

Museum of Science

Financial Statements

June 30, 2011

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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, 2011 and 2010, 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 2010 financial statements, and in our report dated October 21, 2010, 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 26, 2011

Museum of Science
Statements of Financial Position
June 30, 2011 and 2010

<i>(in thousands)</i>	2011	2010
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 11,867	\$ 12,439
Accounts receivable	1,341	733
Grants receivable	1,751	2,552
Pledges receivable, net (Note 3)	3,560	4,640
Prepaid expenses and other current assets	1,186	1,470
Total current assets	19,705	21,834
Noncurrent assets		
Pledges receivable, net (Note 3)	10,259	11,891
Investments, at fair value (Notes 2, 4, and 5)	96,924	86,138
Assets whose used is limited (Note 11)	202	137
Assets of split interest agreements (Notes 4 and 7)	10,493	9,614
Other assets, net of amortization (Note 2)	721	654
Property, plant and equipment, net (Notes 2 and 8)	61,791	55,877
Total assets	\$ 200,095	\$ 186,145
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,813	\$ 5,936
Deferred revenue (Note 9)	4,588	5,177
Current portion of liability under management agreement (Note 10)	205	205
Total current liabilities	8,606	11,318
Noncurrent liabilities		
Annuity payable and deferred compensation (Note 11)	448	405
Liability under split interest agreements (Note 7)	1,443	1,262
Liability under management agreement (Note 10)	2,616	2,821
Other long-term liabilities (Note 12)	1,050	1,006
Capital leases (Note 13)	3,160	2,840
Total liabilities	17,323	19,652
Net assets (Notes 2, 14, and 17)		
Unrestricted		
Unrestricted operating	219	191
Board designated operating	1,821	435
Board designated quasi-endowment	8,507	7,688
Net investment in plant	54,462	47,783
Total unrestricted	65,009	56,097
Temporarily restricted		
Gifts, grants, and endowment income	24,427	26,136
Unappropriated endowment gains	55,255	47,639
Total temporarily restricted	79,682	73,775
Permanently restricted		
Endowment principal and other	38,081	36,621
Total permanently restricted	38,081	36,621
Total net assets	182,772	166,493
Total liabilities and net assets	\$ 200,095	\$ 186,145

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

Museum of Science
Statement of Activities
Year Ended June 30, 2011 (with summarized information for the year ended
June 30, 2010)

<i>(in thousands)</i>	Unrestricted			Total	Temporarily restricted	Permanently restricted	Combined totals	
	Operating/ Designated	Quasi- Endowment	Plant Fund				2011	2010
Income (Note 1)								
Support								
Contributions, grants, and pledges (Note 3)	\$ 4,125	\$ -		\$ 4,125	\$ 6,388	\$ 1,138	\$ 11,651	\$ 11,734
Contributed services and gifts in kind (Note 15)	2,823	-	\$ 3,920	6,743	-	-	6,743	3,855
Government grants (Note 16)	5,287	-	807	6,094	-	-	6,094	7,154
Total support	12,235	-	4,727	16,962	6,388	1,138	24,488	22,743
Revenue								
Admissions	10,242	-	-	10,242	-	-	10,242	11,160
Memberships	6,842	-	27	6,869	-	-	6,869	6,784
Program fees	4,719	-	-	4,719	-	-	4,719	3,587
Ancillary services	5,622	-	-	5,622	4	-	5,626	6,270
Endowment income per spending policy (Note 5)	1,723	-	-	1,723	2,661	-	4,384	4,294
Other income	2,240	-	656	2,896	106	-	3,002	1,624
Change in value of split-interest agreements (Note 7)	-	-	-	-	571	201	772	768
Net assets released from restrictions (Note 17)	7,076	-	4,274	11,350	(11,358)	8	-	-
Total revenue	38,464	-	4,957	43,421	(8,016)	209	35,614	34,487
Total income	50,699	-	9,684	60,383	(1,628)	1,347	60,102	57,230
Expenses (Note 2)								
Program services								
Exhibits	6,956	-	-	6,956	-	-	6,956	6,579
Visitor and outreach programs	10,001	-	-	10,001	-	-	10,001	9,506
Formal education programs	4,012	-	-	4,012	-	-	4,012	3,417
Visitor and member services	3,939	-	-	3,939	-	-	3,939	4,340
Other program activities	8,237	-	-	8,237	-	-	8,237	8,409
Total program services	33,145	-	-	33,145	-	-	33,145	32,251
Supporting services								
Administration and general	5,185	-	-	5,185	-	-	5,185	5,127
Facility operations	5,152	-	-	5,152	-	-	5,152	5,022
Fundraising	4,155	-	-	4,155	-	-	4,155	4,070
Interest expense	178	-	-	178	-	-	178	61
Depreciation, amortization, and losses on disposal	92	-	4,637	4,729	-	-	4,729	6,406
Transfers from operating fund	682	-	(681)	1	(1)	-	-	-
Recovery of underwater endowment funds (Note 5)	(306)	-	-	(306)	306	-	-	-
Other transfers	987	(36)	(951)	-	82	(82)	-	-
Total supporting services	16,125	(36)	3,005	19,094	387	(82)	19,399	20,686
Total expenses	49,270	(36)	3,005	52,239	387	(82)	52,544	52,937
Change in net assets before investment gains	1,429	36	6,679	8,144	(2,015)	1,429	7,558	4,293
Net investment gains and (losses) (Notes 4 and 5)								
Net realized gains (losses) net of funds appropriated for endowment spending policy	(15)	177	-	162	1,851	15	2,028	(2,865)
Net unrealized gains	-	606	-	606	6,071	16	6,693	7,384
Change in net assets from investment gains	(15)	783	-	768	7,922	31	8,721	4,519
Change in net assets	1,414	819	6,679	8,912	5,907	1,460	16,279	8,812
Net assets, beginning of year	626	7,688	47,783	56,097	73,775	36,621	166,493	157,681
Net assets, end of year	\$ 2,040	\$ 8,507	\$54,462	\$ 65,009	\$ 79,682	\$ 38,081	\$ 182,772	\$ 166,493

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

Museum of Science
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

<i>(in thousands)</i>	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 16,279	\$ 8,812
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation, capital amortization, and loss on disposal	4,637	6,315
Net realized and unrealized investment gains before appropriation for endowment spending policy	(12,701)	(8,084)
Dividends and interest retained for investing activities	(272)	(482)
Contributions of securities	(400)	(104)
Other noncash contributions	(3,920)	(1,294)
Contributions and grants restricted for financing activities	(5,715)	(8,101)
Change in value of split interest agreements	(772)	(768)
Changes in assets and liabilities:		
Accounts receivable	(608)	349
Grants receivable	801	(886)
Pledges receivable	2,712	4,878
Prepaid expenses and other assets	245	(16)
Accounts payable, accrued liabilities, and other liabilities	(2,090)	939
Deferred revenue	(589)	1,188
Net cash (used in) provided by operating activities	<u>(2,393)</u>	<u>2,746</u>
Cash flows from investing activities		
Purchases of pooled investments	(45,418)	(44,944)
Sales of pooled investments	47,620	51,168
Purchases of other investment assets	(65)	(34)
Sales of other investment assets	352	77
Purchases of building additions and equipment	(4,961)	(8,832)
Payments for standing exhibits	(1,816)	(1,376)
Net cash used in investing activities	<u>(4,288)</u>	<u>(3,941)</u>
Cash flows from financing activities		
Proceeds from contributions and grants restricted for:		
Investment in permanent endowment	1,934	2,224
Investment in exhibits and other	3,781	5,877
Net additions to capital leases	320	2,362
Net increase (decrease) of split interest agreements	74	(79)
Net cash provided by financing activities	<u>6,109</u>	<u>10,384</u>
Net change in cash and cash equivalents	<u>(572)</u>	<u>9,189</u>
Cash and cash equivalents at beginning of year	12,439	3,250
Cash and cash equivalents at end of year	<u>\$ 11,867</u>	<u>\$ 12,439</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 178	\$ 61

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

Museum of Science

Notes to Financial Statements

June 30, 2011

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, the Association of Science-Technology Centers, and 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 Museum prepares its financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") as promulgated by the Financial Accounting Standards Board and other authoritative sources. 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Unrestricted Net Assets

Unrestricted net assets are resources 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 restrictions or by 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 purpose having been accomplished and/or the stipulated time period having elapsed, are reported as net assets released from restrictions. See Note 14 for further information on the composition of 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 particular purposes for which donors have specified 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.

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Notes to Financial Statements

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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, 2011 and 2010, 96% of cash and cash equivalents were held at one institution.

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.

U.S. GAAP defines fair value, establishes a framework for measuring fair value and prescribes disclosures about these measurements. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants on the measurement date.

U.S. GAAP 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. The principles describe a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable. 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.

Museum Collections

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

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Notes to Financial Statements

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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 (see Note 13) are included in other assets and are amortized through use of the straight-line method over the term of the capital lease obligation. The straight line method approximates the interest rate method. Amortization expense of \$5,000 and \$3,000 was recognized during years ended June 30, 2011 and 2010, respectively, resulting in unamortized balances of \$31,000 and \$36,000 as of June 30, 2011 and 2010, 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. 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 from the operating fund include the use of operating funds to fund capital projects and other discretionary transfers. 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.

U.S. GAAP requires the Museum to determine its tax positions based on a "more-likely-than-not" threshold applied to the likelihood that positions taken or expected to be taken in a tax return would be sustained upon examination by the relevant taxing authority.

The Museum is subject to routine audits by several 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 2008.

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Notes to Financial Statements
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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.

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 0.88% and 7.21% and between 1.11% and 7.21% were used in these calculations at June 30, 2011 and 2010, respectively.

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

<i>(in thousands)</i>	2011	2010
In one year or less	\$ 3,671	\$ 4,918
Between one and five years	8,688	9,139
Greater than five years	3,000	4,500
Less allowance for unfulfilled pledges	(359)	(491)
Less discount to present value	<u>(1,181)</u>	<u>(1,535)</u>
Net present value of pledges receivable, net of allowances	<u>\$ 13,819</u>	<u>\$ 16,531</u>

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Notes to Financial Statements
June 30, 2011

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, 2011 and 2010 classified by the valuation hierarchy defined in Note 2 consist of the following:

<i>(in thousands)</i>	2011			2010	
	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	\$ 4,622			\$ 4,622	\$ 7,141
Domestic equities	5,063			5,063	3,803
Fixed income	353			353	761
Mutual funds	9,505			9,505	5,545
Commingled trust funds	-	\$ 12,854	\$ 3,527	16,381	22,477
Alternative investments	-	19,111	38,647	57,758	43,738
Private equities	-	-	3,242	3,242	2,673
Total pooled investments	19,543	31,965	45,416	96,924	86,138
Assets of split interest agreements	3,069	-	7,424	10,493	9,614
Total investments at fair value	<u>\$ 22,612</u>	<u>\$ 31,965</u>	<u>\$ 52,840</u>	<u>\$107,417</u>	<u>\$ 95,752</u>

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 these instruments 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 of these funds and 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

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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 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, 2011, 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	\$ 2,833	Monthly	30 days
Equity long/short	12,419	Annually ^a	95-100 days
Real estate	3,259	Annually	60 days
Multi-strategy	11,709	Quarterly	45-95 days
Natural resources	3,007	Quarterly	60 days
Commingled trust funds			
Global fixed income	6,003	Monthly	10 days
Natural resources	6,851	Monthly	10 days
Other alternative investments			
Emerging market debt	5,462	Monthly	60 days
Emerging market equity	3,178	Monthly	30 days
	<u>\$ 54,721</u>		

^a - The Museum has investments with two equity long/short managers. For one, annual redemption is permitted with 100 days notice. For the other, redemption is permitted annually with 95 days notice, with certain holdings subject to 36 month lock-up periods ending on December 31, 2013 and March 31, 2014.

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.

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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, 2010	\$ 3,904	\$ 33,480	\$ 2,673	\$ 7,294	\$ 47,351
Realized gains/(losses)	(589)	1,249	-	-	660
Unrealized gains	1,265	3,332	569	-	5,166
Purchases	-	1,742	-	-	1,742
Sales	(1,000)	(1,048)	-	-	(2,048)
Income net of expenses and fees	(53)	(108)	-	-	(161)
Change in value of split interests	-	-	-	130	130
Fair Value, June 30, 2011	<u>\$ 3,527</u>	<u>\$ 38,647</u>	<u>\$ 3,242</u>	<u>\$ 7,424</u>	<u>\$ 52,840</u>

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

As of June 30, 2011, the Museum had purchase commitments totaling \$2,524,000 with three 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, 2011 and 2010, the fair value of the endowment portion of the pool was \$94,883,000 and \$84,085,000, respectively.

In July 2009, the Commonwealth of Massachusetts passed the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA"). 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 and applicable U.S. GAAP guidance, 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. Any remaining portion of the donor-restricted endowment fund 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

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- 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.

Endowment funds (including pledges) segregated by net asset class at June 30, 2011 and 2010 are as follows:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2011 Total	2010 Total
Donor-restricted funds	\$ (5)	\$ 57,219	\$ 36,233	\$ 93,447	\$ 84,266
Board-designated funds	8,507	-	-	8,507	7,688
Total endowment net assets	\$ 8,502	\$ 57,219	\$ 36,233	\$101,954	\$ 91,954

The following schedule summarizes the change in endowment net assets for the years ended June 30, 2011 and 2010:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2011 Total	2010 Total
Endowment net assets, beginning of year	\$ 7,377	\$ 49,603	\$ 34,974	\$ 91,954	\$ 86,199
Investment return:					
Investment income, net of fees	156	247	-	403	728
Net appreciation (realized and unrealized)	1,149	11,537	31	12,717	8,091
Total investment return	1,305	11,784	31	13,120	8,819
Contributions and other additions to corpus	36	-	1,228	1,264	1,230
Endowment income per spending policy	(522)	(3,862)	-	(4,384)	(4,294)
Other changes:					
Recovery of underwater funds	306	(306)	-	-	-
Endowment net assets, end of year	\$ 8,502	\$ 57,219	\$ 36,233	\$101,954	\$ 91,954

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 \$5,000 and \$311,000 as of June 30, 2011 and 2010, 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 for an individual fund during any month when such appropriation would leave that fund in deficit, and only current period interest and dividend income is allocated for spending.

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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 maintaining 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 are 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 \$1,538,000 and \$1,408,000 at fair value at June 30, 2011 and 2010, respectively. This endowment is not recorded by the Museum. Investment income of approximately \$77,000 and \$88,000 was earned during the years ended June 30, 2011 and 2010, 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 a split-interest 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 1.29% to 7.36% and 1.00% to 7.36% were used in these calculations at June 30, 2011 and 2010, respectively.

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8. Property, Plant and Equipment

Property, plant and equipment at June 30, 2011 and 2010 consist of the following:

<i>(in thousands)</i>	2011	2010
Building and improvements	\$ 70,832	\$ 65,092
Equipment	18,242	13,598
Exhibits	25,953	25,172
Construction in progress:		
Building additions and renovations	8,797	10,697
Exhibits	3,146	2,110
Total property, plant and equipment	<u>126,970</u>	<u>116,669</u>
Less accumulated depreciation	<u>(65,179)</u>	<u>(60,792)</u>
	<u>\$ 61,791</u>	<u>\$ 55,877</u>

Depreciation expense amounted to \$4,510,000 and \$4,228,000 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 were as follows:

<i>(in thousands)</i>	2011	2010
Exhibit construction and refurbishment costs charged to operations	\$ 2,301	\$ 1,808
Standing exhibits added to plant funds	<u>1,832</u>	<u>1,376</u>
	<u>\$ 4,133</u>	<u>\$ 3,184</u>

During the years ended June 30, 2011 and 2010, the Museum expensed \$593,000 and \$685,000, respectively, for building and equipment maintenance and repair, and for materials associated with such maintenance.

The Museum has a 99-year lease with the Massachusetts Department of Conservation and Recreation (formerly 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, 2011 and 2010.

9. Deferred Revenue

Deferred revenue of \$4,588,000 and \$5,177,000 as of June 30, 2011 and 2010, respectively, consists of advance receipts for memberships, courses, admissions, sponsorships, and other functions.

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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, 2011 and 2010, the unamortized balance under this agreement was \$2,821,000 and \$3,026,000, 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 \$493,000 and \$450,000 of which the current portion of \$45,000 is included in accounts payable and accrued expenses at each of June 30, 2011 and 2010.

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 U.S. GAAP, 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, 2011 and 2010, the Museum incurred accretion expense of \$63,000 and \$61,000, respectively, that increased the ARO liability to \$1,050,000 and \$1,006,000 as of June 30, 2011 and 2010, respectively. (See Note 2.)

During the year ended June 30, 2011 the Museum settled a portion of this obligation in the amount of \$10,000, realizing a gain of \$10,000 due to the difference between the estimated ARO and the actual cost of the abatement services.

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 with a financial institution, MassDevelopment (formerly the Massachusetts Health and Educational Facilities Authority), with a fixed interest rate of 3.7%. 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 was collateralized by the equipment. At June 30, 2010, the total outstanding liability associated with this lease was \$414,000. As of June 30, 2011, the lease had been paid in full.

On October 21, 2009, the Museum entered into a new master lease and sublease agreement in the amount of \$3,357,000 in tax-exempt financing with MassDevelopment, with a fixed rate of 4.81%. As of February 1, 2011, the amount of the lease was reduced to \$3,208,000, to reflect lower-than-expected costs of the lease-funded project. 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. The Museum is permitted to make a single prepayment annually of a minimum amount of \$250,000 with an additional 2% penalty. At June 30, 2011 and 2010, the total outstanding liability associated with this lease and sublease agreement was \$3,137,000 and \$3,001,000, respectively.

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

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2011 are as follows:

(in thousands)

2012	\$	393
2013		393
2014		393
2015		377
2016		338
After 2016		<u>2,615</u>
Total minimum lease payments		4,509
Interest		<u>(1,108)</u>
Present value of net minimum lease payments		3,401
Current portion of capital lease obligations included in accounts payable and accrued liabilities		<u>(241)</u>
Long term obligations under capital leases	\$	<u><u>3,160</u></u>

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14. Net Asset Reconciliation

The following table presents the three categories of net assets by purpose as of June 30, 2011 and 2010:

<i>(in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	2011 Total	2010 Total
Operating and other non-endowment funds					
Exhibits	\$ (17)	\$ 2,252		\$ 2,235	\$ 806
Visitor and outreach programs	842	3,694		4,536	5,631
Formal education programs	630	2,124		2,754	2,261
Visitor and member services	-	30		30	20
Other program activities	(19)	307		288	330
General and other	2,575	2,231		4,806	5,081
Capital exhibits, property, plant, and equipment	52,496	4,623		57,119	52,058
Split interest agreements	-	7,202	\$ 1,848	9,050	8,352
Total operating and other non-endowment funds	56,507	22,463	1,848	80,818	74,539
Endowment and quasi-endowment					
Exhibits	2,140	28,667	11,471	42,278	38,365
Visitor and outreach programs	5,205	11,450	17,593	34,248	31,387
Formal education programs	430	774	589	1,793	1,324
Visitor and member services	-	42	8	50	46
Other program activities	479	885	1,787	3,151	2,658
General and other	248	15,401	4,785	20,434	18,174
Total endowment and quasi-endowment	8,502	57,219	36,233	101,954	91,954
Total net assets	<u>\$ 65,009</u>	<u>\$ 79,682</u>	<u>\$ 38,081</u>	<u>\$182,772</u>	<u>\$166,493</u>

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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, 2011 and 2010 were as follows:

<i>(in thousands)</i>	2011	2010
Pro bono outside services:		
Legal	\$ 228	\$ 125
Marketing	1,603	1,437
Miscellaneous	146	57
In-house volunteers	802	768
Gifts in kind:		
Capital software	3,799	1,247
Miscellaneous	165	221
Total	<u>\$ 6,743</u>	<u>\$ 3,855</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, 2011 and 2010, government support by purpose was as follows:

<i>(in thousands)</i>	2011	2010
Direct cost support		
General operating support	\$ 39	\$ 45
Exhibits	2,869	3,713
Programs	1,557	1,588
Capital projects	706	1,126
	<u>5,171</u>	<u>6,472</u>
Indirect cost recovery	923	682
Total	<u>\$ 6,094</u>	<u>\$ 7,154</u>

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17. Net Assets Released from Restrictions

For the years ended June 30, 2011 and 2010, 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>	2011	2010
Operating funds		
Exhibits	\$ 1,607	\$ 993
Visitor and outreach programs	2,889	2,862
Formal education programs	984	896
Visitor and member services	96	100
Other program activities	318	477
Administration and general	(115)	30
Facility operations	18	17
Fundraising	348	283
Total operating funds	<u>6,145</u>	<u>5,658</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	931	1,005
Quasi-endowment principal	-	42
Total board designated funds and quasi-endowment	<u>931</u>	<u>1,047</u>
Plant fund		
Capital exhibits	1,076	1,123
Other property, plant, and equipment	3,198	3,342
Total plant fund	<u>4,274</u>	<u>4,465</u>
Total net assets released from restrictions	<u>\$ 11,350</u>	<u>\$ 11,170</u>

18. Defined Contribution Plans

The Museum has two defined contribution plans for the benefit of its employees: a 403(b) savings plan ("the Savings Plan") and a 401(a) retirement plan ("the Retirement Plan"). All employees are eligible to participate in the Savings Plan.

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, 2011 and 2010, the Museum incurred \$891,000 and \$979,000, respectively, in contribution costs to the Retirement Plan. The Museum does not make contributions to the Savings Plan.

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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, 2011 and 2010 the Museum expended funds totaling \$120,000 and \$174,000, respectively, under these relationships.

Certain companies whose principals are members of the Museum's Board may also from time to time procure the services of the Museum's Event and Conference Services department. Such companies are subject to the same pricing, policies, and controls as the Museum applies to its other customers. For the year ended June 30, 2011 the Museum earned \$15,000 from these companies.

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, 2011 and 2010, there had been no borrowings under this agreement.

21. Subsequent Events

The Museum has performed an evaluation of subsequent events through October 26, 2011, which is the date the financial statements were issued. No material subsequent events were noted.