

 **Museum of Science**

Financial Statements
June 30, 2019 and 2018



Museum of Science

Financial Statements — June 30, 2019 and 2018

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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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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.



Emphasis of Matters

As discussed in Note 2 to the financial statements in 2019, the Museum adopted Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities – *Presentation of Financial Statements of Not-for-Profit Entities* and No. 2018-8, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Maye Hoffman McCann P.C.

October 31, 2019
Boston, Massachusetts

Museum of Science
Statements of Financial Position — June 30

<i>(in thousands)</i>	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 35,444	\$ 32,471
Accounts receivable	2,484	1,315
Grants receivable	1,129	1,372
Pledges receivable, net	5,101	5,160
Prepaid expenses and other current assets	1,353	1,146
Total current assets	<u>45,511</u>	<u>41,464</u>
Noncurrent assets		
Pledges receivable, net	1,336	2,387
Investments	180,617	160,961
Assets of split interest agreements	17,676	16,535
Other assets, net of amortization	1,161	1,035
Property, plant and equipment, net	66,985	68,330
Total noncurrent assets	<u>267,775</u>	<u>249,248</u>
Total assets	<u>\$ 313,286</u>	<u>\$ 290,712</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,201	\$ 5,666
Deferred revenue	4,786	4,752
Total current liabilities	<u>9,987</u>	<u>10,418</u>
Noncurrent liabilities		
Annuity payable and deferred compensation	1,137	1,037
Liability under split interest agreements	1,457	1,523
Liability under management agreement	974	1,180
Asset retirement obligation	1,536	1,596
Capital leases	1,899	2,323
Total noncurrent liabilities	<u>7,003</u>	<u>7,659</u>
Total liabilities	<u>16,990</u>	<u>18,077</u>
Net assets		
Without donor restrictions		
Operating funds	66	418
Designated funds	932	1,241
Quasi-endowment	10,287	10,465
Net investment in plant	62,007	62,771
Total net assets without donor restrictions	<u>73,292</u>	<u>74,895</u>
With donor restrictions		
Gifts, grants, and endowment income	42,316	33,764
Endowment principal, split interests, and other	180,688	163,976
Total net assets with donor restrictions	<u>223,004</u>	<u>197,740</u>
Total net assets	<u>296,296</u>	<u>272,635</u>
Total liabilities and net assets	<u>\$ 313,286</u>	<u>\$ 290,712</u>

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

Museum of Science

Statements of Activities for the Years Ended June 30

(in thousands)	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Income						
Support						
Contributions, grants, and pledges	\$ 5,002	\$ 33,008	\$ 38,010	\$ 5,651	\$ 19,814	\$ 25,465
Contributed services and gifts-in-kind	2,086	-	2,086	2,666	-	2,666
Government grants	57	3,679	3,736	57	4,408	4,465
Total support	7,145	36,687	43,832	8,374	24,222	32,596
Revenue						
Admissions	13,596	-	13,596	12,535	-	12,535
Memberships	7,294	-	7,294	7,237	-	7,237
Educational programs	10,562	-	10,562	10,835	18	10,853
Ancillary services	8,329	-	8,329	7,303	-	7,303
Investment return appropriated for spending per endowment policy	2,313	3,587	5,900	2,030	3,437	5,467
Other income	2,397	177	2,574	2,221	147	2,368
Net assets released from restrictions	17,637	(17,637)	-	14,988	(14,988)	-
Total revenue	62,128	(13,873)	48,255	57,149	(11,386)	45,763
Total income	69,273	22,814	92,087	65,523	12,836	78,359
Expenses						
Program services						
Exhibits	10,436	-	10,436	11,140	-	11,140
Education and outreach programs	9,438	-	9,438	9,648	-	9,648
Teacher and curriculum programs	10,651	-	10,651	9,944	-	9,944
Visitor and member services	4,944	-	4,944	4,963	-	4,963
Other program activities	3,902	-	3,902	3,758	-	3,758
Total program services	39,371	-	39,371	39,453	-	39,453
Supporting services						
Administration and general	10,136	-	10,136	9,887	-	9,887
Facility operations	8,745	-	8,745	8,393	-	8,393
Marketing	6,446	-	6,446	7,298	-	7,298
Fundraising	6,191	-	6,191	5,829	-	5,829
Total supporting services	31,518	-	31,518	31,407	-	31,407
Total expenses	70,889	-	70,889	70,860	-	70,860
Change in net assets from income and expenses	(1,616)	22,814	21,198	(5,337)	12,836	7,499
Transfers	(70)	70	-	(43)	43	-
Investment return, net	731	7,324	8,055	1,165	12,247	13,412
Portion of investment return appropriated for spending per endowment policy	(648)	(5,252)	(5,900)	(607)	(4,860)	(5,467)
Change in value of split-interest agreements	-	308	308	-	1,125	1,125
Change due to separation of business unit	-	-	-	(1,019)	(453)	(1,472)
Change in net assets	(1,603)	25,264	23,661	(5,841)	20,938	15,097
Net assets, beginning of year	74,895	197,740	272,635	80,736	176,802	257,538
Net assets, end of year	\$ 73,292	\$ 223,004	\$ 296,296	\$ 74,895	\$ 197,740	\$ 272,635

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

Museum of Science

Statements of Functional Expenses for the Years Ended June 30

(in thousands)

	2019												
	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	Marketing	Fundraising	Total supporting services		
Personnel costs	\$ 4,783	\$ 5,316	\$ 4,355	\$ 2,797	\$ 2,650	\$ 19,901	\$ 5,202	\$ 2,518	\$ 2,155	\$ 3,989	\$ 13,864	\$ 33,765	
Cost of goods sold	-	-	3,440	-	-	3,440	-	-	-	-	-	3,440	
Equipment and fixtures	48	37	357	21	112	575	114	80	43	89	326	901	
Conferences and travel	211	200	442	9	69	931	120	1	42	71	234	1,165	
Participant support	-	342	407	-	2	751	-	-	-	-	-	751	
Supplies and materials	347	130	110	71	70	728	53	201	25	112	391	1,119	
Outside services	573	737	990	729	429	3,458	2,363	566	4,073	1,276	8,278	11,736	
Occupancy	1	6	24	9	24	64	95	2,335	8	7	2,445	2,509	
Subawards	619	693	33	-	8	1,353	-	-	-	-	-	1,353	
Scholarships and funded fees	-	469	255	100	-	824	-	-	-	48	48	872	
Interest	-	-	-	68	-	68	2	79	-	-	81	149	
Depreciation and amortization	3,307	815	112	345	219	4,798	1,373	2,492	21	29	3,915	8,713	
Losses on disposal	119	-	-	-	-	119	46	461	-	-	507	626	
Miscellaneous and other	428	693	126	795	319	2,361	768	12	79	570	1,429	3,790	
Total expenses	\$ 10,436	\$ 9,438	\$ 10,651	\$ 4,944	\$ 3,902	\$ 39,371	\$ 10,136	\$ 8,745	\$ 6,446	\$ 6,191	\$ 31,518	\$ 70,889	

	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	Marketing	Fundraising	Total supporting services		
Personnel costs	\$ 4,763	\$ 5,583	\$ 4,108	\$ 2,752	\$ 2,633	\$ 19,839	\$ 4,927	\$ 2,383	\$ 1,947	\$ 3,754	\$ 13,011	\$ 32,850	
Cost of goods sold	-	-	3,402	-	-	3,402	-	-	-	-	-	3,402	
Equipment and fixtures	73	38	58	20	75	264	94	111	14	48	267	531	
Conferences and travel	252	197	269	10	55	783	173	2	70	189	434	1,217	
Participant support	72	499	532	-	8	1,111	-	-	-	-	-	1,111	
Supplies and materials	369	156	124	60	44	753	67	174	43	123	407	1,160	
Outside services	909	578	1,183	670	193	3,533	2,276	618	5,060	1,210	9,164	12,697	
Occupancy	6	8	6	7	33	60	77	2,459	17	11	2,564	2,624	
Subawards	601	648	8	-	174	1,431	-	-	-	-	-	1,431	
Scholarships and funded fees	16	386	28	100	-	530	-	-	-	33	33	563	
Interest	-	-	-	79	-	79	8	91	2	-	101	180	
Depreciation and amortization	3,362	821	102	350	199	4,834	1,509	2,540	30	30	4,109	8,943	
Losses on disposal	95	33	10	-	-	138	21	-	-	7	28	166	
Miscellaneous and other	622	701	114	915	344	2,696	735	15	115	424	1,289	3,985	
Total expenses	\$ 11,140	\$ 9,648	\$ 9,944	\$ 4,963	\$ 3,758	\$ 39,453	\$ 9,887	\$ 8,393	\$ 7,298	\$ 5,829	\$ 31,407	\$ 70,860	

The accompanying notes are an integral part of these financial statements

Museum of Science

Statements of Cash Flows for the Years Ended June 30

(in thousands)

	2019	2018
Cash flows from operating activities		
Cash received from customers	\$ 37,805	\$ 37,430
Cash received from donors	18,277	14,585
Cash received from government agencies	3,678	4,035
Cash received from others	992	700
Cash paid to or on behalf of employees	(32,847)	(32,230)
Cash paid to vendors	(22,147)	(23,165)
Cash paid to subawardees	(1,367)	(1,010)
Cash paid to others	(1,054)	(1,634)
Cash paid to separated business unit	(211)	(1,260)
Net cash provided by/(used in) operating activities	<u>3,126</u>	<u>(2,549)</u>
Cash flows from investing activities		
Purchases of endowment investments	(13,769)	(3,659)
Sales of endowment investments	522	1,541
Purchases of other investment assets	(27)	(102)
Sales of other investment assets	21	9
Investment income available for operations	1,631	4,740
Cash paid to acquire property, plant, and equipment	(8,361)	(4,722)
Cash paid to acquire other capital assets	(113)	(2)
Net cash used in investing activities	<u>(20,096)</u>	<u>(2,195)</u>
Cash flows from financing activities		
Contributions and grants restricted or designated to endowment	14,580	3,404
Other cash receipts restricted or designated to endowment	16	34
Contributions and grants restricted for capital projects	5,762	10,412
Contributions to split interest agreements	27	102
Distributions from split interest agreements	73	141
Payments on capital leases	(515)	(718)
Net cash provided by financing activities	<u>19,943</u>	<u>13,375</u>
Net change in cash and cash equivalents	2,973	8,631
Cash and cash equivalents at beginning of year	32,471	23,840
Cash and cash equivalents at end of year	<u>\$ 35,444</u>	<u>\$ 32,471</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest on capital leases	\$ 180	\$ 180
Additions to property, plant, and equipment via capital leases	\$ -	\$ 11
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, 2019 and 2018

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 of America (“US GAAP”), which requires that the Museum report information regarding its financial position and activities based on the existence or absence of donor restriction. Accordingly, net assets and changes thereto are reported as follows:

Net assets without donor restrictions

Net assets without donor restrictions are not subject to donor-imposed stipulations. Support and revenues are reported as increases in net assets without donor restrictions are unless use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

Net assets without donor restrictions 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 (see Note 11).

Quasi-endowment funds are funds designated to function as endowments by the Museum’s Board or management (see Note 6).

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.

Net assets with donor restrictions

Net assets with donor restrictions are subject to donor-imposed stipulations restricting their use. These stipulations may limit use to a particular purpose or until after the passage of a specified period of time, or both. A time limitation may also be implied by the nature of the gift (e.g. gifts for capital projects, unconditional promises to give to be paid in the future, or life income funds), or by interpretations of law (e.g. endowment gains available for appropriation but not appropriated in the current period).

Net assets with donor restrictions include gifts, unconditional promises to give (pledges), trusts and remainder interests, income, and gains which can be expended but for which a restriction has not yet been met. Expirations of such restrictions, 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.

Museum of Science

Notes to Financial Statements – June 30, 2019 and 2018

Net assets with donor restrictions also include the historical dollar amount of gifts (including unconditional promises to give), trusts and remainder interests and investment earnings required by donors to be maintained in perpetuity.

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 the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market funds, and certificates of deposit 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. Cash and cash equivalents are reported at cost plus accrued interest.

Cash and cash equivalents held by investment managers are considered part of investments.

Museum of Science

Notes to Financial Statements – June 30, 2019 and 2018

Pledges Receivable

Unconditional promises to give are recognized as revenues in the period committed, offset by a corresponding pledge receivable. Amounts are initially recorded at fair value based on present value using a bond-based discount rate applied over the collection period of the pledge. Annual amortization of the discount is recorded as additional contribution revenue in accordance with donor restrictions, if any, on the contributions.

A risk-based allowance for uncollectible pledges is maintained by adjusting revenue recognized. Management assesses risk based on prior performance and circumstances associated with each pledge. Uncollectible amounts are written off against this allowance, with any excess charged to bad debt expense. A pledge is considered uncollectible when the donor formally renounces the promise or when management deems all reasonable collection efforts have been exhausted.

The initially recorded fair value of a pledge and the allowance for uncollectible pledges are considered Level 2 measurements.

Investments

Investments are carried at fair value. Investments associated with the Museum's endowment are pooled, with net investment returns and losses being allocated proportionally among the individual funds making up the endowment.

Net investments return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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 recorded in two parts, with the asset at fair value and the associated liability reported as liability under split interest agreements.

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. 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 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 assets with a useful life of greater than one year and an initial value of greater than a management-established capitalization threshold. Value is stated at cost, or, in the case of donated assets, fair value at the date of donation. 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.

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Notes to Financial Statements – June 30, 2019 and 2018

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

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.

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.

Contributions and Other Supporting Income

Contributions, grants, and pledges consists of unconditional, non-reciprocal support provided by individuals, corporations, foundations, and other private parties. Contributions are recorded as support with or without donor restriction 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 financial 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.

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Notes to Financial Statements – June 30, 2019 and 2018

Contributed services and gifts-in-kind consists of donations of goods or services. Donated materials are recorded at their estimated fair values at the time of receipt. Donated services are recognized when services are performed which would otherwise have been purchased externally 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.

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. Government grants received in support of the Museum's general operations are recorded as revenue when received.

Recognition of Earned Revenue and Deferred Revenue

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 and garage, and rental income associated with the operation of outsourced food services and retail store. This revenue 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.

Transfers

Transfers include the redesignation of non-endowment 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.

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 theater. Taxes paid for these activities are recorded in the accompanying financial statements as expenses of the department generating the associated unrelated income.

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

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

Allocation of Expenses

Certain expenses and losses incurred by supporting services, such as interest, depreciation, amortization, and loss on disposal of capital assets, are allocated in the financial statements to the program and supporting functions benefitting from the use of the assets with which each expense or loss was associated. Expenses associated with assets used by the Museum as a whole remain reported under facility operations.

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 and disclosures of contingent 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 management estimates included in the accompanying financial statements relate to allowances for doubtful accounts and pledges receivable, present value factors used for pledges, fair values of certain investments, capitalization of assets, useful lives of depreciable and amortizable assets, asset and liability values associated with leased equipment, obligations under annuity and split-interest arrangements, liabilities associated with asset retirement obligations, and allocation of indirect costs, employee fringe benefits and other common expenses.

Reclassifications

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

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Museum has adopted ASU 2016-14 and has adjusted the presentation of these financial statements accordingly.

The Museum has also adopted Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which addresses inconsistency in revenue recognition with respect to when an item should be considered a contribution or an exchange type transaction. Exchanges would be accounted for using the revenue recognition standards above. The update also provides guidance as to when a contribution should be considered conditional which, for example, the case is often when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable as applicable.

In accordance with ASU 2018-08, the Museum has adjusted its accounting for and presentation of government awards as non-reciprocal contributions.

The contribution standards were applied retrospectively. The impact related to the adopting of the new standard did not have material impact on 2019 results. In evaluating the effects of the change, contributions in process as of the date of adoption were considered.

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NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Museum's financial assets available for general expenditures within one year are as follows:

<i>(in thousands)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Cash and cash equivalents	\$ 1,937	\$ 7,400	\$ 9,337
Accounts receivable	2,484	1,129	3,613
Pledges due within one year	-	1,452	1,452
Contributions with time restrictions due to expire within one year	181	-	181
Expected appropriations from endowment per allocation policy	2,332	4,053	6,385
Financial assets available for general expenditures within one year	<u>\$ 6,934</u>	<u>\$ 14,034</u>	<u>\$ 20,968</u>

A large portion of the Museum's ongoing operations are normally funded through donor-restricted contributions and endowment income. The Museum accordingly considers such funds in its analysis of its liquidity and in its short- and long-term planning. Funds restricted for capital projects or projects or programs not undertaken on an ongoing basis are not considered available for general expenditures.

As part of its liquidity management, the Museum has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Museum invests cash in excess of daily requirements in certificates of deposits and other liquid assets. These amounts are reported as cash and cash equivalents.

The Museum's quasi-endowment totaled \$10,287,000 as of June 30, 2019. Due to legal, donor relations, and other considerations, the Museum considers \$5,440,000 to be available to meet general or special purpose expenditures if necessary.

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Notes to Financial Statements – June 30, 2019 and 2018

NOTE 4 – PLEDGES RECEIVABLE

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

<i>(in thousands)</i>	2019	2018
In one year or less	\$ 5,152	\$ 5,215
Between one and five years	1,398	2,468
Greater than five years	20	30
Less allowance for unfulfilled pledges	(65)	(79)
Less discount to present value	(68)	(87)
Net present value of pledges receivable, net of allowances	<u>\$ 6,437</u>	<u>\$ 7,547</u>

Net present value of pledges by purpose are as follows as of June 30:

<i>(in thousands)</i>	2019	2018
Purpose Restrictions		
Operating and similar funds		
Exhibits	\$ 507	\$ 1,179
Education and outreach programs	380	588
Teacher and curriculum programs	303	594
Other program activities	108	161
General and other	177	416
Capital exhibits, property, plant, and equipment	2,000	1,452
Total operating and similar funds	<u>3,475</u>	<u>4,390</u>
Endowment and quasi-endowment		
Education and outreach programs	3,000	3,082
Total endowment and quasi-endowment	<u>3,000</u>	<u>3,082</u>
Unrestricted pledges with effective time restrictions	27	154
Less allowance for unfulfilled pledges	(65)	(79)
Net present value of pledges receivable, net of allowances	<u>\$ 6,437</u>	<u>\$ 7,547</u>

Concentration of Risk

Pledges from three and two major donors accounted for 87% and 85% of gross pledges as of June 30, 2019 and 2018, respectively.

Conditional Promises to Give

The Museum had \$250,000 and \$19,250,000 in conditional private pledges as of June 30, 2019 and 2018, respectively. These promises are not recorded in the financial statements. The Museum also treats government grants awarded but not yet spent as conditional promises. These are disclosed in Note 13.

Non-binding Intentions

In addition to enforceable promises to give, the Museum has received 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 as contributions when received. The Museum had \$1,001,000 and \$1,671,000 in outstanding non-binding intentions as of June 30, 2019 and 2018, respectively.

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Notes to Financial Statements – June 30, 2019 and 2018

NOTE 5 – 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 were as follows at June 30:

(in thousands)	2019				2018			
	Investments measuring fair value using net asset value per share	Quoted prices in active markets (Level 1)	Significant unobservable inputs (Level 3)	Total fair value	Investments measuring fair value using net asset value per share	Quoted prices in active markets (Level 1)	Significant unobservable inputs (Level 3)	Total fair value
Investments								
Cash and cash equivalents		\$ 3,159		\$ 3,159		\$ 11,102		\$ 11,102
Mutual funds		30,296		30,296		29,649		29,649
Exchange-traded funds		6,115		6,115		-		-
Commingled trust funds	\$ 25,160	-		25,160	\$ 25,953	-		25,953
Equity hedge funds	48,926	-		48,926	39,926	-		39,926
Hedge fund of funds	13,914	-		13,914	13,576	-		13,576
Private investments	24,275	-		24,275	16,418	-		16,418
Other alternative investments	28,628	-	\$ 144	28,772	24,171	-	\$ 166	24,337
Total investments	\$ 140,903	\$ 39,570	\$ 144	\$ 180,617	\$ 120,044	\$ 40,751	\$ 166	\$ 160,961
Assets of split interest agreements								
Internally managed		\$ 2,740		\$ 2,740		\$ 2,862		\$ 2,862
Administered by external trustees		359	\$ 14,577	14,936		363	\$ 13,310	13,673
Total assets of split interest agreements		\$ 3,099	\$ 14,577	\$ 17,676		\$ 3,225	\$ 13,310	\$ 16,535

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

The liquidity of the Museum's investments is as follows at June 30:

Redemption Frequency	Fair value (in thousands)			
	2019		2018	
Daily	\$ 39,571	21.9%	\$ 40,751	25.3%
Weekly	4,831	2.7%	5,072	3.2%
Monthly	53,315	29.5%	50,118	31.1%
Quarterly	36,177	20.0%	31,271	19.4%
Quarterly or more frequently	133,894	74.1%	127,212	79.0%
Semi-annually	3,486	1.9%	524	0.3%
Annually	6,044	3.3%	3,918	2.4%
Less frequently than annually	14,014	7.7%	12,874	8.0%
Illiquid	23,179	13.0%	16,433	10.3%
Total investments	\$ 180,617	100.0%	\$ 160,961	100.0%

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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.

Unfunded commitments totaled \$25,220,000 as of June 30, 2019.

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, 2019 and 2018.

The Museum considers activity related to investment and split interest assets for which Level 3 inputs are used to determine fair value to have been insignificant for the two years ended June 30, 2019 and 2018.

NOTE 6 – 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 119 individual donor-restricted endowment funds and 28 quasi-endowment funds established for a variety of purposes. The net assets associated with endowment funds including quasi-endowments, are classified and reported based on the existence or absence of donor imposed restrictions. The endowment accounted for \$171,786,000 and \$156,367,000 of the Museum's investments at June 30, 2019 and 2018.

In 2019 and 2018, the Museum liquidated \$522,000 and \$610,000, respectively, 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. For the purposes of this interpretation, the Museum considers the "original gift" to consist of: (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. Appreciation in excess of the original gift is subject to appropriation 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.

Both the original gift and any appreciation are classified as net assets with donor restriction. Amounts appropriated for expenditure are classified as net assets with donor restriction if the donor has stipulated a purpose limitation on the uses of the fund, and deemed released from restriction when that purpose is accomplished. Amounts appropriated for expenditure for which the donor has not stipulated a purpose are recognized as revenue increasing net assets without donor restriction.

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Endowment funds segregated by net asset class are as follows at June 30:

<i>(in thousands)</i>	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Donor-restricted funds		\$ 157,526	\$ 157,526		\$ 141,956
Board-designated funds	\$ 10,287	3,973	14,260	\$ 10,465	3,946	14,411
Total endowment net assets	\$ 10,287	\$ 161,499	\$ 171,786	\$ 10,465	\$ 145,902	\$ 156,367

The following schedule summarizes the change in endowment net assets for the years ended June 30:

<i>(in thousands)</i>	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Endowment net assets, beginning of year	\$ 10,465	\$ 145,902	\$ 156,367	\$ 11,184	\$ 135,143
Additions to corpus						
Contributions	145	13,472	13,617	99	3,305	3,404
Other	120	44	164	165	87	252
Investment return, net	727	7,333	8,060	1,165	12,227	13,392
Endowment income per spending policy	(648)	(5,252)	(5,900)	(607)	(4,860)	(5,467)
Other changes:						
Liquidation for long range plan	(522)	-	(522)	(610)	-	(610)
Liquidation for separation of business unit	-	-	-	(931)	-	(931)
Endowment net assets, end of year	\$ 10,287	\$ 161,499	\$ 171,786	\$ 10,465	\$ 145,902	\$ 156,367

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 original donor gift amounts. There were no such deficits as of June 30, 2019 and 2018.

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 individual donor-restricted endowment funds, the Museum's Spending Allocation Policy (see below) is suspended during any month when such appropriation would leave that 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 aim to provide a predictable stream of funding to programs supported by the endowment while maintaining the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, is 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

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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's spending allocation policy is to appropriate for expenditure an amount of up to 4.75% of the 16-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 the predetermined 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, new large gifts may have a distorting effect on the allocation of income to existing funds until those gifts 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.

Between October 2016 and August 2018, the Museum received an endowment gift of unprecedented size, and has chosen to exempt this gift from the standard income allocation policy. The Museum instead applies a fund-specific policy, agreed to by the donor, which 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.

In accordance with its standard and special income allocation policies, the Museum intends to appropriate approximately \$6,385,000 during the year beginning July 1, 2019. This appropriation is expected to be funded from liquidity normally maintained within the portfolio.

The establishing documents for the majority of the Museum's donor-restricted endowment funds contain provisions which allow the Museum to accumulate and carry forward amounts allocated but not spent during the fiscal year. This practice allows the Museum to undertake projects for which a single year's allocation would provide insufficient funds.

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Notes to Financial Statements – June 30, 2019 and 2018

NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

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

<i>(in thousands)</i>	2019	2018
Building and improvements	\$ 90,836	\$ 88,056
Equipment	34,837	35,560
Exhibits	45,000	43,581
Total before depreciation	170,673	167,197
Accumulated depreciation	(103,688)	(98,867)
Net	<u>\$ 66,985</u>	<u>\$ 68,330</u>

Capital additions were \$7,936,000 and \$5,110,000 for the years ended June 30, 2019 and 2018, respectively.

Depreciation expense amounted to \$8,561,000 and \$8,768,000 for the years ended June 30, 2019 and 2018, respectively.

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

<i>(in thousands)</i>	2019	2018
Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations	\$ 1,736	\$ 2,110
Standing exhibits added to property, plant, and equipment	2,754	1,628
	<u>\$ 4,490</u>	<u>\$ 3,738</u>

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

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Notes to Financial Statements – June 30, 2019 and 2018

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 \$1,179,000 and \$1,385,000, as of June 30, 2019 and 2018, 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 \$2,285,000 and \$2,242,000 for the years ended June 30, 2019 and 2018, 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 exhibits 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 \$209,000 and \$219,000 at June 30, 2019 and 2018, 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 \$978,000 and \$863,000 at June 30, 2019 and 2018, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. The Museum contributed \$26,000 and \$48,000 for the years ended June 30, 2019 and 2018, respectively, to the 457 plan.

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'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.

Expenses for the Retirement Plan were \$1,173,000 and \$1,187,000 for the years ended June 30, 2019 and 2018, respectively. The Museum does not make contributions to the Savings Plan.

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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 minimum payments under lease agreements are as follows at June 30, 2019:

<i>(in thousands)</i>	Capital leases	4-D programs and services
2020	\$ 547	\$ 337
2021	540	350
2022	527	363
2023	520	376
2024	511	391
After 2024	43	33
Total minimum lease payments	<u>2,688</u>	<u>\$ 1,850</u>
Interest	(352)	
Present value of net minimum lease payments	2,336	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	(426)	
Unamortized debt issuance costs	(11)	
Net long term obligations under capital leases	<u>\$ 1,899</u>	

The net book value of assets acquired under capital leases was \$2,039,000 and \$2,987,000 as of June 30, 2019 and 2018, respectively.

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NOTE 11 – NET ASSETS

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

(in thousands)

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating funds, gifts and grants, and endowment income available for spending						
Exhibits	\$ 327	12,138	\$ 12,465	\$ (386)	\$ 10,140	\$ 9,754
Education and outreach programs	123	11,461	11,584	185	5,683	5,868
Teacher and curriculum programs	99	3,817	3,916	1,102	3,733	4,835
Visitor and member services	-	7	7	-	7	7
Other program activities	9	579	588	4	716	720
Supporting services	342	396	738	883	730	1,613
Property, plant, and equipment	98	10,451	10,549	(129)	8,270	8,141
Total operating and similar funds	998	38,849	39,847	1,659	29,279	30,938
Endowment and quasi-endowment corpus and accumulated gains not allocated for spending						
Exhibits	6,437	54,617	61,054	6,385	53,702	60,087
Education and outreach programs	2,404	77,530	79,934	2,388	63,095	65,483
Teacher and curriculum programs	479	1,335	1,814	476	1,294	1,770
Visitor and member services	-	55	55	-	55	55
Other program activities	804	2,907	3,711	783	2,993	3,776
Supporting services	163	25,055	25,218	433	24,763	25,196
Total endowment and quasi-endowment	10,287	161,499	171,786	10,465	145,902	156,367
Other net assets						
Carrying value of capital exhibits, property, plant, and equipment	62,007	-	62,007	62,771	-	62,771
Split interest agreements	-	16,219	16,219	-	15,012	15,012
Total other net assets	62,007	16,219	78,226	62,771	15,012	77,783
Pledges receivable	-	6,437	6,437	-	7,547	7,547
Total net assets	\$ 73,292	\$ 223,004	\$ 296,296	\$ 74,895	\$ 197,740	\$ 272,635

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Net assets released from restriction

Net assets with donor restrictions are released from those 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. Net assets were released from restriction as follows for the years ended June 30:

<i>(in thousands)</i>	2019	2018
Net assets released due to fulfillment of purpose restrictions		
Releases funding operations		
Exhibits	\$ 3,307	\$ 4,044
Education and outreach programs	3,635	3,940
Teacher and curriculum programs	2,123	1,732
Visitor and member services	205	100
Other program activities	769	1,033
Administration and general	146	108
Facility operations	28	14
Marketing	137	5
Fundraising	363	157
Total operating releases	<u>10,713</u>	<u>11,133</u>
Releases funding capital projects		
Capital exhibits	2,773	1,803
Other property, plant, and equipment	3,674	1,204
Total capital releases	<u>6,447</u>	<u>3,007</u>
Total releases from purpose restrictions	<u>17,160</u>	<u>14,546</u>
Net assets released due to expiration of time restrictions		
Releases to operations	261	476
Releases to designated funds and reserves	127	222
Releases to quasi-endowment	89	150
Total releases from time restrictions	<u>477</u>	<u>848</u>
Total net assets released from restriction	<u>\$ 17,637</u>	<u>\$ 14,988</u>

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Notes to Financial Statements – June 30, 2019 and 2018

Board designated net assets

The Museum's Board of Trustees has established reserve, quasi-endowment, and other designated funds using net assets without donor restriction in order to meet the Museum's long-term needs. The Board has authorized management to make certain decisions regarding additions to and removals from these funds, while reserving other decisions to itself.

The Museum also treats special-purpose private contract revenue as board-designated funds to facilitate tracking income and expenses. Contract revenue received for the Museum's normal business is treated a general operating revenue.

Board policy directs that bequests and distributions from trusts under will without donor restriction be added to the quasi-endowment, with income appropriated therefrom allocated to general operations.

Activity on board-designated funds was as follows for the years ended June 30, 2019 and 2018:

(in thousands)

	Designated operating funds				Quasi-endowment corpus	Total designated
	Reserves	Quasi-endowment income	Other designated	Total		
Net assets as of 6/30/17	\$ 2,437	\$ 471	\$ 617	\$ 3,525	\$ 11,184	\$ 14,709
Contributions	167	-	13	180	99	279
Revenue designated per board or management policy	2,293	-	268	2,561	15	2,576
Designated endowment and quasi-endowment income	(91)	432	535	876	-	876
Net assets released from restriction	256	-	131	387	150	537
Transfers from operating fund	1,099	-	103	1,202	-	1,202
Additions to designated funds	3,724	432	1,050	5,206	264	5,470
Funding of operations	(4,073)	(441)	(1,152)	(5,666)	-	(5,666)
Funding of long-range plan	-	-	-	-	(610)	(610)
Funding of capital projects	(1,610)	(7)	(120)	(1,737)	-	(1,737)
Uses of designated funds	(5,683)	(448)	(1,272)	(7,403)	(610)	(8,013)
Other transfers	12	-	(12)	-	-	-
Investment earnings, net of endowment income per policy	-	-	-	-	558	558
Liquidation for business unit separation	-	(18)	(69)	(87)	(931)	(1,018)
Net assets as of 6/30/18	490	437	314	1,241	10,465	11,706
Contributions	37	-	159	196	145	341
Revenue designated per board or management policy	2,091	-	421	2,512	16	2,528
Designated endowment and quasi-endowment income	(69)	420	786	1,137	-	1,137
Net assets released from restriction	-	-	127	127	89	216
Transfers from operating fund	3,075	-	63	3,138	-	3,138
Additions to designated funds	5,134	420	1,556	7,110	250	7,360
Funding of operations	(4,241)	(325)	(1,318)	(5,884)	-	(5,884)
Funding of long-range plan	-	-	-	-	(522)	(522)
Funding of capital projects	(1,375)	(1)	(144)	(1,520)	-	(1,520)
Uses of designated funds	(5,616)	(326)	(1,462)	(7,404)	(522)	(7,926)
Other transfers	-	(15)	-	(15)	15	-
Investment earnings, net of endowment income per policy	-	-	-	-	79	79
Net assets as of 6/30/19	\$ 8	\$ 516	\$ 408	\$ 932	\$ 10,287	\$ 11,219

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Notes to Financial Statements – June 30, 2019 and 2018

NOTE 12 – CONTRIBUTED SERVICES AND GIFTS IN KIND

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

<i>(in thousands)</i>	2019	2018
Pro bono outside services:		
Legal	\$ 460	\$ 510
Marketing	655	1,201
Miscellaneous	63	50
In-house volunteers	590	525
Gifts in kind:		
Capital equipment	-	333
Miscellaneous	318	47
Total	<u>\$ 2,086</u>	<u>\$ 2,666</u>

The Museum receives contributed services from over 350 volunteers working in various capacities across the institution. US GAAP specifies that the value of volunteer time may be recognized as income and expense when the service provided requires specialized skills for which the Museum would otherwise have paid. For the year ended June 30, 2019, the value of contributed services meeting those criteria was \$590,000. The value of contributed time not meeting the recognition criteria was \$73,000. Volunteer time contributed across all categories totaled 15 full-time employee equivalents.

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 was as follows for the years ended June 30:

<i>(in thousands)</i>	2019			2018
	State	Federal	Total	
Direct cost support				
General operating support		\$ 57	\$ 57	\$ 57
Exhibits		934	934	808
Programs	\$ 50	1,691	1,741	1,838
Capital projects	-	588	588	489
Other	-	33	33	11
	50	3,303	3,353	3,203
Indirect cost recovery	-	670	670	818
Net change in estimate for unbilled subawards	-	(287)	(287)	444
Total	<u>\$ 50</u>	<u>\$ 3,686</u>	<u>\$ 3,736</u>	<u>\$ 4,465</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

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Notes to Financial Statements – June 30, 2019 and 2018

total program costs in its financial statements. The accrual is reversed in the subsequent fiscal year as actual subaward billings are received. As these amounts are estimates, the accrued charges are not billed to government funders; only actual charges are submitted for reimbursement.

Funds awarded but not yet expended

Funds under a government award for a particular purpose or program are not earned until the Museum incurs expenses in the performance of the funded project, at which time the Museum recognizes the corresponding award revenue. If a government agency advances cash to the Museum under an award, amounts not yet expended are carried as a liability. As of June 30, 2018 the Museum had no such liabilities. Amounts awarded but neither advanced nor earned are not reflected in the financial statements. Government funds awarded but not yet expended totaled \$5,065,000 at June 30, 2018.

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 transferred were \$1,472,000.

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 these awards.

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. The Museum expended funds totaling \$194,000 and \$505,000 for the years ended June 30, 2019 and 2018, 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. The Museum earned \$49,000 and \$84,000 for the years ended June 30, 2019 and 2018, respectively, from these transactions.

NOTE 16 – SUBSEQUENT EVENTS

The Museum has performed an evaluation of subsequent events through October 31, 2019, which is the date the financial statements were issued.

In July, 2019, the Museum undertook a major restructuring. The Museum offered a Voluntary Termination Package to employees aged 61 or older and also effected a number of involuntary staff reductions. The Museum expects to incur between \$1,500,000 and \$2,000,000 in severance and other costs related to this restructuring.

No other material subsequent events were noted.

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Notes to Financial Statements – June 30, 2019 and 2018

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.