

Museum of Science
Financial Statements
June 30, 2008

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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, 2008 and 2007, and the changes in its net assets for the year ended June 30, 2008 and its cash flows for the years ended June 30, 2008 and 2007, 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, 2007 and for the year then ended; and in our report dated October 19, 2007, 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 27, 2008

Museum of Science
Statements of Financial Position
June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Assets		
Current assets		
Cash and cash equivalents (Note 1)	\$ 5,797	\$ 4,847
Accounts receivable	1,036	746
Grants receivable	1,338	2,788
Pledges receivable, net (Note 2)	5,590	6,220
Prepaid expenses and other current assets	770	925
Total current assets	<u>14,531</u>	<u>15,526</u>
Noncurrent assets		
Pledges receivable, net (Note 2)	15,945	17,886
Investments, at market (Notes 1 and 3)	99,920	109,347
Assets whose use is limited (Note 9)	101	99
Assets of split interest agreements (Note 5)	8,812	8,295
Other assets, net of amortization (Note 1)	790	517
Property, plant and equipment, net (Notes 1 and 6)	53,574	51,972
Total assets	<u>\$ 193,673</u>	<u>\$ 203,642</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	\$ 6,027	\$ 6,020
Deferred revenue (Notes 1 and 7)	3,693	3,528
Current portion of liability under management agreement (Note 8)	205	205
Total current liabilities	<u>9,925</u>	<u>9,753</u>
Noncurrent liabilities		
Annuity payable and deferred compensation (Note 9)	397	400
Liability under split interest agreements (Note 5)	1,350	1,461
Liability under management agreement (Note 8)	3,231	3,436
Other long-term liabilities (Note 10)	907	853
Capital leases (Note 11)	1,010	1,377
Total liabilities	<u>16,820</u>	<u>17,280</u>
Net assets (deficit) (Notes 1, 12, and 15)		
Unrestricted		
Unrestricted operating	165	269
Board designated operating	(1,988)	2,226
Board designated quasi-endowment	9,054	10,323
Net investment in plant	47,778	45,874
Total unrestricted	<u>55,009</u>	<u>58,692</u>
Temporarily restricted		
Gifts, grants, and endowment income	26,064	25,892
Unappropriated endowment gains	60,859	66,991
Total temporarily restricted	<u>86,923</u>	<u>92,883</u>
Permanently restricted		
Endowment principal and other	34,921	34,787
Total permanently restricted	<u>34,921</u>	<u>34,787</u>
Total net assets	<u>176,853</u>	<u>186,362</u>
Total liabilities and net assets (deficit)	<u>\$ 193,673</u>	<u>\$ 203,642</u>

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

**Museum of Science
Statement of Activities
Year Ended June 30, 2008 (with summarized information for the year ended
June 30, 2007)**

(in thousands)	Unrestricted				Total	Temporarily restricted	Permanently restricted	Combined totals	
	Operating	Designated Funds	Quasi-Endowment	Plant Fund				2008	2007
Income (Note 1)									
Support									
Contributions, grants, and pledges (Note 2)	\$ 2,183	\$ 1,151	\$ 51		\$ 3,385	\$ 8,459	\$ 242	\$ 12,086	\$ 32,990
Contributed services and gifts in kind (Note 13)	2,457	-	-	\$ 9	2,466	-	-	2,466	2,045
Government grants (Note 14)	6,235	718	-	216	7,169	-	-	7,169	9,086
Total support	<u>10,875</u>	<u>1,869</u>	<u>51</u>	<u>225</u>	<u>13,020</u>	<u>8,459</u>	<u>242</u>	<u>21,721</u>	<u>44,121</u>
Revenue (loss)									
Admissions	11,061	-	-	-	11,061	-	-	11,061	13,927
Memberships	5,299	-	-	-	5,299	-	-	5,299	5,387
Program fees	1,549	1,034	-	-	2,583	-	-	2,583	1,796
Ancillary services	5,738	-	-	-	5,738	4	-	5,742	6,832
Endowment income per spending policy (Note 3)	983	540	-	-	1,523	2,555	-	4,078	3,761
Other investment income	81	17	-	-	98	3	-	101	264
Other income	777	471	2	205	1,455	102	-	1,557	1,572
Change in value of split-interest agreements (Note 5)	-	-	-	-	-	(417)	(183)	(600)	(100)
Net assets released from restrictions (Note 15)	4,928	1,029	8	4,431	10,396	(10,486)	90	-	-
Transfers to operating fund	8,257	(7,233)	(1,024)	-	-	-	-	-	-
Total revenue (loss)	<u>38,673</u>	<u>(4,142)</u>	<u>(1,014)</u>	<u>4,636</u>	<u>38,153</u>	<u>(8,239)</u>	<u>(93)</u>	<u>29,821</u>	<u>33,439</u>
Total income (loss)	<u>49,548</u>	<u>(2,273)</u>	<u>(963)</u>	<u>4,861</u>	<u>51,173</u>	<u>220</u>	<u>149</u>	<u>51,542</u>	<u>77,560</u>
Expenses (Note 1)									
Program services									
Exhibits	6,953	-	-	-	6,953	-	-	6,953	8,013
Visitor and outreach programs	9,201	-	-	-	9,201	-	-	9,201	9,477
Formal education programs	3,946	-	-	-	3,946	-	-	3,946	3,973
Visitor and member services	3,651	-	-	-	3,651	-	-	3,651	3,795
Other program activities	8,290	-	-	-	8,290	-	-	8,290	6,727
Total program services	<u>32,041</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,041</u>	<u>-</u>	<u>-</u>	<u>32,041</u>	<u>31,985</u>
Supporting services									
Administration and general	5,799	-	-	-	5,799	-	-	5,799	6,155
Facility operations	5,784	-	-	-	5,784	-	-	5,784	5,393
Fundraising	4,127	-	-	-	4,127	-	-	4,127	4,133
Interest expense	59	-	-	-	59	-	-	59	75
Depreciation, amortization, and losses on disposal	53	-	-	5,135	5,188	-	-	5,188	4,968
Provision for reduction of force (Note 16)	1,160	-	-	-	1,160	-	-	1,160	-
Transfers from operating fund	610	(211)	-	(399)	-	-	-	-	-
Other transfers	-	2,196	(417)	(1,779)	-	48	(48)	-	-
Total supporting services	<u>17,592</u>	<u>1,985</u>	<u>(417)</u>	<u>2,957</u>	<u>22,117</u>	<u>48</u>	<u>(48)</u>	<u>22,117</u>	<u>20,724</u>
Total expenses	<u>49,633</u>	<u>1,985</u>	<u>(417)</u>	<u>2,957</u>	<u>54,158</u>	<u>48</u>	<u>(48)</u>	<u>54,158</u>	<u>52,709</u>
Change in net assets before investment gains	(85)	(4,258)	(546)	1,904	(2,985)	172	197	(2,616)	24,851
Net investment gains and (losses) (Note 3)									
Net realized gains and (losses)	(18)	-	1,156	-	1,138	10,213	121	11,472	3,281
Net unrealized gains and (losses)	(1)	44	(1,879)	-	(1,836)	(16,345)	(184)	(18,365)	8,537
Change in net assets from investment gains	<u>(19)</u>	<u>44</u>	<u>(723)</u>	<u>-</u>	<u>(698)</u>	<u>(6,132)</u>	<u>(63)</u>	<u>(6,893)</u>	<u>11,818</u>
Change in net assets	(104)	(4,214)	(1,269)	1,904	(3,683)	(5,960)	134	(9,509)	36,669
Net assets, beginning of year	269	2,226	10,323	45,874	58,692	92,883	34,787	186,362	149,693
Net assets (deficit), end of year	<u>\$ 165</u>	<u>\$ (1,988)</u>	<u>\$ 9,054</u>	<u>\$ 47,778</u>	<u>\$ 55,009</u>	<u>\$ 86,923</u>	<u>\$ 34,921</u>	<u>\$ 176,853</u>	<u>\$ 186,362</u>

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

Museum of Science
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (9,509)	\$ 36,669
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation, capital amortization, and loss on disposal	5,135	4,722
Net realized and unrealized investment (gains) losses	4,500	(13,540)
Noncash contributions	(73)	(130)
Contributions and grants restricted for financing activities	(4,345)	(5,422)
Change in value of split interest agreements	600	100
Changes in assets and liabilities:		
Accounts receivable	(290)	132
Grants receivable	1,450	511
Pledges receivable	2,571	(18,619)
Prepaid expenses and other assets	(87)	112
Accounts payable, accrued liabilities, and other liabilities	13	1,904
Deferred revenue	165	(314)
Cash provided by operating activities	<u>130</u>	<u>6,125</u>
Cash flows from investing activities		
Purchases of pooled investments	(71,791)	(47,942)
Sales of pooled investments	76,692	45,783
Purchases of other investments and limited use assets	(3)	-
Sales of other investments and limited use assets	51	219
Purchases of building additions and equipment	(5,034)	(6,440)
Payments for standing exhibits	(1,845)	(1,193)
Cash used in investing activities	<u>(1,930)</u>	<u>(9,573)</u>
Cash flows from financing activities		
Proceeds from contributions and grants restricted for:		
Investment in permanent endowment	542	1,104
Investment in exhibits and other	3,803	4,318
Payments on capital lease	(367)	(432)
Net increase of split interest agreements	(1,228)	(859)
Cash provided by financing activities	<u>2,750</u>	<u>4,131</u>
Net change in cash and cash equivalents	950	683
Cash and cash equivalents at beginning of year	4,847	4,164
Cash and cash equivalents at end of year	<u>\$ 5,797</u>	<u>\$ 4,847</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 59	\$ 75

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

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Notes to Financial Statements

June 30, 2008

1. Accounting Policies

The significant accounting policies followed by the Museum of Science (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, 2007, 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 12 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, 2008 and 2007, 92% 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 market 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.

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Notes to Financial Statements

June 30, 2008

Investments in non-marketable investments are generally carried at fair value estimated by management based on fair values provided by external investment managers. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements based on information provided by the management of the fund. The Museum believes that the carrying amount of its non-marketable investments of \$92,882,000 and \$98,635,000 is a reasonable estimate of fair value as of June 30, 2008 and 2007, respectively.

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 permanent 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 are included in other assets and are amortized through use of the straight-line method over the respective terms of the long term debt and capital lease obligations. The straight line method approximates the interest rate method. Amortization expense of \$3,000 was recognized during each of the years ended June 30, 2008 and 2007.

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-

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Notes to Financial Statements

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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.

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.

2. 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 estimated future cash flows has been measured utilizing discount rates of between 2.31% and 5.21% and 2.68% and 5.21% for the years ended June 30, 2008 and 2007, respectively.

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

<i>(in thousands)</i>	2008	2007
In one year or less	\$ 5,701	\$ 6,347
Between one and five years	12,134	13,422
Greater than five years	7,500	9,000
Less allowance for unfulfilled pledges	(464)	(511)
Less discount to present value	<u>(3,336)</u>	<u>(4,152)</u>
Net present value of pledges receivable, net of allowances	<u>\$ 21,535</u>	<u>\$ 24,106</u>

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Notes to Financial Statements
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3. Investments

Investments of the endowment and quasi-endowment funds 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.

Pooled investments at June 30, 2008 and 2007 consist of the following:

<i>(in thousands)</i>	2008		2007	
	Cost	Fair value	Cost	Fair value
Non-marketable investments				
Brandes Institutional Equity Trust				
Non-U.S. Equity Fund	\$ 13,260	\$ 13,162	\$ 12,683	\$ 17,253
City of London Investment Management:				
Investable Emerging Mkts Country Fd	1,250	1,178	-	-
Colchester Global Bond Fund	5,921	6,563	5,243	5,759
Common Sense Offshore Ltd.	6,000	6,863	-	-
Constellation Institutional Portfolios:				
Sands Capital Institutional Growth	5,827	5,877	5,827	5,952
Forester Diversified Ltd Class B 01/08	6,000	6,013	-	-
Mastholm International Equity Trust	2,632	7,145	2,669	7,660
Maverick Stable Fund	6,500	6,642	5,500	5,500
Pacific Investment Management Co.:				
Low Duration Institutional Fund	8,500	8,334	-	-
Private Equities	790	2,560	1,053	2,418
Silver Creek Low Vol Hedge Fund	89	288	982	2,838
Wellington Commingled Trust Funds:				
Archipelago Hedge	6,500	6,712	5,500	5,500
Core Bond Plus	7,578	7,494	10,253	10,399
Core/Value	4,050	5,365	10,207	16,721
Emerging Company	2,042	3,087	3,488	9,196
Research Equity	4,187	5,599	6,106	9,439
Total non-marketable investments	<u>81,126</u>	<u>92,882</u>	<u>69,511</u>	<u>98,635</u>
Corporate high yield fixed income	-	-	8	8
Other small cap equity	4,162	4,234	7,028	8,140
Other short-term investments and cash	<u>2,804</u>	<u>2,804</u>	<u>2,564</u>	<u>2,564</u>
Total investments	<u>\$ 88,092</u>	<u>\$ 99,920</u>	<u>\$ 79,111</u>	<u>\$ 109,347</u>

As of June 30, 2008, the Museum had purchase commitments totaling \$4,000,000 with two investment managers which will be funded during fiscal year 2009.

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Pooled investments segregated by net asset class at June 30, 2008 and 2007 are as follows:

<i>(in thousands)</i>	2008		2007	
	Cost	Fair value	Cost	Fair value
Unrestricted	\$ 10,074	\$ 10,208	\$ 9,310	\$ 11,323
Temporarily restricted	53,935	65,081	46,125	73,616
Permanently restricted	24,083	24,631	23,676	24,408
Total investments	<u>\$ 88,092</u>	<u>\$ 99,920</u>	<u>\$ 79,111</u>	<u>\$ 109,347</u>

State law allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the Museum's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. Under the Museum's endowment spending policy, 5% of the average of the fair value at the end of each of the previous five calendar years is appropriated to support operations.

The Attorney General of Massachusetts has issued written guidance that all gains on donor restricted funds that have not been appropriated in accordance with the law should be classified as temporarily restricted net assets. Accordingly, \$60,859,000 and \$66,991,000 of accumulated realized and unrealized gains are classified as temporarily restricted net assets on the statement of financial position at June 30, 2008 and 2007, respectively.

The following schedule summarizes the investment return for pooled and other investments the years ended June 30, 2008 and 2007:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2008	2007
Investment dividends and interest	\$ 1,243	\$ 443	\$ -	\$ 1,686	\$ 2,039
Capital appreciation allocated for spending policy	<u>280</u>	<u>2,112</u>	<u>-</u>	<u>2,392</u>	<u>1,722</u>
Endowment income per spending policy	1,523	2,555	-	4,078	3,761
Realized gains	1,381	12,362	121	13,864	5,003
Capital appreciation allocated for spending policy	<u>(243)</u>	<u>(2,149)</u>	<u>-</u>	<u>(2,392)</u>	<u>(1,722)</u>
Net realized gains	1,138	10,213	121	11,472	3,281
Net unrealized (losses) gains	<u>(1,836)</u>	<u>(16,345)</u>	<u>(184)</u>	<u>(18,365)</u>	<u>8,537</u>
Total investment (losses) return	<u>\$ 825</u>	<u>\$ (3,577)</u>	<u>\$ (63)</u>	<u>\$ (2,815)</u>	<u>\$ 15,579</u>

4. 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 \$1,821,000 and \$1,961,000 at fair market value at June 30, 2008 and 2007, respectively. In accordance with SFAS No. 136, the total endowment is not recorded by the Museum. Investment income of approximately \$78,000 and \$80,000 was earned during the years ended June 30, 2008 and 2007, respectively, and has been included in other income.

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Notes to Financial Statements
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5. 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 3.34% to 8.00% and 4.80% to 8.00% were used in these calculations at June 30, 2008 and 2007, respectively.

6. Property, Plant and Equipment

Property, plant and equipment at June 30, 2008 and 2007 consist of the following:

<i>(in thousands)</i>	2008	2007
Building and improvements	\$ 65,102	\$ 57,308
Equipment	11,067	11,108
Exhibits	28,774	28,265
Construction in progress:		
Building additions and renovations	3,970	8,087
Exhibits	<u>1,028</u>	<u>712</u>
Total property, plant and equipment	109,941	105,480
Less accumulated depreciation	<u>(56,367)</u>	<u>(53,508)</u>
	<u>\$ 53,574</u>	<u>\$ 51,972</u>

Depreciation expense amounted to \$4,502,000 and \$4,379,000 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007 were as follows:

<i>(in thousands)</i>	2008	2007
Exhibit construction and refurbishment costs charged to operations	\$ 1,893	\$ 2,288
Standing exhibits added to plant funds	<u>1,854</u>	<u>1,154</u>
	<u>\$ 3,747</u>	<u>\$ 3,442</u>

During the years ended June 30, 2008 and 2007, the Museum expensed \$869,000 and \$732,000, respectively, for building and equipment maintenance and repair, and for materials associated with such maintenance.

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Notes to Financial Statements

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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 10) have been fully depreciated in prior years. Accordingly, there is no value recorded for capitalized asset retirement costs as of June 30, 2008 and 2007.

7. Deferred Revenue

Deferred revenue of \$3,693,000 and \$3,528,000 as of June 30, 2008 and 2007, respectively, consists of advance receipts for memberships, courses, admissions, sponsorships, and other functions.

8. 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. As a capital investment, the vendor reimbursed the Museum \$2,110,000 for early termination of the previous food services agreement and also invested \$400,000 in pre-opening costs. During the year ended June 30, 2006, the vendor invested an additional \$1,546,000 in capital improvements. 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, 2008 and 2007, the unamortized balance under this agreement was \$3,436,000 and \$3,641,000, respectively.

9. 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 \$442,000 and \$445,000 of which the current portion of \$45,000 is included in accounts payable and accrued expenses at each of June 30, 2008 and 2007.

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

10. Other Long Term Liabilities

In connection with the early adoption of FIN 47, the Museum incurred an asset retirement obligation ("ARO") of \$738,000 as of July 1, 2005 related to the estimated cost to remove and dispose of asbestos-containing materials and PCB-contaminated electrical transformers. During the years ended June 30, 2008 and 2007, the Museum incurred accretion expense of \$53,000 and \$50,000, respectively, that increased the ARO to \$889,000 and \$835,000 as of June 30, 2008 and 2007, respectively. (See Note 1.)

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11. 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.

In October 2005, the Museum entered into a sublease agreement (the "Sublease") for office space. Required payments include 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, 2008 and 2007 was \$228,000 and \$216,000, respectively.

The Sublease expires on September 30, 2012, but may be terminated by the Museum, with nine months notice, as of May 30, 2009, subject to an \$80,000 termination fee. A security deposit of \$36,000 associated with the Sublease is included in other long term assets.

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

Future minimum lease payments under capital and operating leases with terms of more than one year at June 30, 2008 are as follows:

<i>(in thousands)</i>	Capital	Operating
2009	\$ 565	\$ 214
2010	565	214
2011	481	214
2012	8	214
2013		53
Total minimum lease payments	<u>1,619</u>	<u>\$ 909</u>
Interest	(96)	
Present value of net minimum lease payments	<u>1,523</u>	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	(513)	
Long term obligations under capital leases	<u>\$ 1,010</u>	

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12. Net Asset Reconciliation

The following table presents the three categories of net assets by purpose as of June 30, 2008 and 2007:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2008 Total	2007 Total
Exhibits	\$ 1,778	\$ 1,134	\$ 12,528	\$ 15,440	\$ 16,115
Visitor and outreach programs	4,354	6,116	15,670	26,140	25,529
Formal education programs	(10)	1,598	-	1,588	513
Visitor and member services	-	1	8	9	16
Other program activities	285	265	936	1,486	1,450
General and other	2,577	3,706	3,508	9,791	13,171
Permanent exhibits, property, plant, and equipment	46,025	7,474	580	54,079	55,743
Unappropriated endowment gains	-	60,859	-	60,859	66,991
Split interest agreements	-	5,770	1,691	7,461	6,834
Total net assets	<u>\$ 55,009</u>	<u>\$ 86,923</u>	<u>\$ 34,921</u>	<u>\$ 176,853</u>	<u>\$ 186,362</u>

13. 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, 2008 and 2007 were as follows:

<i>(in thousands)</i>	2008	2007
Pro bono outside services:		
Legal	\$ 184	\$ 130
Marketing	1,573	727
Miscellaneous	52	203
In-house volunteers	646	702
Gifts in kind	11	283
Total	<u>\$ 2,466</u>	<u>\$ 2,045</u>

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14. 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, 2008 and 2007, government support by purpose was as follows:

<i>(in thousands)</i>	2008	2007
Direct cost support		
General operating support	\$ 55	\$ 53
Exhibits	3,566	3,347
Programs	2,614	3,852
Capital projects	188	501
	<u>6,423</u>	<u>7,753</u>
Indirect cost recovery	746	1,333
Total	<u>\$ 7,169</u>	<u>\$ 9,086</u>

15. Net Assets Released from Restrictions

For the years ended June 30, 2008 and 2007, 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>	2008	2007
Operating funds		
Exhibits	\$ 1,265	\$ 1,727
Visitor and outreach programs	2,351	2,194
Formal education programs	484	408
Visitor and member services	93	89
Other program activities	234	266
Administration and general	(69)	565
Facility operations	13	15
Fundraising	557	212
Total operating funds	<u>4,928</u>	<u>5,476</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	1,029	320
Quasi-endowment principal	8	460
Total board designated funds and quasi-endowment	<u>1,037</u>	<u>780</u>
Plant fund		
Permanent exhibits	1,485	552
Other property, plant, and equipment	2,946	5,751
Total plant fund	<u>4,431</u>	<u>6,303</u>
Total net assets released from restrictions	<u>\$ 10,396</u>	<u>\$ 12,559</u>

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16. Provision for Reduction of Force

For 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. A liability associated with this charge of \$1,127,000 is included in accounts payable and accrued expenses at June 30, 2008.

17. 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 \$15,500.

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, 2008 and 2007, the Museum incurred \$982,000 and \$1,000,000, respectively, in contribution costs to the 401(a) retirement plan. The Museum does not make contributions to the 403(b) savings plan.

18. Contingencies

The Museum held an appreciation note on an asset sold to a not-for-profit organization. The note provided that the not-for-profit organization would pay a portion of any increase in market value of the assets, as defined, to the Museum. The agreement expired in August 2007. No asset or income was recorded.

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, 2008 and 2007 the Museum expended funds totaling \$46,000 and \$60,000, respectively, under these relationships.

20. Line of Credit

The Museum established a \$4,000,000 revolving demand line of credit with a bank on January 2, 2007 in order to meet certain 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, 2008 and 2007, there had been no borrowings under this agreement.

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21. Subsequent Events

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

Recent events in the financial sector have resulted in an unusually high degree of volatility and illiquidity in the financial markets. These events have had negative impacts on a wide range of investments, including mutual funds, limited partnerships, hedge funds and complex trusts, which are investments that are held by the Museum. The value, liquidity and related income for some of the securities are sensitive to changes in economic conditions and may be adversely affected by shifts in the market's perception of general economic stability.

22. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards ("SFAS") No. 157, Fair Value Measurements (the "Standard"). The Standard defines fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The Standard applies to fair value measurements already required or permitted by existing standards. The Standard is effective for the Museum for its fiscal year beginning July 1, 2008.

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, 2008.