

 **Museum of Science**

Financial Statements
June 30, 2020 and 2019



Museum of Science

Financial Statements — June 30, 2020 and 2019

Table of Contents

Independent Auditors' Report.....	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses.....	6
Statements of Cash Flows	7
Notes to the Financial Statements.....	8-26



Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

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, 2020 and 2019, 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, 2020 and 2019, 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 2020, the Museum adopted Accounting Standards Update ("ASU") No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

Maye Hoxeman McCann P.C.

October 27, 2020
Boston, Massachusetts

Museum of Science
Statements of Financial Position — June 30

<i>(in thousands)</i>	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33,616	\$ 35,444
Accounts receivable	739	2,484
Grants receivable	1,154	1,129
Pledges receivable, net	3,166	5,101
Prepaid expenses and other current assets	1,260	1,353
Total current assets	39,935	45,511
Noncurrent assets		
Pledges receivable, net	1,153	1,336
Investments	176,828	180,617
Assets of split interest agreements	18,029	17,676
Other assets, net of amortization	2,292	1,161
Property, plant and equipment, net	70,314	66,985
Total noncurrent assets	268,616	267,775
Total assets	\$ 308,551	\$ 313,286
LIABILITIES AND NET ASSETS		
Current liabilities		
Line of credit	\$ 10,000	
Accounts payable and accrued liabilities	5,960	\$ 5,201
Deferred revenue	5,384	4,786
Total current liabilities	21,344	9,987
Noncurrent liabilities		
Annuity payable and deferred compensation	1,003	1,137
Liability under split interest agreements	1,399	1,457
Liability under management agreement	769	974
Asset retirement obligation	1,632	1,536
Capital leases	3,545	1,899
Total noncurrent liabilities	8,348	7,003
Total liabilities	29,692	16,990
Net assets		
Without donor restrictions		
Operating funds	(7,026)	66
Designated funds	3,225	932
Quasi-endowment	10,084	10,287
Net investment in plant	65,126	62,007
Total net assets without donor restrictions	71,409	73,292
With donor restrictions		
Gifts, grants, and endowment income	31,869	42,316
Endowment principal, split interests, and other	175,581	180,688
Total net assets with donor restrictions	207,450	223,004
Total net assets	278,859	296,296
Total liabilities and net assets	\$ 308,551	\$ 313,286

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)	2020			2019		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Income						
Support						
Contributions, grants, and pledges	\$ 4,336	\$ 3,658	\$ 7,994	\$ 5,002	\$ 33,008	\$ 38,010
Contributed services and gifts-in-kind	1,100	-	1,100	2,086	-	2,086
Government grants	62	3,601	3,663	57	3,679	3,736
Total support	5,498	7,259	12,757	7,145	36,687	43,832
Revenue						
Admissions	10,301	-	10,301	13,596	-	13,596
Memberships	5,378	-	5,378	7,294	-	7,294
Educational programs	7,074	26	7,100	10,562	-	10,562
Ancillary services	6,003	-	6,003	8,329	-	8,329
Investment return appropriated for spending per endowment policy	2,728	3,557	6,285	2,313	3,587	5,900
Other income	2,205	122	2,327	2,397	177	2,574
Net assets released from restrictions	21,407	(21,407)	-	17,637	(17,637)	-
Total revenue	55,096	(17,702)	37,394	62,128	(13,873)	48,255
Total income	60,594	(10,443)	50,151	69,273	22,814	92,087
Expenses						
Program services						
Exhibits	7,887	-	7,887	8,115	-	8,115
Education and outreach programs	9,848	-	9,848	11,991	-	11,991
Teacher and curriculum programs	8,042	-	8,042	10,651	-	10,651
Visitor and member services	4,429	-	4,429	5,106	-	5,106
Other program activities	2,553	-	2,553	3,508	-	3,508
Total program services	32,759	-	32,759	39,371	-	39,371
Supporting services						
Administration and general	12,330	-	12,330	10,136	-	10,136
Facility operations	7,637	-	7,637	8,745	-	8,745
Marketing	5,103	-	5,103	6,446	-	6,446
Fundraising	4,831	-	4,831	6,191	-	6,191
Total supporting services	29,901	-	29,901	31,518	-	31,518
Total expenses	62,660	-	62,660	70,889	-	70,889
Change in net assets from income and expenses	(2,066)	(10,443)	(12,509)	(1,616)	22,814	21,198
Transfers	-	-	-	(70)	70	-
Investment return, net	225	121	346	731	7,324	8,055
Portion of investment return appropriated for spending per endowment policy	(645)	(5,640)	(6,285)	(648)	(5,252)	(5,900)
Change in value of split-interest agreements	-	408	408	-	308	308
Change in accounting policy	603	-	603	-	-	-
Change in net assets	(1,883)	(15,554)	(17,437)	(1,603)	25,264	23,661
Net assets, beginning of year	73,292	223,004	296,296	74,895	197,740	272,635
Net assets, end of year	\$ 71,409	\$ 207,450	\$ 278,859	\$ 73,292	\$ 223,004	\$ 296,296

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)

	2020											
	Program services					Supporting services						
	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	Total
Personnel costs	\$ 2,702	\$ 6,098	\$ 3,494	\$ 2,616	\$ 1,913	\$ 16,823	\$ 7,423	\$ 2,316	\$ 1,811	\$ 3,471	\$ 15,021	\$ 31,844
Cost of goods sold	-	-	2,064	-	-	2,064	-	-	-	-	-	2,064
Equipment and fixtures	41	29	23	8	97	198	103	143	29	21	296	494
Conferences and travel	127	95	301	18	29	570	37	1	20	54	112	682
Participant support	3	171	520	-	-	694	-	-	-	-	-	694
Supplies and materials	198	134	303	57	61	753	178	167	163	121	629	1,382
Outside services	672	670	1,125	538	199	3,204	2,693	601	2,987	862	7,143	10,347
Occupancy	-	4	2	3	24	33	75	1,855	2	6	1,938	1,971
Subawards	27	1,000	20	-	137	1,184	-	-	-	-	-	1,184
Scholarships and funded fees	3	394	59	78	-	534	-	-	-	-	-	534
Interest	-	44	-	-	-	44	76	64	-	-	140	184
Depreciation and amortization	3,186	813	11	417	5	4,432	962	2,327	13	37	3,339	7,771
Losses on disposal	442	-	-	-	-	442	-	14	-	-	14	456
Miscellaneous and other	486	396	120	694	88	1,784	783	149	78	259	1,269	3,053
Total expenses	\$ 7,887	\$ 9,848	\$ 8,042	\$ 4,429	\$ 2,553	\$ 32,759	\$ 12,330	\$ 7,637	\$ 5,103	\$ 4,831	\$ 29,901	\$ 62,660

	2019											
	Program services					Supporting services						
	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	Total
Personnel costs	\$ 3,253	\$ 6,989	\$ 4,355	\$ 2,797	\$ 2,508	\$ 19,902	\$ 5,328	\$ 2,518	\$ 2,155	\$ 3,989	\$ 13,990	\$ 33,892
Cost of goods sold	-	-	3,440	-	-	3,440	-	-	-	-	-	3,440
Equipment and fixtures	42	43	357	21	111	574	114	80	43	89	326	900
Conferences and travel	154	263	442	16	56	931	120	1	42	71	234	1,165
Participant support	-	342	407	-	2	751	-	-	-	-	-	751
Supplies and materials	279	201	110	72	66	728	53	201	25	112	391	1,119
Outside services	534	842	990	758	334	3,458	2,237	566	4,073	1,276	8,152	11,610
Occupancy	1	7	24	9	24	65	95	2,335	8	7	2,445	2,510
Subawards	-	1,312	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	426	708	126	920	180	2,360	768	12	79	570	1,429	3,789
Total expenses	\$ 8,115	\$ 11,991	\$ 10,651	\$ 5,106	\$ 3,508	\$ 39,371	\$ 10,136	\$ 8,745	\$ 6,446	\$ 6,191	\$ 31,518	\$ 70,889

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)

	2020	2019
Cash flows from operating activities		
Cash received from customers	\$ 31,074	\$ 37,805
Cash received from donors	7,268	18,277
Cash received from government agencies	3,960	3,678
Cash received from others	951	992
Cash paid to or on behalf of employees	(31,519)	(32,847)
Cash paid to vendors	(18,470)	(22,147)
Cash paid to subawardees	(1,649)	(1,367)
Cash paid to others	(835)	(1,054)
Cash paid to separated business unit	-	(211)
Net cash provided by/(used in) operating activities	<u>(9,220)</u>	<u>3,126</u>
Cash flows from investing activities		
Purchases of endowment investments	(1,466)	(13,769)
Sales of endowment investments	5,000	522
Purchases of other investment assets	(10)	(27)
Sales of other investment assets	11	21
Investment income available for operations	591	1,631
Cash paid to acquire property, plant, and equipment	(7,996)	(8,361)
Cash paid to acquire other capital assets	(1,253)	(113)
Net cash used in investing activities	<u>(5,123)</u>	<u>(20,096)</u>
Cash flows from financing activities		
Contributions and grants restricted or designated to endowment	1,350	14,580
Other cash receipts restricted or designated to endowment	48	16
Contributions and grants restricted for capital projects	1,721	5,762
Contributions to split interest agreements	10	27
Distributions from split interest agreements	-	73
Borrowing on line of credit	10,000	-
Payments on capital leases	(614)	(515)
Net cash provided by financing activities	<u>12,515</u>	<u>19,943</u>
Net change in cash and cash equivalents	<u>(1,828)</u>	<u>2,973</u>
Cash and cash equivalents at beginning of year	<u>35,444</u>	<u>32,471</u>
Cash and cash equivalents at end of year	<u>\$ 33,616</u>	<u>\$ 35,444</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 117	\$ 180
Additions to property, plant, and equipment via capital leases	\$ 2,563	\$ -

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

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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 has historically served 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 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 12).

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 11), 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, 2020 and 2019

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, 2020 and 2019

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. 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.

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 revaluations of the expected future benefits to be received by the Museum given life expectancies and other factors.

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.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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 a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred at fair value with a corresponding increase in the carrying amount of the related long-lived asset. This is considered a Level 3 fair value measurement. The asset retirement obligations are 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 barriers to entitlement on which they depend are substantially met. Intentions to give which are not legally enforceable are not recorded as revenue until 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.

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

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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. Revenues are recognized as the barriers to entitlement on which they depend (such as incurring costs in accordance with a specified framework) are met. 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, except for a portion of household membership deemed to be made with donative intent, which is recognized as revenue immediately upon receipt.

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 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 of Science

Notes to Financial Statements – June 30, 2020 and 2019

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.

Reclassifications

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

New Accounting Pronouncements

In 2020, the Museum adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*. The update clarifies the timing and circumstances for the recognition of revenue from customers to better reflect the transfer of goods or services to those customers. The new standard outlines a unified approach for evaluating the terms of contracts, identifying the performance obligations and the transaction price associated with each, assessing when each obligation is satisfied, and recording revenue accordingly.

The majority of the Museum's existing contracts were unaffected by the new standard. However, the Museum's analysis of its household membership program disclosed a number of customers who never availed themselves of the benefits of their membership. The Museum has interpreted this circumstance as an indication that a portion of memberships purchased with a donative intent rather than with an expectation of performance on the part of the Museum. Accordingly, the Museum recognizes a corresponding portion of its household membership revenue immediately upon receipt and does not consider itself to have further obligations under those contracts. This analysis represents a significant estimation with regard to the timing of the Museum's performance obligations and consequent recording of revenue. In 2020 the Museum recorded \$603,000 of revenue which would have been recorded in prior periods under the new analysis. This amount is reported as a change in accounting policy in the financial statements.

NOTE 3 – RESTRUCTURINGS AND REDUCTIONS IN STAFF

In July, 2019, the Museum undertook a strategic 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 incurred approximately \$2,001,000 in severance and other costs related to this restructuring. Of this amount, \$360,000 in payments owed under the Voluntary Termination program had not been paid as of June 30, 2020 and is reported under accounts payable and accrued liabilities.

In April, 2020, in response to the COVID-19 pandemic, the Museum undertook another restructuring, temporarily furloughing approximately 46 percent of its staff and permanently laying off an additional 19 percent. Severance payments of \$530,000 associated with terminations under this restructuring were fully paid as of June 30, 2020. Estimated unemployment costs of \$396,000 which were incurred but not yet billed as of June 30, 2020 are recorded under accounts payable and accrued liabilities.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

In July, 2020, approximately one quarter of the furloughed staff were brought back to support the Museum's re-opening. In October, 2020, 94 percent of those staff remaining on furlough were permanently laid off.

NOTE 4 – COVID-19 AND SUBSEQUENT EVENTS

In addition to the consequences of the COVID-19 pandemic reported in other notes above, on March 13, 2020, the Museum closed to the public. The Museum re-opened its exhibit halls on July 21, 2020 and its planetarium on August 1, 2020. As of October 27, 2020, which is the date the financial statements were issued, the Museum's Omni and 4D theaters had not yet re-opened.

The Museum's evaluation of subsequent events through October 27, 2020 has noted no other material subsequent events.

NOTE 5 – 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	With	Total
	Donor Restrictions	Donor Restrictions	
Cash and cash equivalents	\$ 8,160	\$ 4,965	\$ 13,125
Accounts receivable	739	1,134	1,873
Pledges due within one year	-	1,323	1,323
Contributions with time restrictions due to expire within one year	20	-	20
Expected appropriations from endowment per allocation policy	2,600	4,299	6,899
Financial assets available for general expenditures within one year	<u>\$ 11,519</u>	<u>\$ 11,721</u>	<u>\$ 23,240</u>

A significant 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 \$10,084,000 as of June 30, 2020. Due to legal, donor-relation, and other considerations, the Museum considers \$5,393,000 to be available to meet general or special purpose expenditures if necessary.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

NOTE 6 – PLEDGES RECEIVABLE

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

<i>(in thousands)</i>	2020	2019
In one year or less	\$ 3,482	\$ 5,152
Between one and five years	1,200	1,398
Greater than five years	-	20
Less allowance for unfulfilled pledges	(327)	(65)
Less discount to present value	(36)	(68)
Net present value of pledges receivable, net of allowances	<u>\$ 4,319</u>	<u>\$ 6,437</u>

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

<i>(in thousands)</i>	2020	2019
Purpose Restrictions		
Operating and similar funds		
Exhibits	\$ 507	\$ 507
Education and outreach programs	344	380
Teacher and curriculum programs	344	303
Visitor and member services	108	108
General and other	41	177
Capital exhibits, property, plant, and equipment	1,276	2,000
Total operating and similar funds	<u>2,620</u>	<u>3,475</u>
Endowment and quasi-endowment		
Education and outreach programs	2,025	3,000
Total endowment and quasi-endowment	<u>2,025</u>	<u>3,000</u>
Unrestricted pledges with effective time restrictions	-	27
Less allowance for unfulfilled pledges	(326)	(65)
Net present value of pledges receivable, net of allowances	<u>\$ 4,319</u>	<u>\$ 6,437</u>

Concentration of Risk

Pledges from three and two major donors accounted for 85% and 87% of gross pledges as of June 30, 2020 and 2019, respectively.

Conditional Promises to Give

The Museum had a \$250,000 bequest intention as of June 30, 2020 and 2019. This promise is 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 \$624,000 and \$1,001,000 in outstanding non-binding intentions as of June 30, 2020 and 2019, respectively.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

NOTE 7 – 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)	2020				2019			
	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		\$ 13,298		\$ 13,298		\$ 3,160		\$ 3,160
Mutual funds		9,097		9,097		30,296		30,296
Exchange-traded funds		6,134		6,134		6,115		6,115
Commingled trust funds	\$ 15,769	-		15,769	\$ 25,160	-		25,160
Equity hedge funds	57,763	-		57,763	51,399	-		51,399
Hedge fund of funds	7,427	-		7,427	13,914	-		13,914
Private investments	40,264	-		40,264	21,801	-		21,801
Other alternative investments	26,942	-	\$ 134	27,076	28,628	-	\$ 144	28,772
Total investments	\$ 148,165	\$ 28,529	\$ 134	\$ 176,828	\$ 140,902	\$ 39,571	\$ 144	\$ 180,617
Assets of split interest agreements								
Internally managed		\$ 2,760		\$ 2,760		\$ 2,740		\$ 2,740
Administered by external trustees		364	\$ 14,905	15,269		359	\$ 14,577	14,936
Total assets of split interest agreements		\$ 3,124	\$ 14,905	\$ 18,029		\$ 3,099	\$ 14,577	\$ 17,676

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. 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, 2020 and 2019.

Liquidity

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

Redemption Frequency	Fair value (in thousands)			
	2020		2019	
Daily	\$ 28,529	16.1%	\$ 39,571	21.9%
Weekly	4,077	2.3%	4,831	2.7%
Monthly	46,634	26.4%	53,315	29.5%
Quarterly	38,342	21.7%	36,177	20.0%
Quarterly or more frequently	117,582	66.5%	133,894	74.1%
Semi-annually	15,203	8.6%	3,486	1.9%
Annually	6,612	3.7%	6,044	3.3%
Less frequently than annually	7,341	4.1%	14,014	7.8%
Illiquid	30,090	17.1%	23,179	12.9%
Total investments	\$ 176,828	100.0%	\$ 180,617	100.0%

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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 \$34,547,000 as of June 30, 2020.

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, 2020 and 2019.

NOTE 8 – ENDOWMENT

The Museum's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees or management to function as endowments ("quasi-endowments"). The endowment consists of 119 individual donor-restricted endowment funds and 26 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 \$167,310,000 and \$156,367,000 of the Museum's investments at June 30, 2020 and 2019.

In 2019, the Museum liquidated \$522,000 of its board-designated quasi-endowment to fund marketing, advancement, and facility projects associated with its long range plan.

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.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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

<i>(in thousands)</i>	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds		\$ 153,413	\$ 153,413		\$ 141,956	\$ 141,956
Board-designated funds	\$ 10,084	3,813	13,897	\$ 10,465	3,946	14,411
Total endowment net assets	\$ 10,084	\$ 157,226	\$ 167,310	\$ 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>	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 10,287	\$ 161,499	\$ 171,786	\$ 10,465	\$ 145,902	\$ 156,367
Additions to corpus						
Contributions	155	1,195	1,350	145 #	13,472	13,617
Other	61	51	112	120	44	164
Investment return, net	226	121	347	727	7,333	8,060
Endowment income per spending policy	(645)	(5,640)	(6,285)	(648)	(5,252)	(5,900)
Other changes:						
Liquidation for long range plan	-	-	-	(522)	-	(522)
Endowment net assets, end of year	\$ 10,084	\$ 157,226	\$ 167,310	\$ 10,287	\$ 161,499	\$ 171,786

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. As described below, the Museum reduces income allocated for spending from funds with deficits. There were no such deficits as of June 30, 2020 and 2019.

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 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

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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. 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 of doing so on other funds is negligible.

A recent endowment gift of significant size has been exempted from the standard policy as described above. In agreement with the donor, the Museum has applied a special policy under which increasing predetermined amounts are to be appropriated annually until June 2024, whereupon a modified version of the Museum's standard policy, using 4% of the 20 quarter moving average of the fund's fair value, will be applied.

In accordance with its standard and special income allocation policies, the Museum intends to appropriate approximately \$6,899,000 during the year beginning July 1, 2020. 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 provision allows the Museum to undertake projects for which a single year's allocation would provide insufficient funds.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

NOTE 9 – PROPERTY, PLANT, AND EQUIPMENT

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

<i>(in thousands)</i>	2020	2019
Building and improvements	\$ 94,159	\$ 90,836
Equipment	37,204	34,837
Exhibits	46,002	45,000
Total before depreciation	177,365	170,673
Accumulated depreciation	(107,051)	(103,688)
Net	<u>\$ 70,314</u>	<u>\$ 66,985</u>

Capital additions were \$12,047,000 and \$7,936,000 for the years ended June 30, 2020 and 2019, respectively.

Depreciation expense amounted to \$5,141,000 and \$8,561,000 for the years ended June 30, 2020 and 2019, 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>	2020	2019
Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations	\$ 5,573	\$ 1,736
Standing exhibits added to property, plant, and equipment	5,058	2,754
	<u>\$ 10,631</u>	<u>\$ 4,490</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.

NOTE 10 – MANAGEMENT AGREEMENTS AND OTHER VENDOR CONTRACTS

The Museum has contracted with an outside vendor to operate its food services. This contract expires in 2025 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 \$974,000 and \$1,179,000, as of June 30, 2020 and 2019, 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 2025.

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. However, due to the COVID-19 pandemic, the Museum has waived the minimum requirement through June 30, 2021. Total actual revenue realized was \$1,486,000 and \$2,285,000 for the years ended June 30, 2020 and 2019, respectively, which is included in ancillary services and other income.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

The Museum has entered into contracts with a movie studio to develop two copies of a large traveling exhibition. The agreements license the Museum to use intellectual property and custom-developed materials until 2027. The 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. The COVID pandemic has impacted the touring schedule of the exhibits, but the Museum continues to expect rental income to exceed its investment.

NOTE 11 – 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 \$199,000 and \$209,000 at June 30, 2020 and 2019, 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 \$849,000 and \$978,000 at June 30, 2020 and 2019, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. The Museum contributed \$16,000 and \$26,000 for the years ended June 30, 2020 and 2019, respectively, to the 457 plan.

The Museum has a long-term employment agreement with its President that provides for severance payments upon termination. As these provisions are conditional on whether such termination is with or without cause, no amount is recorded for the future portion of this contract on the financial statements.

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

The Savings Plan allows employees to defer a percentage of their compensation on a pre- or post-tax basis (or both) subject to IRS limits. All employees are eligible to participate in the Savings Plan. All employees, except interns, are automatically enrolled in the Savings Plan on the first day of the month following their date of hire at a rate of 3% of the employee’s compensation, and employees may cease or resume participation at any time. The Museum does not make contributions to the Savings Plan.

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. In April, 2020, the Museum temporarily suspended contributions under the Retirement Plan in response to the COVID-19 pandemic.

Expenses for the Retirement Plan were \$848,000 and \$1,173,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 12 – LINE OF CREDIT

In March, 2020, in response to reductions in cash flow due to the COVID-19 pandemic, the Museum established and fully drew against a one-year \$10,000,000 advised line of credit with its primary bank, secured with a blanket lien on all assets. The line of credit bears an interest rate equal to the LIBOR rate plus 2.25% for an actual interest rate of 2.85% as of June 30, 2020.

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

NOTE 13 – LEASES

The Museum leases energy conservation, office, 4-D theater, and other equipment under capital leases that expire at various dates through April, 2026. The Museum has also entered into a financing agreement to fund the renovation of its Omni theater, which is collateralized by the equipment purchased as part of that renovation.

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.

In March, 2020, the Museum renegotiated the timing of payments due under the 4-D theater lease due to the closure of the theater in response to the COVID-19 pandemic. Payments are suspended for the duration of the closure, which is currently estimated to be through January, 2021. The Museum's liability under capital leases and future payment data have been updated based on that assumption.

Future minimum payments under lease agreements are as follows at June 30, 2020:

<i>(in thousands)</i>	Capital leases	4-D programs and services
2021	\$ 929	\$ 171
2022	1,025	353
2023	928	366
2024	835	380
2025	494	327
After 2025	571	-
Total minimum lease payments	<u>4,782</u>	<u>\$ 1,597</u>
Interest	(427)	
Present value of net minimum lease payments	<u>4,355</u>	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	(801)	
Unamortized debt issuance costs	(9)	
Net long term obligations under capital leases	<u>\$ 3,545</u>	

The net book value of assets acquired under capital leases was \$4,734,000 and \$2,039,000 as of June 30, 2020 and 2019, respectively.

Museum of Science
Notes to Financial Statements – June 30, 2020 and 2019

NOTE 14 – NET ASSETS

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

(in thousands)

	2020			2019		
	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	\$ 78	9,597	\$ 9,675	\$ 327	\$ 12,138	\$ 12,465
Education and outreach programs	438	10,309	10,747	123	11,461	11,584
Teacher and curriculum programs	518	2,748	3,266	99	3,817	3,916
Visitor and member services	-	24	24	-	7	7
Other program activities	116	617	733	9	579	588
Supporting services	(5,051)	418	(4,633)	342	396	738
Property, plant, and equipment	100	5,562	5,662	98	10,451	10,549
Total operating and similar funds	(3,801)	29,275	25,474	998	38,849	39,847
Endowment and quasi-endowment corpus and accumulated gains not allocated for spending						
Exhibits	3,982	45,575	49,557	6,437	54,617	61,054
Education and outreach programs	4,470	83,919	88,389	2,404	77,530	79,934
Teacher and curriculum programs	460	1,310	1,770	479	1,335	1,814
Visitor and member services	-	53	53	-	55	55
Other program activities	850	2,255	3,105	804	2,907	3,711
Supporting services	322	24,114	24,436	163	25,055	25,218
Total endowment and quasi-endowment	10,084	157,226	167,310	10,287	161,499	171,786
Other net assets						
Carrying value of capital exhibits, property, plant, and equipment	65,126	-	65,126	62,007	-	62,007
Split interest agreements	-	16,630	16,630	-	16,219	16,219
Total other net assets	65,126	16,630	81,756	62,007	16,219	78,226
Pledges receivable	-	4,319	4,319	-	6,437	6,437
Total net assets	\$ 71,409	\$ 207,450	\$ 278,859	\$ 73,292	\$ 223,004	\$ 296,296

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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>	2020	2019
Net assets released due to fulfillment of purpose restrictions		
Releases funding operations		
Exhibits	\$ 1,638	\$ 3,307
Education and outreach programs	4,589	3,635
Teacher and curriculum programs	2,682	2,123
Visitor and member services	80	205
Other program activities	945	769
Administration and general	336	146
Facility operations	124	28
Marketing	140	137
Fundraising	145	363
Total operating releases	<u>10,679</u>	<u>10,713</u>
Releases funding capital projects		
Capital exhibits	4,878	2,773
Other property, plant, and equipment	5,610	3,674
Total capital releases	<u>10,488</u>	<u>6,447</u>
Total releases from purpose restrictions	<u>21,167</u>	<u>17,160</u>
Net assets released due to expiration of time restrictions		
Releases to operations	222	261
Releases to designated funds and reserves	8	127
Releases to quasi-endowment	10	89
Total releases from time restrictions	<u>240</u>	<u>477</u>
Total net assets released from restriction	<u>\$ 21,407</u>	<u>\$ 17,637</u>

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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, 2020 and 2019:

(in thousands)

	Designated operating funds				Quasi-endowment corpus	Total designated
	Reserves	Quasi-endowment income	Other designated	Total		
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
Contributions	-	-	107	107	155	262
Revenue designated per board or management policy	1,516	-	367	1,883	13	1,896
Designated endowment and quasi-endowment income	58	433	1,037	1,528	-	1,528
Net assets released from restriction	-	-	8	8	10	18
Transfers from operating fund	2,759	4	72	2,835	-	2,835
Additions to designated funds	4,333	437	1,591	6,361	178	6,539
Funding of operations	(2,926)	(337)	(1,283)	(4,546)	-	(4,546)
Funding of capital projects	-	-	(87)	(87)	-	(87)
Uses of designated funds	(2,926)	(337)	(1,370)	(4,633)	-	(4,633)
Other transfers	(12)	(38)	12	(38)	38	-
Investment earnings, net of endowment income per policy	-	-	-	-	(419)	(419)
Change in accounting policy	603	-	-	603	-	603
Net assets as of 6/30/20	\$ 2,006	\$ 578	\$ 641	\$ 3,225	\$ 10,084	\$ 13,309

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

NOTE 15 – 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>	2020	2019
Pro bono outside services:		
Legal	\$ 426	\$ 460
Marketing	336	655
Miscellaneous	19	63
In-house volunteers	299	590
Gifts in kind:		
Capital equipment	3	-
Miscellaneous	17	318
Total	<u>\$ 1,100</u>	<u>\$ 2,086</u>

The Museum receives contributed services from over 250 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, 2020, the value of contributed services meeting those criteria was \$299,000. The value of contributed time not meeting the recognition criteria was \$38,000. Volunteer time contributed across all categories totaled 8 full-time employee equivalents.

In 2020, the Museum received a major donation of photographs and negatives produced by its former director. These materials have been taken into the Museum's archives. The appraised value of these items was \$3,006,000, which is not reflected in the financial statements.

NOTE 16 – GOVERNMENT AWARDS

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

<i>(in thousands)</i>	2020			2019
	State	Federal	Total	
Direct cost support				
General operating support	\$ 2	\$ 60	\$ 62	\$ 57
Exhibits		166	166	934
Programs	420	2,231	2,651	1,741
Capital projects	180	166	346	588
Other	-	37	37	33
	602	2,660	3,262	3,353
Indirect cost recovery	3	559	562	670
Net change in estimate for unbilled subawards	-	(161)	(161)	(287)
Total	<u>\$ 605</u>	<u>\$ 3,058</u>	<u>\$ 3,663</u>	<u>\$ 3,736</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

Museum of Science

Notes to Financial Statements – June 30, 2020 and 2019

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 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. These advances totaled \$17,000 as of June 30, 2020. As of June 30, 2019 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, 2020.

NOTE 17 – 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 \$63,000 and \$194,000 for the years ended June 30, 2020 and 2019, 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 \$48,000 and \$49,000 for the years ended June 30, 2020 and 2019, respectively, from these transactions.

NOTE 18 – CONTINGENCIES

Continued uncertainties associated with the COVID-19 pandemic have increased the Museum's reliance on estimates and projections, and the future effect of the pandemic on the financial position of the Museum is likewise uncertain.

The Museum is also generally subject to various 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.