts and grants restricted to Clubhouse programs and a quasi-endowment designated for the same purpose. Total assets to be transferred were \$1,472,000, of which \$1,261,000 had been paid as of June 30, 2018 and \$211,000 remained in accounts payable.

The new Clubhouse Network, Inc. is wholly independent of the Museum. However, the Museum will act as fiscal agent on certain federal awards until such time as the Clubhouse Network develops the systems and expertise to accept direct responsibility for such awards.

# **Museum of Science**

## **Notes to Financial Statements – June 30, 2018 and 2017**

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### **NOTE 15 – 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, 2018 and 2017 the Museum expended funds totaling \$505,000 and \$338,000, 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, 2018 and 2017 the Museum earned \$84,000 and \$132,000, respectively, from these transactions.

### **NOTE 16 – SUBSEQUENT EVENTS**

The Museum has performed an evaluation of subsequent events through October 18, 2018, which is the date the financial statements were issued.

In August 2018, the Museum received a \$13,000,000 payment against a conditional promise to give for endowment.

No other 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, 2018 and 2017

(in thousands)

	Year Ended June 30, 2018										
	Program services					Supporting services					Total
	Exhibits	Education and Outreach	Teacher and Curriculum	Visitor and member services	Other program activities	Total program services	Admin. and general	Facility operations	Fundraising	Total supporting services	
Personnel costs	\$ 4,763	\$ 5,583	\$ 3,792	\$ 2,752	\$ 4,895	\$ 21,785	\$ 5,151	\$ 2,383	\$ 3,754	\$ 11,288	\$ 33,073
Cost of goods sold	-	-	3,402	-	-	3,402	-	-	-	-	3,402
Equipment and fixtures	73	38	50	20	97	278	94	111	48	253	531
Conferences and travel	252	197	266	10	129	854	173	2	189	364	1,218
Participant support	72	499	532	-	8	1,111	-	-	-	-	1,111
Supplies and materials	369	156	117	60	94	796	67	174	123	364	1,160
Outside services	909	578	1,006	670	5,430	8,593	2,052	618	1,210	3,880	12,473
Occupancy	6	8	1	7	55	77	77	2,459	11	2,547	2,624
Subawards	601	648	8	-	174	1,431	-	-	-	-	1,431
Scholarships and funded fees	16	386	28	100	-	530	-	-	33	33	563
Miscellaneous and other	873	700	114	915	459	3,061	735	15	424	1,174	4,235
Indirect costs	(43)	392	192	-	161	702	(952)	-	-	(952)	(250)
Total operating expenses	7,891	9,185	9,508	4,534	11,502	42,620	7,397	5,762	5,792	18,951	61,571
Interest	-	-	-	-	-	-	180	-	-	180	180
Depreciation and amortization	2,833	-	-	-	-	2,833	81	6,029	-	6,110	8,943
Losses on disposal	-	-	-	-	-	-	-	166	-	166	166
Total expenses	\$ 10,724	\$ 9,185	\$ 9,508	\$ 4,534	\$ 11,502	\$ 45,453	\$ 7,658	\$ 11,957	\$ 5,792	\$ 25,407	\$ 70,860

	Year Ended June 30, 2017										
	Program services					Supporting services					Total
	Exhibits	Education and Outreach	Teacher and Curriculum	Visitor and member services	Other program activities	Total program services	Admin. and general	Facility operations	Fundraising	Total supporting 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
Scholarships and funded fees	-	402	-	100	-	502	5	-	50	55	557
Miscellaneous and other	1,057	729	101	583	282	2,752	699	65	341	1,105	3,857
Indirect costs	(332)	401	254	-	158	481	(1,051)	-	-	(1,051)	(570)
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	-	-	-	-	-	-	-	311	-	311	311
Total expenses	\$ 10,748	\$ 9,724	\$ 9,984	\$ 4,121	\$ 9,365	\$ 43,942	\$ 7,158	\$ 11,752	\$ 5,333	\$ 24,243	\$ 68,185

See Independent Auditors' report.