

 **Museum of Science**

Financial Statements
June 30, 2016 and 2015



Museum of Science

Financial Statements — June 30, 2016 and 2015

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Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

500 Boylston Street ■ Boston, MA 02116
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

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, 2016 and 2015, 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, 2016 and 2015, 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 13, 2016
Boston, Massachusetts

Museum of Science
Statements of Financial Position — June 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,007	\$ 23,140
Accounts receivable	3,108	1,765
Grants receivable	1,790	1,801
Pledges receivable, net	5,036	7,687
Prepaid expenses and other current assets	1,377	1,007
Total current assets	28,318	35,400
Noncurrent assets		
Pledges receivable, net	6,672	10,648
Investments	107,661	111,191
Assets of split interest agreements	15,186	15,795
Other assets, net of amortization	959	952
Property, plant and equipment, net	73,610	68,379
Total assets	\$ 232,406	\$ 242,365
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,555	\$ 5,105
Deferred revenue	5,137	5,856
Total current liabilities	10,692	10,961
Noncurrent liabilities		
Annuity payable and deferred compensation	771	753
Liability under split interest agreements	1,337	1,447
Liability under management agreement	1,590	1,795
Asset retirement obligation	1,414	1,331
Capital leases	3,550	4,010
Total liabilities	19,354	20,297
Net assets		
Unrestricted		
Operating funds	356	303
Designated funds	8,253	8,137
Quasi-endowment	10,117	10,506
Net investment in plant	66,051	60,040
Total unrestricted	84,777	78,986
Temporarily restricted		
Gifts, grants, and endowment income	26,582	35,291
Temporary endowment principal	1,964	1,964
Unappropriated endowment gains	53,169	59,347
Total temporarily restricted	81,715	96,602
Permanently restricted		
Endowment principal and other	46,560	46,480
Total permanently restricted	46,560	46,480
Total net assets	213,052	222,068
Total liabilities and net assets	\$ 232,406	\$ 242,365

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

Museum of Science
Statement of Activities for the Year Ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(in thousands)	Unrestricted					Temporarily restricted	Permanently restricted	2016 Total	2015 Total
	Operating	Designated Funds	Quasi-Endowment	Plant Fund	Total unrestricted				
Income									
Support									
Contributions, grants, and pledges	\$ 3,265	\$ 346	\$ 256		\$ 3,867	\$ 8,201	\$ 240	\$ 12,308	\$ 19,256
Contributed services and gifts-in-kind	2,780	-	-	\$ 1,849	4,629	-	-	4,629	7,135
Government grants	4,498	768	-	152	5,418	-	-	5,418	7,479
Total support	10,543	1,114	256	2,001	13,914	8,201	240	22,355	33,870
Revenue									
Admissions	15,747	-	-	-	15,747	-	-	15,747	12,135
Memberships	7,680	-	-	30	7,710	-	-	7,710	6,933
Program fees	10,737	379	-	-	11,116	-	-	11,116	10,025
Ancillary services	7,449	-	-	-	7,449	-	-	7,449	6,360
Endowment income allocated per spending policy	1,158	545	-	-	1,703	2,824	-	4,527	4,484
Other income	1,370	182	7	508	2,067	111	-	2,178	2,195
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	42,132
Total income	66,169	(6,181)	263	18,912	79,163	(8,321)	240	71,082	76,002
Expenses									
Program services									
Exhibits	5,238	-	-	-	5,238	-	-	5,238	7,276
Visitor and outreach programs	11,810	-	-	-	11,810	-	-	11,810	13,031
Formal education programs	10,171	-	-	-	10,171	-	-	10,171	9,445
Visitor and member services	4,397	-	-	-	4,397	-	-	4,397	4,229
Other program activities	10,029	-	-	-	10,029	-	-	10,029	9,585
Total program services	41,645	-	-	-	41,645	-	-	41,645	43,566
Supporting services									
Administration and general	6,894	-	-	-	6,894	-	-	6,894	5,847
Facility operations	5,250	-	-	-	5,250	-	-	5,250	5,089
Fundraising	5,054	-	-	-	5,054	-	-	5,054	4,820
Total supporting services	17,198	-	-	-	17,198	-	-	17,198	15,756
Other expenses									
Interest expense	237	-	-	-	237	-	-	237	233
Depreciation and amortization	5	-	-	8,485	8,490	-	-	8,490	6,868
Losses on disposal	-	-	-	5,058	5,058	-	-	5,058	1,032
Transfers from operating fund	7,031	(6,389)	-	(642)	-	-	-	-	-
Total other expenses	7,273	(6,389)	-	12,901	13,785	-	-	13,785	8,133
Total expenses	66,116	(6,389)	-	12,901	72,628	-	-	72,628	67,455
Change in net assets from income and expenses	53	208	263	6,011	6,535	(8,321)	240	(1,546)	8,547
Other transfers	-	(92)	34	-	(58)	38	20	-	-
Investment earnings, net of endowment income per spending policy	-	-	(686)	-	(686)	(6,276)	(8)	(6,970)	(4,269)
Change in value of split-interest agreements	-	-	-	-	-	(328)	(172)	(500)	(213)
Change in net assets	53	116	(389)	6,011	5,791	(14,887)	80	(9,016)	4,065
Net assets, beginning of year	303	8,137	10,506	60,040	78,986	96,602	46,480	222,068	218,003
Net assets, end of year	\$ 356	\$ 8,253	\$ 10,117	\$ 66,051	\$ 84,777	\$ 81,715	\$ 46,560	\$ 213,052	\$ 222,068

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

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Statement of Activities for the Year Ended June 30, 2015

(in thousands)	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operating	Designated Funds	Quasi-Endowment	Plant Fund				
Income								
Support								
Contributions, grants, and pledges	\$ 3,183	\$ 2,103	\$ 5		\$ 5,291	\$ 12,885	\$ 1,080	\$ 19,256
Contributed services and gifts-in-kind	2,558	-	-	\$ 4,577	7,135	-	-	7,135
Government grants	6,333	820	-	326	7,479	-	-	7,479
Total support	12,074	2,923	5	4,903	19,905	12,885	1,080	33,870
Revenue								
Admissions	12,135	-	-	-	12,135	-	-	12,135
Memberships	6,918	-	-	15	6,933	-	-	6,933
Program fees	9,738	287	-	-	10,025	-	-	10,025
Ancillary services	6,360	-	-	-	6,360	-	-	6,360
Endowment income allocated per spending policy	1,116	537	-	-	1,653	2,831	-	4,484
Other income	1,339	470	2	358	2,169	26	-	2,195
Net assets released from restrictions	7,600	1,258	-	5,073	13,931	(13,931)	-	-
Use of designated funds	5,824	(9,135)	-	3,311	-	-	-	-
Total revenue	51,030	(6,583)	2	8,757	53,206	(11,074)	-	42,132
Total income	63,104	(3,660)	7	13,660	73,111	1,811	1,080	76,002
Expenses								
Program services								
Exhibits	7,276	-	-	-	7,276	-	-	7,276
Visitor and outreach programs	13,031	-	-	-	13,031	-	-	13,031
Formal education programs	9,445	-	-	-	9,445	-	-	9,445
Visitor and member services	4,229	-	-	-	4,229	-	-	4,229
Other program activities	9,585	-	-	-	9,585	-	-	9,585
Total program services	43,566	-	-	-	43,566	-	-	43,566
Supporting services								
Administration and general	5,847	-	-	-	5,847	-	-	5,847
Facility operations	5,089	-	-	-	5,089	-	-	5,089
Fundraising	4,820	-	-	-	4,820	-	-	4,820
Total supporting services	15,756	-	-	-	15,756	-	-	15,756
Other expenses								
Interest expense	233	-	-	-	233	-	-	233
Depreciation and amortization	5	-	-	6,863	6,868	-	-	6,868
Losses on disposal	-	-	-	1,032	1,032	-	-	1,032
Transfers from operating fund	3,536	(3,212)	(94)	(230)	-	-	-	-
Total other expenses	3,774	(3,212)	(94)	7,665	8,133	-	-	8,133
Total expenses	63,096	(3,212)	(94)	7,665	67,455	-	-	67,455
Change in net assets from income and expenses	8	(448)	101	5,995	5,656	1,811	1,080	8,547
Other transfers	-	(6)	-	-	(6)	(1,280)	1,286	-
Investment earnings, net of endowment income per spending policy	-	-	(417)	-	(417)	(3,851)	(1)	(4,269)
Change in value of split-interest agreements	-	-	-	-	-	(142)	(71)	(213)
Change in net assets	8	(454)	(316)	5,995	5,233	(3,462)	2,294	4,065
Net assets, beginning of year	295	8,591	10,822	54,045	73,753	100,064	44,186	218,003
Net assets, end of year	\$ 303	\$ 8,137	\$ 10,506	\$ 60,040	\$ 78,986	\$ 96,602	\$ 46,480	\$ 222,068

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

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Statements of Cash Flows for the Years Ended June 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (9,016)	\$ 4,065
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and capital amortization	8,485	6,863
Loss on disposal of capital assets	5,058	1,032
Net realized and unrealized investment losses before appropriation for endowment spending policy	3,108	214
Dividends and interest retained for investing activities	(580)	(221)
Contributions of capitalized assets	(1,849)	(4,577)
Contributions and grants restricted to endowment	(1,387)	(2,115)
Contributions and grants restricted for capital projects	(6,184)	(5,129)
Change in value of split interest agreements	500	213
Changes in assets and liabilities:		
Accounts receivable	(1,343)	(424)
Grants receivable	11	1,118
Pledges receivable	6,627	(270)
Prepaid expenses and other assets	(438)	975
Accounts payable, accrued liabilities, and other liabilities	(804)	(206)
Deferred revenue	(719)	1,186
Net cash provided by operating activities	<u>1,469</u>	<u>2,724</u>
Cash flows from investing activities		
Purchases of investments	(14,276)	(45,904)
Sales of investments	15,277	47,909
Purchases of other investment assets	(10)	(202)
Cash paid to acquire property, plant, and equipment	(15,545)	(9,632)
Net cash used in investing activities	<u>(14,554)</u>	<u>(7,829)</u>
Cash flows from financing activities		
Contributions and grants restricted to endowment	1,387	2,115
Contributions and grants restricted for capital projects	6,184	5,129
Payments on capital leases	(618)	(384)
Net increase (decrease) in split interest agreements	(1)	120
Net cash provided by financing activities	<u>6,952</u>	<u>6,980</u>
Net change in cash and cash equivalents	(6,133)	1,875
Cash and cash equivalents at beginning of year	23,140	21,265
Cash and cash equivalents at end of year	<u>\$ 17,007</u>	<u>\$ 23,140</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest on capital leases	\$ 237	\$ 233
Additions to property, plant, and equipment via capital leases	\$ 259	\$ 664
In-kind additions to property, plant, and equipment	\$ 1,849	\$ 5,540

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

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Notes to Financial Statements – June 30, 2016 and 2015

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. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose having been accomplished and/or the stipulated time period having elapsed, are reported as net assets released from restrictions between the applicable classes of net assets.

Unrestricted net assets are divided into four categories:

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).

Permanently Restricted Net Assets

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

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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. Instruments 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

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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.

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

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

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

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

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

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

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

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

Asset Retirement Obligation

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

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Notes to Financial Statements – June 30, 2016 and 2015

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 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.

The Museum's fulfillment contractor for its curriculum products is currently under audit by the State of California with respect to the application of sales tax on the sale of those products. The Museum has recognized a liability of \$70,000 in accounts payable and accrued liabilities as a reserve against a potential finding.

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.

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, 2016 and 2015

NOTE 3 – PLEDGES RECEIVABLE

Pledges are expected to be realized in the following time frame as of June 30, 2016 and 2015:

<i>(in thousands)</i>	2016	2015
In one year or less	\$ 5,092	\$ 7,923
Between one and five years	7,107	11,014
Greater than five years	-	90
Less allowance for unfulfilled pledges	(124)	(344)
Less discount to present value	(367)	(348)
Net present value of pledges receivable, net of allowances	<u>\$ 11,708</u>	<u>\$ 18,335</u>

Net present value of pledges by purpose as of June 30, 2016 and 2015 are as follows:

<i>(in thousands)</i>	2016	2015
Purpose Restrictions		
Operating and similar funds		
Exhibits	\$ 391	\$ 536
Visitor and outreach programs	2,236	2,792
Formal education programs	1,292	1,792
Other program activities	104	154
General and other	820	2,228
Capital exhibits, property, plant, and equipment	1,888	4,566
Total operating and similar funds	<u>6,731</u>	<u>12,068</u>
Endowment and quasi-endowment		
Visitor and outreach programs	4,588	5,748
Total endowment and quasi-endowment	<u>4,588</u>	<u>5,748</u>
Unrestricted pledges with effective time restrictions	514	863
Less allowance for unfulfilled pledges	(125)	(344)
Net present value of pledges receivable, net of allowances	<u>\$ 11,708</u>	<u>\$ 18,335</u>

Concentration of Risk

As of June 30, 2016 and 2015, 84% and 78%, respectively, of gross pledges consisted of pledges from three major donors.

Conditional Promises to Give

As of June 30, 2016 and 2015, the Museum had \$310,000 and \$1,840,000, 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, 2016 and 2015, the Museum had \$1,466,000 and \$4,667,000, respectively, in outstanding non-binding intentions.

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

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)

	2016					2015				
	Investments measuring fair value using net asset value per share	Investments within the Level 1 hierarchy Quoted prices in active markets (Level 1)	Investments within the Level 2 hierarchy Significant other observable inputs (Level 2)	Investments within the Level 3 hierarchy 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)	Investments within the Level 2 hierarchy Significant other observable inputs (Level 2)	Investments within the Level 3 hierarchy Significant unobservable inputs (Level 3)	Total fair value
Investments										
Cash and cash equivalents		\$ 840			\$ 840		\$ 2,732			\$ 2,732
Mutual funds										
Asset allocation funds		9,722			9,722	\$ 10,159				10,159
Domestic equity (growth)		-			-	-				-
International equity		8,016			8,016	8,673				8,673
Natural resources		2,890			2,890	2,530				2,530
US government debt		2,656			2,656	4,958				4,958
Commingled trust funds										
Global fixed income	\$ 4,609	-			4,609	\$ 4,282	-			4,282
Emerging market equity	2,513	-			2,513	2,899	-			2,899
International equity	10,987	-			10,987	12,068	-			12,068
Equity hedge funds										
Domestic equity	15,860	-			15,860	15,685	-			15,685
Hedge fund of funds										
Equity long/short	13,695	-			13,695	14,275	-			14,275
Multi-strategy	6,397	-			6,397	7,006	-			7,006
Private investments										
Distressed / undervalued	4,183	-			4,183	4,181	-			4,181
Natural resources	1,476	-			1,476	773	-			773
Private equities	6,772	-			6,772	5,977	-			5,977
Real estate	2,788	-			2,788	3,977	-			3,977
Tech / healthcare	311	-			311	92	-			92
Other alternative investments										
Emerging market equity	7,033	-			7,033	7,157	-			7,157
International equity	3,400	-			3,400	-	-			-
Real estate	3,373	-			3,373	3,644	-			3,644
Other	140	-			140	123	-			123
Total investments	83,537	24,124			107,661	82,139	29,052			111,191
Assets of split interest agreements										
Internally managed	-	2,716			2,716	-	2,929			2,929
Administered by external trustees	-	-	\$ 1,483	\$ 10,987	12,470	-	-	\$ 1,514	\$ 11,352	12,866
Total assets of split interest agreements	-	2,716	1,483	10,987	15,186	-	2,929	1,514	11,352	15,795
Total investments and assets of split interest agreements	\$ 83,537	\$ 26,840	\$ 1,483	\$ 10,987	\$ 122,847	\$ 82,139	\$ 31,981	\$ 1,514	\$ 11,352	\$ 126,986

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.

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

Liquidity

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

Redemption Frequency	Fair value (in thousands)
Daily	\$ 24,124
Weekly	2,513
Monthly	26,029
Quarterly	27,058
Annually	3,373
Less than annually	8,859
Illiquid	15,705
Total investments	<u>\$ 107,661</u>

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, 2016 and 2015.

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 \$12,044,000 as of June 30, 2016.

Rollforward of Level 3 Valuations

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

<i>(in thousands)</i>	Split interest agreements
Fair Value, June 30, 2014	\$ 11,583
Remainder distributions	(94)
Change in value of split interests	<u>(137)</u>
Fair Value, June 30, 2015	11,352
Change in value of split interests	<u>(365)</u>
Fair Value, June 30, 2016	<u>\$ 10,987</u>

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

NOTE 5 – ENDOWMENT

The Museum's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments ("quasi-endowments"). The endowment consists of 114 individual donor-restricted endowment funds and 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, 2016 and 2015, the endowment accounted for \$104,877,000 and \$109,296,000 of the Museum's investments, respectively. These figures do not include \$210,000 and \$1,016,000, 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, 2016 and 2015 are as follows:

<i>(in thousands)</i>	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	<u>\$ 10,053</u>	<u>\$ 55,133</u>	<u>\$ 39,901</u>	<u>\$ 105,087</u>

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

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

The following schedules summarize the change in endowment net assets for the years ended June 30, 2016 and 2015:

<i>(in thousands)</i>	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	(52)	(2,343)	(8)	(2,403)
Contributions	256	-	1,388	1,644
Other additions to corpus	41	-	20	61
Endowment income allocated per spending policy	(634)	(3,893)	-	(4,527)
Other changes:				
Funding of underwater funds	(58)	58	-	-
Endowment net assets, end of year	\$ 10,053	\$ 55,133	\$ 39,901	\$ 105,087
	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 10,822	\$ 65,156	\$ 35,093	\$ 111,071
Investment return:				
Investment income, net of fees	158	272	-	430
Net depreciation (realized and unrealized)	(21)	(193)	(1)	(215)
Total investment return	137	79	(1)	215
Contributions	5	-	2,123	2,128
Other additions to corpus	96	-	1,286	1,382
Endowment income allocated per spending policy	(554)	(3,930)	-	(4,484)
Other changes:				
Funding of underwater funds	(6)	6	-	-
Endowment net assets, end of year	\$ 10,500	\$ 61,311	\$ 38,501	\$ 110,312

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

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 and \$6,000 as of June 30, 2016 and 2015, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or other endowment additions.

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

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

NOTE 6 – BENEFICIAL INTEREST IN PERPETUAL TRUST

The Museum receives distributions from certain funds held by a community foundation. The underlying fair value of the funds was \$1,483,000 and \$1,593,000 at June 30, 2016 and 2015, respectively. These funds are not recorded by the Museum given the variance power the community foundation holds over them. Distributions were approximately \$68,000 and \$58,000 during the years ended June 30, 2016 and 2015, respectively, and have been included in other income.

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2016 and 2015 consist of the following:

<i>(in thousands)</i>	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>

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

Depreciation expense amounted to \$8,329,000 and \$6,713,000 for the years ended June 30, 2016 and 2015, respectively.

Net losses on disposal of property, plant, and equipment were \$5,058,000 and \$1,032,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 were as follows:

<i>(in thousands)</i>	2016	2015
Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations	\$ 1,210	\$ 2,331
Standing exhibits added to property, plant, and equipment	6,681	4,163
	<u>\$ 7,891</u>	<u>\$ 6,494</u>

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

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

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 \$1,795,000 and \$2,000,000, as of June 30, 2016 and 2015, 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 \$2,628,000 and \$2,301,000 for the years ended June 30, 2016 and 2015, respectively, which is included in ancillary services and other income.

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

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

The Museum has an annuity agreement with a related party individual which provides for fixed annual payments for life. Using standard actuarial methods and life tables, management has estimated the net present value of this obligation as \$240,000 and \$232,000 at June 30, 2016 and 2015, 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 \$576,000 and \$566,000 at June 30, 2016 and 2015, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. For the years ended June 30, 2016 and 2015, the Museum contributed \$32,000 and \$36,000, respectively, to the 457 plan.

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

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

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

The Museum contributes between 2.25% and 4.5% (depending on age) of eligible employees' compensation to the Retirement Plan. 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, 2016 and 2015, the Museum incurred \$1,130,000 and \$1,142,000, respectively, in contribution costs to the Retirement Plan. The Museum does not make contributions to the Savings Plan.

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

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 \$2,782,000 as of June 30, 2016.

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2016 are as follows:

<i>(in thousands)</i>	Capital leases	4-D programs and services
2017	\$ 899	\$ 298
2018	888	311
2019	649	324
2020	547	337
2021	540	350
After 2021	1,601	1,162
Total minimum lease payments	<u>5,124</u>	<u>\$ 2,782</u>
Interest	(885)	
Present value of net minimum lease payments	4,239	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	(689)	
Long term obligations under capital leases	<u>\$ 3,550</u>	

The net book value of assets acquired under capital leases was \$4,270,000 and \$4,589,000 as of June 30, 2016 and 2015, respectively.

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

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, 2016 and 2015 restricted net assets were released for the following uses:

<i>(in thousands)</i>	2016	2015
Operating funds		
Exhibits	\$ 1,207	\$ 1,086
Visitor and outreach programs	3,429	4,794
Formal education programs	788	1,013
Visitor and member services	101	100
Other program activities	178	103
Administration and general	14	163
Facility operations	71	67
Fundraising	823	274
Total operating funds	<u>6,611</u>	<u>7,600</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	1,253	1,258
Total board designated funds and quasi-endowment	<u>1,253</u>	<u>1,258</u>
Plant fund		
Capital exhibits	2,471	2,580
Other property, plant, and equipment	9,122	2,493
Total plant fund	<u>11,593</u>	<u>5,073</u>
Total net assets released from restrictions	<u>\$ 19,457</u>	<u>\$ 13,931</u>

NOTE 12 – CONTRIBUTED SERVICES AND GIFTS IN KIND

Contributed services and gifts in kind for the years ended June 30, 2016 and 2015 were as follows:

<i>(in thousands)</i>	2016	2015
Pro bono outside services:		
Legal	\$ 368	\$ 67
Marketing	1,794	1,786
Miscellaneous	70	51
In-house volunteers	544	650
Gifts in kind:		
Capital exhibits	1,849	-
Capital software	-	4,540
Miscellaneous	4	41
Total	<u>\$ 4,629</u>	<u>\$ 7,135</u>

The Museum receives contributed services from over 450 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, 2016, the value of contributed services meeting those criteria was \$544,000. The value of contributed time not meeting the recognition criteria was \$91,000. Volunteer time contributed across all categories totaled 19 full-time employee equivalents.

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Notes to Financial Statements – June 30, 2016 and 2015

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, 2016 and 2015 was as follows:

<i>(in thousands)</i>	2016	2015
Direct cost support		
General operating support	\$ 45	\$ 68
Exhibits	2,342	3,930
Programs	2,327	2,288
Capital projects	130	315
	<u>4,844</u>	<u>6,601</u>
Indirect cost recovery	790	831
Net change in estimate for unbilled subawards	(216)	47
Total	<u>\$ 5,418</u>	<u>\$ 7,479</u>

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

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

NOTE 14 – RELATED PARTIES

The Museum maintains vendor relationships with several companies, the principals of which are members or related to members of the Museum's Board of Trustees or Senior Management Team. All such relationships are subject to the same procurement requirements, policies, and controls as the Museum applies to its other vendors. For the years ended June 30, 2016 and 2015 the Museum expended funds totaling \$384,000 and \$292,000, respectively, under these relationships.

Certain companies whose principals are members of the Museum's Board may also from time to time procure the services of the Museum's Event and Conference Services department. Trustees receive a 15% discount on pricing for such events; otherwise related-party companies are subject to the same policies and controls as the Museum applies to its other customers. For the years ended June 30, 2016 and 2015 the Museum earned \$152,000 and \$108,000, respectively, from these transactions.

NOTE 15 – SUBSEQUENT EVENTS

The Museum has been in negotiations with a major donor for a combined endowment gift and current use grant of between \$40 million and \$50 million. Subsequent to June 30, 2016, an agreement was signed committing the donor to the endowment portion of the gift in an amount of up to \$40 million payable over 3 years, conditional on the Museum's satisfactory progress on the programs funded by the income from the endowment.

Museum of Science

Notes to Financial Statements – June 30, 2016 and 2015

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, 2016 and 2015

(in thousands)

	Year Ended June 30, 2016										
	Program services						Supporting services				Total
	Exhibits	Visitor and outreach programs	Formal education programs	Visitor and member services	Other program activities	Total program services	Admin. and general	Facility operations	Fundraising	Total supporting services	
Personnel costs	\$ 2,196	\$ 7,423	\$ 3,214	\$ 2,867	\$ 3,593	\$ 19,293	\$ 4,575	\$ 2,229	\$ 3,289	\$ 10,093	\$ 29,386
Cost of goods sold	-	-	4,485	-	-	4,485	-	-	-	-	4,485
Equipment and fixtures	31	75	24	4	118	252	96	70	19	185	437
Conferences and travel	114	228	214	7	73	636	191	-	53	244	880
Participant support	109	673	690	-	13	1,485	-	-	1	1	1,486
Supplies and materials	194	327	146	26	46	739	104	190	110	404	1,143
Outside services	452	601	974	714	5,516	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	1,831	792	22	-	32	2,677	-	-	-	-	2,677
Miscellaneous and other	285	1,681	369	770	623	3,728	(265)	7	843	585	4,313
Total operating expenses	5,238	11,810	10,171	4,397	10,029	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	\$ 9,356	\$ 11,815	\$ 10,171	\$ 4,397	\$ 10,029	\$ 45,768	\$ 7,204	\$ 14,602	\$ 5,054	\$ 26,860	\$ 72,628

	Year Ended June 30, 2015										
	Program services						Supporting services				Total
	Exhibits	Visitor and outreach programs	Formal education programs	Visitor and member services	Other program activities	Total program services	Admin. and general	Facility operations	Fundraising	Total supporting services	
Personnel costs	\$ 2,113	\$ 7,478	\$ 3,354	\$ 2,702	\$ 3,448	\$ 19,095	\$ 4,231	\$ 2,218	\$ 3,514	\$ 9,963	\$ 29,058
Cost of goods sold	-	-	3,835	-	-	3,835	-	-	-	-	3,835
Equipment and fixtures	47	81	37	9	71	245	129	80	28	237	482
Conferences and travel	101	330	254	8	73	766	188	-	34	222	988
Participant support	397	1,300	639	-	36	2,372	-	-	5	5	2,377
Supplies and materials	178	753	154	56	59	1,200	38	194	98	330	1,530
Outside services	569	833	795	696	5,327	8,220	1,489	624	829	2,942	11,162
Occupancy	4	5	7	8	14	38	66	1,963	1	2,030	2,068
Subawards	3,153	563	127	-	41	3,884	-	-	-	-	3,884
Miscellaneous and other	714	1,688	243	750	516	3,911	(294)	10	311	27	3,938
Total operating expenses	7,276	13,031	9,445	4,229	9,585	43,566	5,847	5,089	4,820	15,756	59,322
Interest	-	-	-	-	-	-	233	-	-	233	233
Depreciation and amortization	2,367	5	-	-	-	2,372	72	4,424	-	4,496	6,868
Losses on disposal	57	-	-	-	-	57	-	975	-	975	1,032
Total expenses	\$ 9,700	\$ 13,036	\$ 9,445	\$ 4,229	\$ 9,585	\$ 45,995	\$ 6,152	\$ 10,488	\$ 4,820	\$ 21,460	\$ 67,455

See Independent Auditors' report.