

Museum of Science
Financial Statements
June 30, 2009

Museum of Science
Index
June 30, 2009

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	2
Statement of Activities	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5-19

Report of Independent Auditors

To the Trustees of the Museum of Science

In our opinion, the accompanying statements 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") as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years 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 period summarized comparative information on the Statement of Activities has been derived from the Museum's financial statements as of June 30, 2008 and for the year then ended; and in our report dated October 27, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audits 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 28, 2009

Museum of Science
Statements of Financial Position
June 30, 2009 and 2008

<i>(in thousands)</i>	2009	2008
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 3,250	\$ 5,797
Accounts receivable	1,082	1,036
Grants receivable	1,666	1,338
Pledges receivable, net (Note 3)	6,832	5,590
Prepaid expenses and other current assets	1,127	770
Total current assets	<u>13,957</u>	<u>14,531</u>
Noncurrent assets		
Pledges receivable, net (Note 3)	14,577	15,945
Investments, at fair value (Notes 2, 4, and 5)	83,791	99,920
Assets whose use is limited (Note 11)	109	101
Assets of split interest agreements (Notes 4 and 7)	8,783	8,812
Other assets, net of amortization (Note 2)	956	790
Property, plant and equipment, net (Notes 2 and 8)	50,733	53,574
Total assets	<u>\$ 172,906</u>	<u>\$ 193,673</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities (Note 18)	\$ 4,903	\$ 6,027
Deferred revenue (Notes 2 and 9)	3,989	3,693
Current portion of liability under management agreement (Note 10)	205	205
Total current liabilities	<u>9,097</u>	<u>9,925</u>
Noncurrent liabilities		
Annuity payable and deferred compensation (Note 11)	390	397
Liability under split interest agreements (Note 7)	1,278	1,350
Liability under management agreement (Note 10)	3,026	3,231
Other long-term liabilities (Note 12)	956	907
Capital leases (Note 13)	478	1,010
Total liabilities	<u>15,225</u>	<u>16,820</u>
Net assets (deficit) (Notes 2, 14, and 17)		
Unrestricted		
Unrestricted operating	173	165
Board designated operating	(1,305)	(1,988)
Board designated quasi-endowment	7,211	9,054
Net investment in plant	45,612	47,778
Total unrestricted	<u>51,691</u>	<u>55,009</u>
Temporarily restricted		
Gifts, grants, and endowment income	26,839	26,064
Unappropriated endowment gains	43,556	60,859
Total temporarily restricted	<u>70,395</u>	<u>86,923</u>
Permanently restricted		
Endowment principal and other	35,595	34,921
Total permanently restricted	<u>35,595</u>	<u>34,921</u>
Total net assets	<u>157,681</u>	<u>176,853</u>
Total liabilities and net assets (deficit)	<u>\$ 172,906</u>	<u>\$ 193,673</u>

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

**Museum of Science
Statement of Activities
Year Ended June 30, 2009 (with summarized information for the year ended
June 30, 2008)**

(in thousands)	Unrestricted				Total	Temporarily restricted	Permanently restricted	Combined totals	
	Operating	Designated Funds	Quasi- Endowment	Plant Fund				2009	2008
Income (Note 1)									
Support									
Contributions, grants, and pledges (Note 3)	\$ 2,263	\$ 920	\$ 2		\$ 3,185	\$ 5,043	\$ 1,093	\$ 9,321	\$ 12,086
Contributed services and gifts in kind (Note 15)	2,280	-	-	\$ 194	2,474	550	-	3,024	2,466
Government grants (Note 16)	5,704	650	-	390	6,744	-	-	6,744	7,169
Total support	<u>10,247</u>	<u>1,570</u>	<u>2</u>	<u>584</u>	<u>12,403</u>	<u>5,593</u>	<u>1,093</u>	<u>19,089</u>	<u>21,721</u>
Revenue (loss)									
Admissions	11,747	-	-	-	11,747	-	-	11,747	11,061
Memberships	5,642	-	-	-	5,642	-	-	5,642	5,299
Program fees	1,634	957	-	-	2,591	-	-	2,591	2,583
Ancillary services	6,242	-	-	-	6,242	3	-	6,245	5,742
Endowment income per spending policy (Note 5)	1,254	581	-	-	1,835	2,714	-	4,549	4,078
Other investment income	21	18	-	-	39	1	-	40	101
Other income	1,245	683	2	223	2,153	108	-	2,261	1,557
Change in value of split-interest agreements (Note 7)	-	-	-	-	-	228	(287)	(59)	(600)
Net assets released from restrictions (Note 17)	5,707	720	-	1,392	7,819	(7,819)	-	-	-
Transfers to operating fund	6,102	(6,103)	1	-	-	-	-	-	-
Total revenue (loss)	<u>39,594</u>	<u>(3,144)</u>	<u>3</u>	<u>1,615</u>	<u>38,068</u>	<u>(4,765)</u>	<u>(287)</u>	<u>33,016</u>	<u>29,821</u>
Total income (loss)	<u>49,841</u>	<u>(1,574)</u>	<u>5</u>	<u>2,199</u>	<u>50,471</u>	<u>828</u>	<u>806</u>	<u>52,105</u>	<u>51,542</u>
Expenses (Note 2)									
Program services									
Exhibits	7,188	-	-	-	7,188	-	-	7,188	6,953
Visitor and outreach programs	9,595	-	-	-	9,595	-	-	9,595	9,201
Formal education programs	3,366	-	-	-	3,366	-	-	3,366	3,946
Visitor and member services	3,831	-	-	-	3,831	-	-	3,831	3,651
Other program activities	7,866	-	-	-	7,866	-	-	7,866	8,474
Total program services	<u>31,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,846</u>	<u>-</u>	<u>-</u>	<u>31,846</u>	<u>32,225</u>
Supporting services									
Administration and general	5,078	-	-	-	5,078	-	-	5,078	5,615
Facility operations	5,223	-	-	-	5,223	-	-	5,223	5,784
Fundraising	3,722	-	-	-	3,722	-	-	3,722	4,127
Interest expense	42	-	-	-	42	-	-	42	59
Depreciation, amortization, and losses on disposal	53	-	-	5,293	5,346	-	-	5,346	5,188
Provision for reduction of force (Note 18)	-	-	-	-	-	-	-	-	1,160
Transfers from operating fund	3,864	(3,189)	-	(675)	-	-	-	-	-
Funding of underwater endowment funds (Note 5)	-	662	-	-	662	(662)	-	-	-
Other transfers	-	270	(16)	(253)	1	53	(54)	-	-
Total supporting services	<u>17,982</u>	<u>(2,257)</u>	<u>(16)</u>	<u>4,365</u>	<u>20,074</u>	<u>(609)</u>	<u>(54)</u>	<u>19,411</u>	<u>21,933</u>
Total expenses	<u>49,828</u>	<u>(2,257)</u>	<u>(16)</u>	<u>4,365</u>	<u>51,920</u>	<u>(609)</u>	<u>(54)</u>	<u>51,257</u>	<u>54,158</u>
Change in net assets before investment gains	13	683	21	(2,166)	(1,449)	1,437	860	848	(2,616)
Net investment gains and (losses) (Note 4)									
Net realized gains (losses)	(5)	-	(638)	-	(643)	(6,235)	(19)	(6,897)	11,472
Net unrealized gains (losses)	-	-	(1,226)	-	(1,226)	(11,730)	(167)	(13,123)	(18,365)
Change in net assets from investment gains (losses)	<u>(5)</u>	<u>-</u>	<u>(1,864)</u>	<u>-</u>	<u>(1,869)</u>	<u>(17,965)</u>	<u>(186)</u>	<u>(20,020)</u>	<u>(6,893)</u>
Change in net assets	8	683	(1,843)	(2,166)	(3,318)	(16,528)	674	(19,172)	(9,509)
Net assets, beginning of year	165	(1,988)	9,054	47,778	55,009	86,923	34,921	176,853	186,362
Net assets (deficit), end of year	<u>\$ 173</u>	<u>\$ (1,305)</u>	<u>\$ 7,211</u>	<u>\$ 45,612</u>	<u>\$ 51,691</u>	<u>\$ 70,395</u>	<u>\$ 35,595</u>	<u>\$ 157,681</u>	<u>\$ 176,853</u>

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

Museum of Science
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

<i>(in thousands)</i>	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (19,172)	\$ (9,509)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation, capital amortization, and loss on disposal	5,293	5,135
Net realized and unrealized investment losses before appropriation for endowment spending policy	16,256	4,500
Noncash contributions	(219)	(73)
Contributions and grants restricted for financing activities	(2,273)	(4,345)
Change in value of split interest agreements	59	600
Changes in assets and liabilities:		
Accounts receivable	(46)	(290)
Grants receivable	(328)	1,450
Pledges receivable	126	2,571
Prepaid expenses and other assets	(334)	(87)
Accounts payable, accrued liabilities, and other liabilities	(1,323)	13
Deferred revenue	296	165
Net cash (used in) provided by operating activities	<u>(1,665)</u>	<u>130</u>
Cash flows from investing activities		
Purchases of pooled investments	(67,443)	(71,791)
Sales of pooled investments	67,322	76,692
Purchases of other investment assets	(200)	(3)
Sales of other investment assets	19	51
Purchases of building additions and equipment	(855)	(5,034)
Payments for standing exhibits	(1,364)	(1,845)
Net cash used in investing activities	<u>(2,521)</u>	<u>(1,930)</u>
Cash flows from financing activities		
Proceeds from contributions and grants restricted for:		
Investment in permanent endowment	1,070	542
Investment in exhibits and other	1,203	3,803
Payments on capital lease	(532)	(367)
Net increase of split interest agreements	(102)	(1,228)
Net cash provided by financing activities	<u>1,639</u>	<u>2,750</u>
Net change in cash and cash equivalents	(2,547)	950
Cash and cash equivalents at beginning of year	5,797	4,847
Cash and cash equivalents at end of year	<u>\$ 3,250</u>	<u>\$ 5,797</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 42	\$ 59

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

Museum of Science

Notes to Financial Statements

June 30, 2009

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.

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.

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, 2008, 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.

Museum of Science

Notes to Financial Statements

June 30, 2009

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, 2009 and 2008, 88% and 92%, 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.

Effective July 1, 2008, the Museum adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 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 SFAS 157 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.

SFAS 157 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 SFAS 157 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.

The provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159) were effective July 1, 2008. SFAS No. 159 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 of Science

Notes to Financial Statements

June 30, 2009

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	20 - 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 a capital lease agreement 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. Amortization expense of \$3,000 was recognized during each of the years ended June 30, 2009 and 2008.

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 Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," and Financial Accounting Standards Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations." 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.

Museum of Science
Notes to Financial Statements
June 30, 2009

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 2009, the Museum reclassified the presentation of certain elements in the Statement of Activities in the financial statements. Reclassifications have been made to the 2008 summarized comparative information in order to conform to the 2009 presentation.

Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109 ("FIN 48"), which clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for the Museum beginning July 1, 2009. The Museum does not believe the adoption of FIN 48 will have a material impact on its financial statements.

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 present value of their estimated future cash flows has been measured utilizing discount rates of between 1.11% and 7.21% and 2.31% and 5.21% for the years ended June 30, 2009 and 2008, respectively.

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

<i>(in thousands)</i>	2009	2008
In one year or less	\$ 6,964	\$ 5,701
Between one and five years	10,796	12,134
Greater than five years	6,000	7,500
Less allowance for unfulfilled pledges	(346)	(464)
Less discount to present value	<u>(2,005)</u>	<u>(3,336)</u>
Net present value of pledges receivable, net of allowances	<u>\$ 21,409</u>	<u>\$ 21,535</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. The pool is operated on a "fair value" basis whereby each addition to the pool is assigned a number of units based on the market value per unit at the beginning of the month within which the addition takes place. Also included in these investments is a portion of capital appreciation which had been allocated for the Museum's endowment spending policy but had not been withdrawn as of the end of the reporting period. Such investments do not participate in pool unit allocation.

Museum of Science
Notes to Financial Statements
June 30, 2009

Investments at June 30, 2009 and 2008 classified by the SFAS 157 valuation hierarchy defined in Note 1 consist of the following:

<i>(in thousands)</i>	2009			2008	
	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	\$ 9,161	\$ -		\$ 9,161	\$ 2,804
Domestic equities	6,312	-		6,312	4,234
Fixed income	406	-		406	-
Mutual funds	8,050	-		8,050	14,212
Commingled trust funds	-	-	\$ 26,394	26,394	48,413
Alternative investments	-	-	31,118	31,118	27,697
Private equities	-	-	2,350	2,350	2,560
Total pooled investments	23,929	-	59,862	83,791	99,920
Assets of split interest agreements	2,091	-	6,692	8,783	8,812
Total investments at fair value	\$ 26,020	\$ -	\$ 66,554	\$ 92,574	\$ 108,732

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. At June 30, 2009, the Museum did not hold any Level 2 investments.

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 Level 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. 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.

Museum of Science
Notes to Financial Statements
June 30, 2009

Also 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.

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, 2008	\$ 48,413	\$ 27,697	\$ 2,560	\$ 6,378	\$ 85,048
Realized gains/(losses)	(2,387)	(19)	-	-	(2,406)
Unrealized gains/(losses)	(7,992)	(3,241)	(210)	-	(11,443)
Net purchases, sales, issuances, and settlements	(11,640)	6,681	-	-	(4,959)
Change in value of split interests	-	-	-	314	314
Fair Value, June 30, 2009	<u>\$ 26,394</u>	<u>\$ 31,118</u>	<u>\$ 2,350</u>	<u>\$ 6,692</u>	<u>\$ 66,554</u>

All net realized and unrealized gains/(losses) in the table above are reflected in the accompanying statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the Museum at June 30, 2009.

As of June 30, 2009, the Museum had purchase commitments totaling \$1,419,000 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 101 individual donor restricted endowment funds and 26 quasi-endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivables, split interest agreements, and other net assets. 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, 2009 and 2008, the fair value of the endowment portion of the pool was \$77,586,000 and \$97,479,000, respectively.

Museum of Science
Notes to Financial Statements
June 30, 2009

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.

On August 6, 2008, the Financial Accounting Standards Board issued FASB Staff Position 117-1 "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP 117-1), which 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 FSP 117-1 at June 30, 2009 and 2008 are as follows:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2009 Total	2008 Total
Donor-restricted funds	\$ (662)	\$ 45,520	\$ 34,130	\$ 78,988	\$ 96,053
Board-designated funds	7,211	-	-	7,211	9,054
Total endowment funds	<u>\$ 6,549</u>	<u>\$ 45,520</u>	<u>\$ 34,130</u>	<u>\$ 86,199</u>	<u>\$ 105,107</u>

Museum of Science
Notes to Financial Statements
June 30, 2009

The following schedule summarizes the change in endowment net assets for the years ended June 30, 2009 and 2008:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2009 Total	2008 Total
Endowment net assets, beginning of year	\$ 9,054	\$ 62,823	\$ 33,230	\$ 105,107	\$ 112,191
Investment return:					
Investment income, net of fees	317	469	-	786	1,686
Net appreciation (realized and unrealized)	<u>(1,515)</u>	<u>(14,551)</u>	<u>(186)</u>	<u>(16,252)</u>	<u>(4,525)</u>
Total investment return	(1,198)	(14,082)	(186)	(15,466)	(2,839)
Contributions and other additions to corpus	21	-	1,086	1,107	857
Endowment income per spending policy	(666)	(3,883)	-	(4,549)	(4,078)
Other changes:					
Removal of board-designated funds to fund reduction of force	-	-	-	-	(1,024)
Funding of underwater endowment funds	(662)	662	-	-	-
Endowment net assets, end of year	<u>\$ 6,549</u>	<u>\$ 45,520</u>	<u>\$ 34,130</u>	<u>\$ 86,199</u>	<u>\$ 105,107</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 \$662,000 as of June 30, 2009. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or subsequent endowment additions. There were no such deficiencies as of June, 30, 2008.

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 with deficits, the Museum's 5% Spending Allocation Policy (see below) is suspended for the subsequent fiscal year 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.

Museum of Science

Notes to Financial Statements

June 30, 2009

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 equal 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 on a pool unit basis among the individual endowment funds existing as of the preceding month end. Donor-restricted funds with deficits at December 31 are excepted from this policy beginning July 1 of the subsequent fiscal year 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.

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 \$1,484,000 and \$1,821,000 at fair value at June 30, 2009 and 2008, respectively. In accordance with SFAS No. 136, the total endowment is not recorded by the Museum. Investment income of approximately \$97,000 and \$78,000 was earned during the years ended June 30, 2009 and 2008, 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 4.00% to 7.36% and 3.34% to 8.00% were used in these calculations at June 30, 2009 and 2008, respectively.

Museum of Science
Notes to Financial Statements
June 30, 2009

8. Property, Plant and Equipment

Property, plant and equipment at June 30, 2009 and 2008 consist of the following:

<i>(in thousands)</i>	2009	2008
Building and improvements	\$ 65,098	\$ 65,102
Equipment	11,396	11,067
Exhibits	28,865	28,774
Construction in progress:		
Building additions and renovations	4,315	3,970
Exhibits	<u>1,402</u>	<u>1,028</u>
Total property, plant and equipment	111,076	109,941
Less accumulated depreciation	<u>(60,343)</u>	<u>(56,367)</u>
	<u>\$ 50,733</u>	<u>\$ 53,574</u>

Depreciation expense amounted to \$4,746,000 and \$4,502,000 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008 were as follows:

<i>(in thousands)</i>	2009	2008
Exhibit construction and refurbishment costs charged to operations	\$ 2,085	\$ 1,893
Standing exhibits added to plant funds	<u>1,541</u>	<u>1,854</u>
	<u>\$ 3,626</u>	<u>\$ 3,747</u>

During the years ended June 30, 2009 and 2008, the Museum expensed \$449,000 and \$869,000, 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, 2009 and 2008.

9. Deferred Revenue

Deferred revenue of \$3,989,000 and \$3,693,000 as of June 30, 2009 and 2008, respectively, consists of advance receipts for memberships, courses, admissions, sponsorships, and other functions.

Museum of Science

Notes to Financial Statements

June 30, 2009

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, 2009 and 2008, the unamortized balance under this agreement was \$3,231,000 and \$3,436,000, 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 \$435,000 and \$442,000 of which the current portion of \$45,000 is included in accounts payable and accrued expenses at each of June 30, 2009 and 2008.

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 connection with the adoption of FIN 47, 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, 2009 and 2008, the Museum incurred accretion expense of \$57,000 and \$53,000, respectively, that increased the ARO liability to \$946,000 and \$889,000 as of June 30, 2009 and 2008, respectively. (See Note 2.)

13. Leases

In July 2003, the Museum entered into a master lease and sublease agreement (the "Lease") 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. The Lease proceeds 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, 2009 and 2008, the total outstanding liability associated with this lease was \$895,000 and \$1,359,000, respectively.

In October 2005, the Museum entered into a sublease agreement (the "Sublease") 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. Total rent paid during the years ended June 30, 2009 and 2008 was \$168,000 and \$228,000, respectively.

On August 11, 2008, the Museum exercised its early termination right under the Sublease, effective as of May 30, 2009, by written notification and payment of a required \$80,000 early termination fee to the sublessor.

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

Museum of Science
Notes to Financial Statements
June 30, 2009

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2009 are as follows:

(in thousands)

2009	\$ 565
2010	481
2011	<u>8</u>
Total minimum lease payments	1,054
Interest	<u>(43)</u>
Present value of net minimum lease payments	1,011
Current portion of capital lease obligations included in accounts payable and accrued liabilities	<u>(533)</u>
Long term obligations under capital leases	<u>\$ 478</u>

14. Net Asset Reconciliation

The following table presents the three categories of net assets by purpose as of June 30, 2009 and 2008:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2009 Total	2008 Total
Operating and other non-endowment funds					
Exhibits	\$ (494)	\$ 1,098		\$ 604	\$ 1,128
Visitor and outreach programs	1,054	6,433		7,487	7,093
Formal education programs	232	1,556		1,788	1,685
Visitor and member services	-	11		11	1
Other program activities	-	293		293	265
General and other	1,075	4,305		5,380	4,221
Capital exhibits, property, plant, and equipment	42,614	7,103		49,717	51,854
Split interest agreements	-	6,040	\$ 1,464	7,504	7,461
Total operating and current use funds	<u>44,481</u>	<u>26,839</u>	<u>1,464</u>	<u>72,784</u>	<u>73,708</u>
Endowment and quasi-endowment					
Exhibits	1,838	23,091	11,421	36,350	45,737
Visitor and outreach programs	4,473	6,872	16,222	27,567	32,818
Formal education programs	370	307	562	1,239	388
Visitor and member services	-	35	8	43	54
Other program activities	314	660	1,233	2,207	2,213
General and other	215	12,591	4,685	17,491	21,935
Total endowment and quasi-endowment	<u>7,210</u>	<u>43,556</u>	<u>34,131</u>	<u>84,897</u>	<u>103,145</u>
Total net assets	<u>\$ 51,691</u>	<u>\$ 70,395</u>	<u>\$ 35,595</u>	<u>\$ 157,681</u>	<u>\$ 176,853</u>

Museum of Science
Notes to Financial Statements
June 30, 2009

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, 2009 and 2008 were as follows:

<i>(in thousands)</i>	2009	2008
Pro bono outside services:		
Legal	\$ 137	\$ 184
Marketing	1,365	1,573
Miscellaneous	633	52
In-house volunteers	671	646
Gifts in kind	218	11
Total	<u>\$ 3,024</u>	<u>\$ 2,466</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, 2009 and 2008, government support by purpose was as follows:

<i>(in thousands)</i>	2009	2008
Direct cost support		
General operating support	\$ 55	\$ 55
Exhibits	3,832	3,566
Programs	1,816	2,614
Capital projects	354	188
	<u>6,057</u>	<u>6,423</u>
Indirect cost recovery	687	746
Total	<u>\$ 6,744</u>	<u>\$ 7,169</u>

Museum of Science
Notes to Financial Statements
June 30, 2009

17. Net Assets Released from Restrictions

For the years ended June 30, 2009 and 2008, 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>	2009	2008
Operating funds		
Exhibits	\$ 1,299	\$ 1,265
Visitor and outreach programs	2,988	2,351
Formal education programs	877	484
Visitor and member services	109	93
Other program activities	280	234
Administration and general	(234)	(69)
Facility operations	29	13
Fundraising	359	557
Total operating funds	<u>5,707</u>	<u>4,928</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	720	1,029
Quasi-endowment principal	-	8
Total board designated funds and quasi-endowment	<u>720</u>	<u>1,037</u>
Plant fund		
Capital exhibits	1,011	1,485
Other property, plant, and equipment	381	2,946
Total plant fund	<u>1,392</u>	<u>4,431</u>
Total net assets released from restrictions	<u>\$ 7,819</u>	<u>\$ 10,396</u>

18. Provision for Reduction of Force

During the year ended June 30, 2008, the Museum recorded a provision for reduction in force of \$1,160,000. This charge included severance, outplacement, and estimated unemployment costs. At June 30, 2009 and 2008, liabilities associated with this charge of \$33,000 and \$1,127,000, respectively are included in accounts payable and accrued expenses.

19. 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.

Museum of Science

Notes to Financial Statements

June 30, 2009

For the years ended June 30, 2009 and 2008, the Museum incurred \$1,038,000 and \$982,000, respectively, in contribution costs to the 401(a) retirement plan. The Museum does not make contributions to the 403(b) savings plan.

20. 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, 2009 and 2008 the Museum expended funds totaling \$45,000 and \$46,000, respectively, under these relationships.

21. Line of Credit

The Museum established a revolving demand line of credit with a bank on January 2, 2007 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 0.90%. As of June 30, 2009 and 2008, there had been no borrowings under this agreement. As of October 5, 2009, the amount of the line of credit was reduced to \$2,000,000 and the interest rate increased to the LIBOR rate plus 2.5%.

22. Commitment

In June of 2009, the Museum entered into an agreement to host a traveling exhibition requiring a minimum guaranteed payment by the Museum to the exhibit organizers of \$2,500,000. A total of \$250,000 toward that commitment has been paid with the balance due in installments during fiscal year 2010.

23. Subsequent Event

The Museum has performed an evaluation of subsequent events through October 28, 2009, which is the date the financial statements were issued. 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%. Proceeds from the transaction will be used to finance the acquisition and installation of energy conservation equipment and to replace outdated facility equipment. No other material subsequent events were noted.