

Museum of Science
Financial Statements
June 30, 2010

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Report of Independent Auditors

To the Trustees of the Museum of Science:

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of the Museum of Science (the "Museum") at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information on the statement of activities has been derived from the Museum's 2009 financial statements, and in our report dated October 28, 2009, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 21, 2010

Museum of Science
Statements of Financial Position
June 30, 2010 and 2009

<i>(in thousands)</i>	2010	2009
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 12,439	\$ 3,250
Accounts receivable	733	1,082
Grants receivable	2,552	1,666
Pledges receivable, net (Note 3)	4,640	6,832
Prepaid expenses and other current assets	1,470	1,127
Total current assets	<u>21,834</u>	<u>13,957</u>
Noncurrent assets		
Pledges receivable, net (Note 3)	11,891	14,577
Investments, at fair value (Notes 2, 4, and 5)	86,138	83,791
Assets whose use is limited (Note 11)	137	109
Assets of split interest agreements (Notes 4 and 7)	9,614	8,783
Other assets, net of amortization (Note 2)	654	956
Property, plant and equipment, net (Notes 2 and 8)	55,877	50,733
Total assets	<u>\$ 186,145</u>	<u>\$ 172,906</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,936	\$ 4,903
Deferred revenue (Note 9)	5,177	3,989
Current portion of liability under management agreement (Note 10)	205	205
Total current liabilities	<u>11,318</u>	<u>9,097</u>
Noncurrent liabilities		
Annuity payable and deferred compensation (Note 11)	405	390
Liability under split interest agreements (Note 7)	1,262	1,278
Liability under management agreement (Note 10)	2,821	3,026
Other long-term liabilities (Note 12)	1,006	956
Capital leases (Note 13)	2,840	478
Total liabilities	<u>19,652</u>	<u>15,225</u>
Net assets (deficit) (Notes 2, 14, and 17)		
Unrestricted		
Unrestricted operating	191	173
Board designated operating	435	(1,305)
Board designated quasi-endowment	7,688	7,211
Net investment in plant	47,783	45,612
Total unrestricted	<u>56,097</u>	<u>51,691</u>
Temporarily restricted		
Gifts, grants, and endowment income	26,136	26,839
Unappropriated endowment gains	47,639	43,556
Total temporarily restricted	<u>73,775</u>	<u>70,395</u>
Permanently restricted		
Endowment principal and other	36,621	35,595
Total permanently restricted	<u>36,621</u>	<u>35,595</u>
Total net assets	<u>166,493</u>	<u>157,681</u>
Total liabilities and net assets (deficit)	<u>\$ 186,145</u>	<u>\$ 172,906</u>

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

**Museum of Science
Statement of Activities
Year Ended June 30, 2010 (with summarized information for the year ended
June 30, 2009)**

(in thousands)	Unrestricted				Total	Temporarily restricted	Permanently restricted	Combined totals	
	Operating	Designated Funds	Quasi- Endowment	Plant Fund				2010	2009
Income (Note 1)									
Support									
Contributions, grants, and pledges (Note 3)	\$ 2,580	\$ 763	\$ 1		\$ 3,344	\$ 7,211	\$ 1,179	\$ 11,734	\$ 9,321
Contributed services and gifts in kind (Note 15)	2,561	-	-	\$ 1,294	3,855	-	-	3,855	3,024
Government grants (Note 16)	5,346	657	-	1,151	7,154	-	-	7,154	6,744
Total support	10,487	1,420	1	2,445	14,353	7,211	1,179	22,743	19,089
Revenue (loss)									
Admissions	11,160	-	-	-	11,160	-	-	11,160	11,747
Memberships	6,773	-	-	11	6,784	-	-	6,784	5,642
Program fees	1,782	1,805	-	-	3,587	-	-	3,587	2,591
Ancillary services	6,266	-	-	-	6,266	4	-	6,270	6,245
Endowment income per spending policy (Note 5)	1,228	539	-	-	1,767	2,527	-	4,294	4,549
Other income	1,077	114	-	328	1,519	105	-	1,624	2,301
Change in value of split-interest agreements (Note 7)	-	-	-	-	-	635	133	768	(59)
Net assets released from restrictions (Note 17)	5,658	1,005	42	4,465	11,170	(11,180)	10	-	-
Transfers to operating fund	6,269	(6,269)	-	-	-	-	-	-	-
Total revenue (loss)	40,213	(2,806)	42	4,804	42,253	(7,909)	143	34,487	33,016
Total income (loss)	50,700	(1,386)	43	7,249	56,606	(698)	1,322	57,230	52,105
Expenses (Note 2)									
Program services									
Exhibits	6,579	-	-	-	6,579	-	-	6,579	7,188
Visitor and outreach programs	9,506	-	-	-	9,506	-	-	9,506	9,595
Formal education programs	3,417	-	-	-	3,417	-	-	3,417	3,366
Visitor and member services	4,340	-	-	-	4,340	-	-	4,340	3,831
Other program activities	8,409	-	-	-	8,409	-	-	8,409	7,866
Total program services	32,251	-	-	-	32,251	-	-	32,251	31,846
Supporting services									
Administration and general	5,127	-	-	-	5,127	-	-	5,127	5,078
Facility operations	5,022	-	-	-	5,022	-	-	5,022	5,223
Fundraising	4,070	-	-	-	4,070	-	-	4,070	3,722
Interest expense	61	-	-	-	61	-	-	61	42
Depreciation, amortization, and losses on disposal	91	-	-	6,315	6,406	-	-	6,406	5,346
Transfers from operating fund	4,056	(3,472)	-	(584)	-	-	-	-	-
Funding of underwater endowment funds (Note 5)	-	(351)	-	-	(351)	351	-	-	-
Other transfers	-	696	(30)	(653)	13	(328)	315	-	-
Total supporting services	18,427	(3,127)	(30)	5,078	20,348	23	315	20,686	19,411
Total expenses	50,678	(3,127)	(30)	5,078	52,599	23	315	52,937	51,257
Change in net assets before investment gains	22	1,741	73	2,171	4,007	(721)	1,007	4,293	848
Net investment gains and (losses) (Notes 4 & 5)									
Net realized gains (losses) net of funds appropriated for endowment spending policy	(4)	-	(278)	-	(282)	(2,585)	2	(2,865)	(6,897)
Net unrealized gains (losses)	-	(1)	682	-	681	6,686	17	7,384	(13,123)
Change in net assets from investment gains (losses)	(4)	(1)	404	-	399	4,101	19	4,519	(20,020)
Change in net assets	18	1,740	477	2,171	4,406	3,380	1,026	8,812	(19,172)
Net assets, beginning of year	173	(1,305)	7,211	45,612	51,691	70,395	35,595	157,681	176,853
Net assets (deficit), end of year	\$ 191	\$ 435	\$ 7,688	\$ 47,783	\$ 56,097	\$ 73,775	\$ 36,621	\$ 166,493	\$ 157,681

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

Museum of Science
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

<i>(in thousands)</i>	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 8,812	\$ (19,172)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation, capital amortization, and loss on disposal	6,315	5,293
Net realized and unrealized investment (gains) and losses before appropriation for endowment spending policy	(8,084)	16,256
Dividends and interest retained for investing activities	(482)	-
Noncash contributions	(1,398)	(219)
Contributions and grants restricted for financing activities	(8,101)	(2,273)
Change in value of split interest agreements	(768)	59
Changes in assets and liabilities:		
Accounts receivable	349	(46)
Grants receivable	(886)	(328)
Pledges receivable	4,878	126
Prepaid expenses and other assets	(16)	(334)
Accounts payable, accrued liabilities, and other liabilities	939	(1,323)
Deferred revenue	1,188	296
Net cash provided by (used in) operating activities	<u>2,746</u>	<u>(1,665)</u>
Cash flows from investing activities		
Purchases of pooled investments	(44,944)	(67,443)
Sales of pooled investments	51,168	67,322
Purchases of other investment assets	(34)	(200)
Sales of other investment assets	77	19
Purchases of building additions and equipment	(8,832)	(855)
Payments for standing exhibits	(1,376)	(1,364)
Net cash used in investing activities	<u>(3,941)</u>	<u>(2,521)</u>
Cash flows from financing activities		
Proceeds from contributions and grants restricted for:		
Investment in permanent endowment	2,224	1,070
Investment in exhibits and other	5,877	1,203
Additions to (payments on) capital leases	2,362	(532)
Net increase of split interest agreements	(79)	(102)
Net cash provided by financing activities	<u>10,384</u>	<u>1,639</u>
Net change in cash and cash equivalents	9,189	(2,547)
Cash and cash equivalents at beginning of year	3,250	5,797
Cash and cash equivalents at end of year	<u>\$ 12,439</u>	<u>\$ 3,250</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 61	\$ 42

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

Museum of Science

Notes to Financial Statements

June 30, 2010

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 Association of Museums and by the Association of Zoos and Aquariums.

The Museum serves approximately 1.5 million on-site visitors annually through informal science- and technology-related programs and exhibits, and national and international audiences through curriculum programs and networks of other formal and informal educational institutions.

2. Accounting Policies

The significant accounting policies followed by the Museum are as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

The financial statements include certain prior-period summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose having been accomplished and/or the stipulated time period having elapsed, are reported as net assets released from restrictions between the applicable classes of net assets. See Note 14 for further information on the composition of the net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts, unconditional promises to give (pledges), trusts and remainder interests, income, and gains which can be expended but for which restrictions have not yet been met. Such restrictions include restrictions where donors have specified the purpose for which the net assets are to be spent, or time limitations imposed by donors or implied by the nature of the gift (capital projects, unconditional promises to give to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period).

Permanently Restricted Net Assets

Permanently restricted net assets include the historical dollar amount of gifts (including unconditional promises to give), trusts and remainder interests and investment earnings required by donors to be permanently retained. Unconditional promises to give, trusts and remainder interests are reported at their estimated present realizable values.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market funds, and treasury bills with a maturity of ninety days or less when acquired. As of June 30, 2010 and 2009, 96% and 88%, respectively, of cash and cash equivalents were held at one institution, which exceeds federally insured limits.

Investments

All investments which are publicly traded are stated at fair value based on market quotation. Other securities for which no such quotations or valuations are readily available are carried at estimated fair value.

Investment gains and losses consist of realized gains and losses on sale of investments and unrealized gains and losses recognized on pooled investments, short and long-term investments, assets held in trust, and assets held by others. Purchases and sales are recorded on the trade date. Realized gains and losses on portfolio transactions are accounted for on the individual security basis. Investment income is recorded on the accrual basis.

Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures", defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The three levels of inputs are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

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 of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

ASC 825, "Financial Instruments", gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The Museum did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

Museum Collections

In accordance with current practice generally followed by museums, collections are not recorded in the accompanying financial statements.

Property, Plant and Equipment

Land, buildings, building equipment, and capital exhibits are stated at cost. Betterments which materially add to the value of the related assets and materially extend the useful life of the assets are capitalized. Normal replacements and minor equipment purchases are included as operating expenses.

Depreciation is recorded on the straight-line basis over the following estimated useful lives:

Building and improvements	10 - 40 years
Exhibits	5 - 40 years
Equipment	3 - 20 years

Land improvements are amortized over the shorter of their useful life or the term of the related lease.

Issuance Costs

Issuance costs associated with capital lease agreements with the Massachusetts Health and Educational Facilities Authority (see Note 13) are included in other assets and are amortized through use of the straight-line method over the term capital lease obligation. The straight line method approximates the interest rate method. New issuance costs of \$33,000 were incurred during the year ended June 30, 2010. Amortization expense of \$3,000 was recognized during each of the years ended June 30, 2010 and 2009, resulting in unamortized balances of \$36,000 and \$6,000 as of June 30, 2010 and 2009, respectively.

Asset Retirement Obligations

The Museum recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with ASC 410, "Asset Retirement and Environmental Obligations", and ASC 450 "Contingencies". 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. 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.

Transfers

Transfers to the operating fund represent allocations from board designated funds to fund operating activities. Transfers from the operating fund include the use of operating funds to fund capital projects and allocations of operating surpluses to the board designated fund, on a discretionary basis, for future capital projects and programs. Other transfers include allocations from board designated funds to fund capital projects, redesignation of reserves to quasi-endowment, the imposition of donor restriction on net assets whose designation had been pending, and other redesignations.

Income Taxes

The Museum is exempt from income taxation 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 purpose.

ASC 740, "Income Taxes", requires that the Museum determine whether each tax position taken is more likely than not to be sustained upon examination by the relevant taxing authority, including resolution of any related appeals or litigation. For any tax position meeting the more-likely-than-not threshold, the Museum is to recognize in its financial statements the largest tax benefit that has a greater than fifty percent likelihood of being realized upon final settlement. The Museum adopted the pertinent provisions of ASC 740 on July 1, 2009 and has determined that there was no effect on the financial statements resulting from the adoption of this standard.

The Museum is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Museum believes it is no longer subject to income tax examinations for years prior to 2007.

Risks and Uncertainties

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

During 2010, the Museum reclassified the presentation of certain elements in the Statement of Activities in the financial statements. Reclassifications have been made to the 2009 summarized comparative information in order to conform to the 2010 presentation.

3. Pledges Receivable

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The standard discount rate used for the present value calculation is the AA Corporate Bond Index as of the date of the pledge agreement. In the case of unusually large pledges, the Museum may assign a rate equal to the risk-free rate plus 1.0%. Discount rates of between 1.11% and 7.21% were used in these calculations at June 30, 2010 and 2009.

Pledges are expected to be realized in the following time frame:

<i>(in thousands)</i>	2010	2009
In one year or less	\$ 4,918	\$ 6,964
Between one and five years	9,139	10,796
Greater than five years	4,500	6,000
Less allowance for unfulfilled pledges	(491)	(346)
Less discount to present value	<u>(1,535)</u>	<u>(2,005)</u>
Net present value of pledges receivable, net of allowances	<u>\$ 16,531</u>	<u>\$ 21,409</u>

4. Investments

The Museum's investments include its endowment funds (Note 5) as well as its interest in split-interest agreements (Note 7).

Investments of the endowment are included in a pooled investment fund. Also included in these investments is a portion of capital appreciation which had been appropriated for the Museum's endowment spending policy but had not been withdrawn as of the end of the reporting period. Such investments are not considered in calculating future monthly spending policy allocations.

Investments at June 30, 2010 and 2009 classified by the ASC 820 valuation hierarchy defined in Note 2 consist of the following:

<i>(in thousands)</i>	2010			2009	
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total fair value
Pooled investments					
Cash and cash equivalents	\$ 7,141			\$ 7,141	\$ 9,161
Domestic equities	3,803			3,803	6,312
Fixed income	761			761	406
Mutual funds	5,545			5,545	8,050
Commingled trust funds	-	\$ 18,573	\$ 3,904	22,477	26,394
Alternative investments	-	10,258	33,480	43,738	31,118
Private equities	-	-	2,673	2,673	2,350
Total pooled investments	17,250	28,831	40,057	86,138	83,791
Assets of split interest agreements	2,320	-	7,294	9,614	8,783
Total investments at fair value	\$ 19,570	\$ 28,831	\$ 47,351	\$ 95,752	\$ 92,574

The Museum's valuation methodologies for assets measured at fair value are as follows:

Fair value for Level 1 is based upon quoted prices in active markets that the Museum has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Museum does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Investments included in Levels 2 and 3 primarily consist of the Museum's ownership in commingled trust funds and alternative investments (principally limited partnership interests in hedge funds). The value of certain commingled trusts and alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. Investments which report NAV per share may be classified as either Level 2 or Level 3 based on limitations on redemption of the investment. The fair values of the securities held by limited partnerships that do

not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Museum has performed significant due diligence with respect to these investments to ensure NAV is an appropriate measure of fair value as of June 30.

As of June 30, 2010, investments reporting NAV per share and the redemption terms on those investments were as follows:

	Fair value (in thousands)	Redemption frequency	Redemption notice period
Hedge fund of funds			
Emerging market equity	\$ 2,220	Monthly	30 days
Equity long/short	11,916	Quarterly to annually ^a	60-100 days
Real estate	3,020	Annually ^b	60 days
Multi-strategy	8,886	Quarterly	45-95 days
Commingled trust funds			
Global fixed income	5,533	Monthly	30 days
Global equity	3,851	Monthly	10 days
Corporate fixed income	2,191	Daily	7 days
Emerging company equity	1,740	Monthly	10 days
Natural resources	5,258	Monthly	10 days
Other alternative investments			
Emerging market debt	3,036	Monthly	60 days
Emerging market equity	<u>2,465</u>	Monthly	30 days
	<u>\$ 50,116</u>		

^a - For one of the two equity long/short managers, quarterly redemption is permitted with 60 days notice after 36 month lock-up completed on 12/31/10.

^b - Annual 12/31 redemption permitted with 60 days notice after 12 month lock-up completed on 3/31/11.

Included in Level 3 are interests in certain 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. The principal unobservable inputs are actuarial assumptions relating to the income beneficiaries.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

On September 30, 2009 the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2009-12 "Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)", providing clarification on the classification of certain investments as

Level 2 or Level 3. In adopting the provisions of ASU 2009-12, the Museum has reclassified a number of investments previously identified as Level 3 to Level 2. These reclassifications are reflected in the table below.

The following table is a rollforward of the statement of financial position amounts for pooled investments classified by the Museum within Level 3 of the fair value hierarchy defined above:

	Commingled trust funds	Alternative investments	Private equities	Split interest agreements	Total Level 3 investments
Fair Value, July 1, 2009	\$ 26,394	\$ 31,118	\$ 2,350	\$ 6,692	\$ 66,554
Reclassifications to Level 2	(21,631)	(7,583)	-	-	(29,214)
Realized gains/(losses)	(483)	268	-	-	(215)
Unrealized gains/(losses)	624	1,859	323	-	2,806
Net purchases, sales, issuances, and settlements	(1,000)	7,818	-	-	6,818
Change in value of split interests	-	-	-	602	602
Fair Value, June 30, 2010	<u>\$ 3,904</u>	<u>\$ 33,480</u>	<u>\$ 2,673</u>	<u>\$ 7,294</u>	<u>\$ 47,351</u>

All net realized and unrealized gains/(losses) in the table above are reflected in the accompanying statement of activities.

As of June 30, 2010, the Museum had purchase commitments totaling \$1,913,000 with two investment managers.

5. Endowment

The Museum's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments ("quasi-endowments"). The endowment consists of 104 individual donor-restricted endowment funds and 26 quasi-endowment funds established for a variety of purposes, plus pledges receivable where the associated assets have been designated for endowment. 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 Museum's endowment funds are held as part of its pooled investments. As of June 30, 2010 and 2009, the fair value of the endowment portion of the pool was \$84,085,000 and \$77,586,000, respectively.

In July 2009, the Commonwealth of Massachusetts passed the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") with an effective date of June 30, 2009. The Board of Trustees of the Museum has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund

- 2) The purposes of the Museum and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Museum
- 7) The investment policies of the Museum.

ASC 958-205, "Not-for-Profit Entities - Presentation of Financial Statements", provides guidance on the net asset classification of donor-restricted endowment funds under UPMIFA.

Endowment funds segregated by net asset class in accordance with UPMIFA and ASC 958-205 at June 30, 2010 and 2009 are as follows:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2010 Total	2009 Total
Donor-restricted funds	\$ (311)	\$ 49,603	\$ 34,974	\$ 84,266	\$ 78,988
Board-designated funds	7,688	-	-	7,688	7,211
Total endowment funds	<u>\$ 7,377</u>	<u>\$ 49,603</u>	<u>\$ 34,974</u>	<u>\$ 91,954</u>	<u>\$ 86,199</u>

The following schedule summarizes the change in endowment net assets for the years ended June 30, 2010 and 2009:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2010 Total	2009 Total
Endowment net assets, beginning of year	\$ 6,549	\$ 45,520	\$ 34,130	\$ 86,199	\$ 105,107
Investment return:					
Investment income, net of fees	288	440	-	728	786
Net appreciation (realized and unrealized)	746	7,325	20	8,091	(16,252)
Total investment return	1,034	7,765	20	8,819	(15,466)
Contributions and other additions to corpus	73	-	1,157	1,230	1,107
Endowment income per spending policy	(630)	(3,664)	-	(4,294)	(4,549)
Other changes:					
Reclass of accumulated gains	-	333	(333)	-	-
Funding of underwater funds	351	(351)	-	-	-
Endowment net assets, end of year	<u>\$ 7,377</u>	<u>\$ 49,603</u>	<u>\$ 34,974</u>	<u>\$ 91,954</u>	<u>\$ 86,199</u>

Endowment Funds with Deficits (i.e. Underwater funds)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When such endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$311,000 and \$662,000 as of June 30, 2010 and 2009, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or other endowment additions.

In order to preserve the original gift in accordance with the Board's interpretation of UPMIFA, the Museum does not appropriate for expenditure that portion of a fund which represents the value of the initial and subsequent gift amounts. For donor-restricted endowment funds, the Museum's 5% Spending Allocation Policy (see below) is suspended during any month when such appropriation would leave the fund in deficit, and only current period interest and dividend income is allocated for spending.

Return Objectives and Risk Parameters

The Museum has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target asset allocation applied to the appropriate individual benchmarks.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places greater emphasis on investments whose underlying holdings are equity-based to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation Policy and Relationship to Investment Objectives

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

6. Beneficial Interest in Perpetual Trust

The Museum receives income from certain funds held by the Boston Foundation, Inc. under two agreements where contributions to the Museum of \$800,000 have been matched for a total endowment of \$1,408,000 and \$1,484,000 at fair value at June 30, 2010 and 2009, respectively. In accordance with ASC 958-605, "Transfers of Assets to a NPO or Charitable Trust that Raises or Holds Contributions for Others", the total endowment is not recorded by the Museum. Investment income of approximately \$88,000 and \$97,000 was earned during the years ended June 30, 2010 and 2009, respectively, and has been included in other income.

7. Split Interest Agreements

Assets recorded under split-interest agreements are recorded at fair value and in the appropriate net asset category based on donor stipulation. Contributions related to the agreement are recognized as contribution revenue equal to the present value of future benefits less the liability for income payable to the donor or the donor's designee. Liabilities have been established for those split interest agreements for which the Museum is a trustee. 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, reevaluations of the expected future benefits to be received by the Museum and reevaluations of the expected future payment to other beneficiaries, based on changes in life expectancy and other actuarial assumptions.

Discount rates ranging from 1.00% to 7.36% and 4.00% to 7.36% were used in these calculations at June 30, 2010 and 2009, respectively.

8. Property, Plant and Equipment

Property, plant and equipment at June 30, 2010 and 2009 consist of the following:

<i>(in thousands)</i>	2010	2009
Building and improvements	\$ 65,092	\$ 65,098
Equipment	13,598	11,396
Exhibits	25,172	28,865
Construction in progress:		
Building additions and renovations	10,697	4,315
Exhibits	<u>2,110</u>	<u>1,402</u>
Total property, plant and equipment	116,669	111,076
Less accumulated depreciation	<u>(60,792)</u>	<u>(60,343)</u>
	<u>\$ 55,877</u>	<u>\$ 50,733</u>

Depreciation expense amounted to \$4,228,000 and \$4,746,000 for the years ended June 30, 2010 and 2009, respectively.

The Museum capitalizes all costs of constructing standing exhibits. Costs of constructing other (temporary) exhibits and maintenance of all exhibits are charged to operations. The Museum's total expenditures for constructing and refurbishing exhibits for the years ended June 30, 2010 and 2009 were as follows:

<i>(in thousands)</i>	2010	2009
Exhibit construction and refurbishment costs charged to operations	\$ 1,808	\$ 2,085
Standing exhibits added to plant funds	<u>1,376</u>	<u>1,541</u>
	<u>\$ 3,184</u>	<u>\$ 3,626</u>

During the years ended June 30, 2010 and 2009, the Museum expensed \$685,000 and \$449,000, respectively, for building and equipment maintenance and repair, and for materials associated with such maintenance.

The Museum has a 99-year lease with the Metropolitan District Commission 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.

All long-lived assets associated with the costs of asset retirement obligations (see Note 12) have been fully depreciated in prior years. Accordingly, there is no value recorded for capitalized asset retirement costs as of June 30, 2010 and 2009.

9. Deferred Revenue

Deferred revenue of \$5,177,000 and \$3,989,000 as of June 30, 2010 and 2009, respectively, consists of advance receipts for memberships, courses, admissions, sponsorships, and other functions.

10. Liability under Management Agreement

In March 2005 the Museum entered into a 10-year food services agreement with an outside vendor. The agreement includes a provision for two additional 5 year terms by mutual consent between the Museum and the vendor. In connection with this agreement, the vendor has made capital investments totaling \$4,056,000. The Museum is permitted to terminate the agreement with notice by paying the vendor the outstanding balance of their capital investment which is being amortized on a straight line basis over the term of the agreement and renewal terms. At June 30, 2010 and 2009, the unamortized balance under this agreement was \$3,026,000 and \$3,231,000, respectively.

11. Annuity and Deferred Compensation Agreements

The Museum has entered into an annuity agreement with a related party individual. In connection with this agreement, liabilities have been recorded at their net present value of \$450,000 and \$435,000 of which the current portion of \$45,000 is included in accounts payable and accrued expenses at each of June 30, 2010 and 2009.

In addition, the Museum has deferred compensation agreements with three employees. Assets associated with these agreements are included in assets whose use is limited.

12. Other Long Term Liabilities

In accordance with ASC 410, the Museum has incurred an asset retirement obligation ("ARO") related to the estimated cost to remove and dispose of asbestos-containing materials and PCB-contaminated electrical transformers. During the years ended June 30, 2010 and 2009, the Museum incurred accretion expense of \$61,000 and \$57,000, respectively, that increased the ARO liability to \$1,006,000 and \$946,000 as of June 30, 2010 and 2009, respectively. (See Note 2.)

13. Leases

In July 2003, the Museum entered into a master lease and sublease agreement in the amount of \$3,117,763 in tax-exempt financing between a financial institution, the Massachusetts Health and Educational Facilities Authority, and the Museum, with a fixed interest rate of 3.7%. There is a penalty equal to two percent of the proceeds received if the Lease is paid off prior to the final due date. Proceeds from this lease were used to finance the acquisition and installation of energy conservation equipment and to pay for the costs of issuance. The lease is collateralized by the equipment. At June 30, 2010 and 2009, the total outstanding liability associated with this lease was \$414,000 and \$895,000, respectively.

In October 2005, the Museum entered into a sublease agreement for office space. Required payments included an annual base rent of \$214,000, plus any increase in the sublessor's annual operating and utility expenses associated with the subleased space. On August 11, 2008, the Museum exercised its early termination right under this sublease, effective as of May 30, 2009, by written notification and payment of a required \$80,000 early termination fee to the sublessor. Total rent paid during the year ended June 30, 2009 was \$168,000. There were no payments during the year ended June 30, 2010.

On October 21, 2009, the Museum entered into a master lease and sublease agreement in the amount of \$3,357,000 in tax-exempt financing between a financial institution, the Massachusetts Health and Educational Facilities Authority, and the Museum, with a fixed rate of 4.81%. The Museum is permitted to make a single prepayment annually of a minimum amount of \$250,000 with an additional 2% penalty. Proceeds from this agreement were used to finance the acquisition and installation of energy conservation equipment and to replace outdated facility equipment. The

lease is collateralized by the equipment. At June 30, 2010, the total outstanding liability associated with this lease and sublease agreement was \$3,001,000.

The Museum also leases certain pieces of capital equipment. These leases expire in periods ranging from one to two years.

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2010 are as follows:

(in thousands)

2011	\$	791
2012		347
2013		338
2014		338
2015		338
After 2015		<u>2,277</u>
Total minimum lease payments		4,429
Interest		<u>(950)</u>
Present value of net minimum lease payments		3,479
Current portion of capital lease obligations included in accounts payable and accrued liabilities		<u>(639)</u>
Long term obligations under capital leases	\$	<u>2,840</u>

14. Net Asset Reconciliation

The following table presents the three categories of net assets by purpose as of June 30, 2010 and 2009:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2010 Total	2009 Total
Operating and other non-endowment funds					
Exhibits	\$ (469)	\$ 1,275		\$ 806	\$ 604
Visitor and outreach programs	1,145	4,486		5,631	5,523
Formal education programs	417	1,844		2,261	1,788
Visitor and member services	-	20		20	11
Other program activities	-	330		330	293
General and other	2,326	2,755		5,081	6,042
Capital exhibits, property, plant, and equipment	45,301	6,757		52,058	49,717
Split interest agreements	-	6,705	\$ 1,647	8,352	7,504
Total operating and other non-endowment funds	48,720	24,172	1,647	74,539	71,482
Endowment and quasi-endowment					
Exhibits	1,941	24,984	11,440	38,365	36,350
Visitor and outreach programs	4,723	9,632	17,032	31,387	29,531
Formal education programs	390	679	255	1,324	1,239
Visitor and member services	-	38	8	46	43
Other program activities	403	723	1,532	2,658	2,207
General and other	(80)	13,547	4,707	18,174	16,829
Total endowment and quasi-endowment	7,377	49,603	34,974	91,954	86,199
Total net assets	<u>\$ 56,097</u>	<u>\$ 73,775</u>	<u>\$ 36,621</u>	<u>\$ 166,493</u>	<u>\$ 157,681</u>

15. Contributed Services and Gifts-in-Kind

The Museum receives and recognizes contributed services and gifts-in-kind from a variety of sources at fair value. Contributed services also includes the fair value of time contributed by unpaid volunteers working within the Museum.

Contributed services and gifts in kind for the years ended June 30, 2010 and 2009 were as follows:

<i>(in thousands)</i>	2010	2009
Pro bono outside services:		
Legal	\$ 125	\$ 137
Marketing	1,437	1,365
Miscellaneous	57	633
In-house volunteers	768	671
Gifts in kind:		
Capital software	1,247	-
Miscellaneous	221	218
Total	<u>\$ 3,855</u>	<u>\$ 3,024</u>

16. Government grants

The Museum receives federal, state, and local government awards to support both its general operations and specific projects and programs. For the years ended June 30, 2010 and 2009, government support by purpose was as follows:

<i>(in thousands)</i>	2010	2009
Direct cost support		
General operating support	\$ 45	\$ 55
Exhibits	3,713	3,832
Programs	1,588	1,816
Capital projects	1,126	354
	<u>6,472</u>	<u>6,057</u>
Indirect cost recovery	<u>682</u>	<u>687</u>
Total	<u>\$ 7,154</u>	<u>\$ 6,744</u>

17. Net Assets Released from Restrictions

For the years ended June 30, 2010 and 2009, net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restricted net assets were released for the following uses:

<i>(in thousands)</i>	2010	2009
Operating funds		
Exhibits	\$ 993	\$ 1,299
Visitor and outreach programs	2,862	2,988
Formal education programs	896	877
Visitor and member services	100	109
Other program activities	477	280
Administration and general	30	(234)
Facility operations	17	29
Fundraising	283	359
Total operating funds	<u>5,658</u>	<u>5,707</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	1,005	720
Quasi-endowment principal	42	-
Total board designated funds and quasi-endowment	<u>1,047</u>	<u>720</u>
Plant fund		
Capital exhibits	1,123	1,011
Other property, plant, and equipment	3,342	381
Total plant fund	<u>4,465</u>	<u>1,392</u>
Total net assets released from restrictions	<u>\$ 11,170</u>	<u>\$ 7,819</u>

18. Defined Contribution Plans

The Museum has two defined contribution plans for the benefit of its employees: a 403(b) savings plan and a 401(a) retirement plan. All full-time employees are eligible to participate in the savings plan with a maximum base annual contribution of \$16,500.

The retirement plan consists of the Museum's match of up to 50% of the first 6% of an eligible employee's contributions to the savings plan, with a maximum match of 3% of the employee's compensation. In addition, the Museum contributes a percentage of eligible employees' annual compensation to the retirement plan. Full-time employees and those who are scheduled to work at least 17.5 hours per week who have completed one year of service are automatically enrolled in this portion of the retirement plan. Vesting provisions for both plans vary according to length of service.

For the years ended June 30, 2010 and 2009, the Museum incurred \$979,000 and \$1,038,000, respectively, in contribution costs to the 401(a) retirement plan. The Museum does not make contributions to the 403(b) savings plan.

19. Related Parties

The Museum maintains vendor relationships with several companies, the principals of which are members of the Museum's Board of Trustees. All such relationships are subject to the same

procurement requirements, policies, and controls as the Museum applies to its other vendors. For the years ended June 30, 2010 and 2009 the Museum expended funds totaling \$174,000 and \$45,000, respectively, under these relationships.

20. Line of Credit

The Museum has established a \$2,000,000 revolving demand line of credit with a bank in order to meet operating and capital project cash flow needs. The line of credit bears an interest rate equal to the LIBOR rate plus 2.5%. As of June 30, 2010 and 2009, there had been no borrowings under this agreement.

21. Subsequent Events

The Museum has performed an evaluation of subsequent events through October 21, 2010, which is the date the financial statements were issued. No material subsequent events were noted.