

 **Museum of Science**

**Financial Statements**  
**June 30, 2014 and 2013**



**Museum of Science**  
**Financial Statements — June 30, 2014 and 2013**

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*Independent Auditors' Report*

Board of Trustees  
Museum of Science  
Boston, Massachusetts

We have audited the accompanying financial statements of the Museum of Science (the "Museum"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum of Science as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Mayer Heffman McCann P.C.*

October 9, 2014  
Boston, Massachusetts

**Museum of Science**  
**Statements of Financial Position — June 30, 2014 and 2013**

<i>(in thousands)</i>	2014	2013
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 21,265	\$ 19,356
Accounts receivable	1,341	1,586
Grants receivable	2,919	3,420
Pledges receivable, net (Note 3)	6,632	5,349
Prepaid expenses and other current assets	1,964	861
Total current assets	34,121	30,572
Noncurrent assets		
Pledges receivable, net (Note 3)	11,433	15,545
Investments (Notes 4 and 5)	113,189	98,144
Assets of split interest agreements (Note 4)	16,186	14,352
Other assets, net of amortization	841	1,540
Property, plant and equipment, net (Note 7)	61,249	61,486
Total assets	\$ 237,019	\$ 221,639
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,900	\$ 5,127
Deferred revenue	4,670	4,804
Current portion of liability under management agreement (Note 8)	205	205
Total current liabilities	9,775	10,136
Noncurrent liabilities		
Annuity payable and deferred compensation (Note 9)	561	487
Liability under split interest agreements	1,505	1,512
Liability under management agreement (Note 8)	2,000	2,205
Asset retirement obligation	1,253	1,179
Capital leases (Note 10)	3,922	2,699
Total liabilities	19,016	18,218
Net assets (Note 11)		
Unrestricted		
Unrestricted operating	295	264
Board designated operating	8,591	8,976
Board designated quasi-endowment	10,822	9,252
Net investment in plant	54,045	55,179
Total unrestricted	73,753	73,671
Temporarily restricted		
Gifts, grants, and endowment income	36,872	35,651
Unappropriated endowment gains	63,192	53,489
Total temporarily restricted	100,064	89,140
Permanently restricted		
Endowment principal and other	44,186	40,610
Total permanently restricted	44,186	40,610
Total net assets	218,003	203,421
Total liabilities and net assets	\$ 237,019	\$ 221,639

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

**Museum of Science**  
**Statement of Activities for the Year Ended June 30, 2014**  
**(with comparative totals for the year ended June 30, 2013)**

(in thousands)	Unrestricted							2014 Total	2013 Total
	Operating	Designated Funds	Quasi- Endowment	Plant Fund	Total unrestricted	Temporarily restricted	Permanently restricted		
<b>Income</b>									
Support									
Contributions, grants, and pledges (Note 3)	\$ 3,230	\$ 1,869			\$ 5,099	\$ 6,957	\$ 3,305	\$ 15,361	\$ 22,527
Contributed services and gifts in kind (Note 12)	2,836	-		\$ 369	3,205	-	-	3,205	2,987
Government grants (Note 13)	6,193	768		552	7,513	-	-	7,513	11,570
Total support	12,259	2,637		921	15,817	6,957	3,305	26,079	37,084
Revenue									
Admissions	11,800	-		-	11,800	-	-	11,800	10,600
Memberships	7,233	-		-	7,233	-	-	7,233	7,032
Program fees	6,630	1,085		-	7,715	-	-	7,715	6,752
Ancillary services	6,561	-		-	6,561	-	-	6,561	6,048
Endowment income per spending policy (Note 5)	1,120	539		-	1,659	2,745	-	4,404	4,501
Other income	1,368	468		205	2,041	93	-	2,134	2,153
Net assets released from restrictions (Note 11)	6,722	784	\$ 32	2,665	10,203	(10,194)	(9)	-	-
Transfers to operating fund	5,229	(5,229)	-	-	-	-	-	-	-
Total revenue	46,663	(2,353)	32	2,870	47,212	(7,356)	(9)	39,847	37,086
Total income	58,922	284	32	3,791	63,029	(399)	3,296	65,926	74,170
<b>Expenses</b>									
Program services									
Exhibits	7,894	-	-	-	7,894	-	-	7,894	7,083
Visitor and outreach programs	11,280	-	-	-	11,280	-	-	11,280	11,371
Formal education programs	7,837	-	-	-	7,837	-	-	7,837	6,830
Visitor and member services	4,518	-	-	-	4,518	-	-	4,518	4,409
Other program activities	9,285	-	-	-	9,285	-	-	9,285	9,323
Total program services	40,814	-	-	-	40,814	-	-	40,814	39,016
Supporting services									
Administration and general	5,705	-	-	-	5,705	-	-	5,705	5,338
Facility operations	5,456	-	-	-	5,456	-	-	5,456	5,235
Fundraising	4,243	-	-	-	4,243	-	-	4,243	4,156
Interest expense	144	-	-	-	144	-	-	144	142
Depreciation, amortization, and losses on disposal	53	-	-	7,559	7,612	-	-	7,612	6,845
Transfers from operating fund	2,468	(2,219)	-	(249)	-	-	-	-	-
Recovery of underwater endowment funds (Note 5)	-	(2)	-	-	(2)	2	-	-	-
Other transfers	-	2,890	(505)	(2,385)	-	16	(16)	-	-
Total supporting services	18,069	669	(505)	4,925	23,158	18	(16)	23,160	21,716
Total expenses	58,883	669	(505)	4,925	63,972	18	(16)	63,974	60,732
Change in net assets before investment gains and change in value of split interest agreements									
	39	(385)	537	(1,134)	(943)	(417)	3,312	1,952	13,438
Investment earnings, net of endowment income per spending policy (Notes 4 and 5)									
	(8)	-	1,033	-	1,025	9,711	38	10,774	4,232
Change in value of split-interest agreements									
	-	-	-	-	-	1,630	226	1,856	3,915
Change in net assets									
	31	(385)	1,570	(1,134)	82	10,924	3,576	14,582	21,585
Net assets, beginning of year									
	264	8,976	9,252	55,179	73,671	89,140	40,610	203,421	181,836
Net assets, end of year									
	\$ 295	\$ 8,591	\$ 10,822	\$ 54,045	\$ 73,753	\$ 100,064	\$ 44,186	\$ 218,003	\$ 203,421

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

# Museum of Science

## Statement of Activities for the Year Ended June 30, 2013

(in thousands)	Unrestricted							Total
	Operating	Designated Funds	Quasi-Endowment	Plant Fund	Total unrestricted	Temporarily restricted	Permanently restricted	
<b>Income</b>								
Support								
Contributions, grants, and pledges (Note 3)	\$ 3,069	\$ 1,944	\$ 847		\$ 5,860	\$ 14,601	\$ 2,066	\$ 22,527
Contributed services and gifts in kind (Note 12)	2,827	-	-	\$ 160	2,987	-	-	2,987
Government grants (Note 13)	5,623	470	-	5,477	11,570	-	-	11,570
Total support	11,519	2,414	847	5,637	20,417	14,601	2,066	37,084
Revenue								
Admissions	10,600	-	-	-	10,600	-	-	10,600
Memberships	7,017	-	-	15	7,032	-	-	7,032
Program fees	5,990	762	-	-	6,752	-	-	6,752
Ancillary services	6,048	-	-	-	6,048	-	-	6,048
Endowment income per spending policy (Note 5)	1,165	534	-	-	1,699	2,802	-	4,501
Other income	1,331	419	1	205	1,956	197	-	2,153
Net assets released from restrictions (Note 11)	7,116	1,379	-	3,376	11,871	(11,869)	(2)	-
Transfers to operating fund	4,938	(4,938)	-	-	-	-	-	-
Total revenue	44,205	(1,844)	1	3,596	45,958	(8,870)	(2)	37,086
Total income	55,724	570	848	9,233	66,375	5,731	2,064	74,170
<b>Expenses</b>								
Program services								
Exhibits	7,083	-	-	-	7,083	-	-	7,083
Visitor and outreach programs	11,371	-	-	-	11,371	-	-	11,371
Formal education programs	6,830	-	-	-	6,830	-	-	6,830
Visitor and member services	4,409	-	-	-	4,409	-	-	4,409
Other program activities	9,323	-	-	-	9,323	-	-	9,323
Total program services	39,016	-	-	-	39,016	-	-	39,016
Supporting services								
Administration and general	5,338	-	-	-	5,338	-	-	5,338
Facility operations	5,235	-	-	-	5,235	-	-	5,235
Fundraising	4,156	-	-	-	4,156	-	-	4,156
Interest expense	142	-	-	-	142	-	-	142
Depreciation, amortization, and losses on disposal	78	-	-	6,767	6,845	-	-	6,845
Transfers from operating fund	1,703	(1,446)	-	(257)	-	-	-	-
Recovery of underwater endowment funds (Note 5)	-	(36)	-	-	(36)	36	-	-
Other transfers	-	1,155	(52)	(1,013)	90	(53)	(37)	-
Total supporting services	16,652	(327)	(52)	5,497	21,770	(17)	(37)	21,716
Total expenses	55,668	(327)	(52)	5,497	60,786	(17)	(37)	60,732
Change in net assets before investment gains and change in value of split interest agreements								
	56	897	900	3,736	5,589	5,748	2,101	13,438
Investment earnings, net of endowment income per spending policy (Notes 4 and 5)								
	(23)	-	355	-	332	3,878	22	4,232
Change in value of split-interest agreements								
	-	-	-	-	-	3,781	134	3,915
Change in net assets								
	33	897	1,255	3,736	5,921	13,407	2,257	21,585
Net assets, beginning of year								
	231	8,079	7,997	51,443	67,750	75,733	38,353	181,836
Net assets, end of year								
	\$ 264	\$ 8,976	\$ 9,252	\$ 55,179	\$ 73,671	\$ 89,140	\$ 40,610	\$ 203,421

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

**Museum of Science**  
**Statements of Cash Flows for the Years Ended June 30, 2014 and 2013**

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<i>(in thousands)</i>	2014	2013
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 14,582	\$ 21,585
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation, capital amortization, and loss on disposal	7,559	6,767
Net realized and unrealized investment gains before appropriation for endowment spending policy	(14,729)	(8,370)
Dividends and interest retained for investing activities	(323)	(267)
Contributions of securities to be held for investment	-	(62)
Contributions of capitalized assets	(369)	(160)
Contributions and grants restricted to endowment	(2,410)	(8,209)
Contributions and grants restricted for capital projects	(5,730)	(1,808)
Change in value of split interest agreements	(1,856)	(3,915)
Changes in assets and liabilities:		
Accounts receivable	245	(132)
Grants receivable	501	(771)
Pledges receivable for operating activities	636	506
Prepaid expenses and other assets	(368)	(256)
Accounts payable, accrued liabilities, and other liabilities	(784)	23
Deferred revenue	(134)	(207)
Net cash provided by (used in) operating activities	<u>(3,180)</u>	<u>4,724</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(25,326)	(21,103)
Sales of investments	25,332	22,880
Purchases of other investment assets	(85)	(52)
Additions to property, plant, and equipment	(4,924)	(9,617)
Net cash used in investing activities	<u>(5,003)</u>	<u>(7,892)</u>
<b>Cash flows from financing activities</b>		
Contributions and grants restricted to endowment	2,410	8,209
Contributions and grants restricted for capital projects	5,730	1,808
Net decrease (increase) in pledges receivable for financing activities	2,193	(8,356)
Payments on capital leases	(256)	(249)
Net increase (decrease) in split interest agreements	15	(165)
Net cash provided by financing activities	<u>10,092</u>	<u>1,247</u>
Net change in cash and cash equivalents	1,909	(1,921)
Cash and cash equivalents at beginning of year	19,356	21,277
Cash and cash equivalents at end of year	<u>\$ 21,265</u>	<u>\$ 19,356</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 144	\$ 142

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



# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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### NOTE 1 – ORGANIZATION

The Museum of Science (the “Museum”) is a private, non-profit corporation chartered in 1831 as the Boston Society of Natural History by a special act of the Legislature of the Commonwealth of Massachusetts. In 1968, the legal name of the corporation was changed to Museum of Science by another special act of the Massachusetts Legislature. The Museum is accredited by the American Alliance of Museums, the Association of Science-Technology Centers, and the Association of Zoos and Aquariums.

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

### NOTE 2 – ACCOUNTING POLICIES

The Museum prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States (“US GAAP”). The significant accounting policies followed by the Museum are as follows:

#### **Unrestricted Net Assets**

Unrestricted net assets are not subject to donor-imposed stipulations. Support and 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.

Unrestricted net assets are divided into four categories:

*Unrestricted operating* funds are funds with neither donor-imposed restrictions nor board- or management-imposed limitations on use.

*Board designated operating* funds are funds which the Museum’s Board of Trustees, or management on their behalf, have placed purpose or time-related limitations on use.

*Board designated quasi-endowment* funds are funds which the Museum’s Board has designated to function as endowments (see Note 5).

*Net investment in plant* is the book value of the Museum’s capitalized assets, net of accumulated depreciation and amortization, less outstanding capital leases (see Note 10) and asset retirement obligations (see below within this Note).

#### **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.

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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### Fair Value

The Museum reports certain assets and liabilities at fair value on a recurring and non-recurring basis depending on the underlying accounting policy. Fair value is defined as the price that would be received or paid in the most advantageous market on the measurement date. Recurring fair value measures include the Museum's investments and assets and liabilities of split interest agreements. Non-recurring measures include pledges receivable and asset retirement obligations. Fair value standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, the Museum reports certain investments using the net asset value ("NAV") per share as determined by its investment managers under the so-called "practical expedient". The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the Museum to classify its assets and liabilities into a three-level hierarchy, based on the priority of inputs to the valuation technique, as discussed below, or in accordance with the NAV practical expedient rules which allow for either Level 2 or Level 3 reporting, depending on lock-up and notice periods associated with redemption of the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level 1** – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include mutual funds and listed equity and debt securities traded on a stock exchange. Level 1 valuations involve a lesser degree of judgement than Level 2 or Level 3.

**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. Also included are investments reported at net asset value per share, or its equivalent, with lock-up periods of 90 days or less.

**Level 3** – Pricing inputs are unobservable for the instrument and/or include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgement or estimation. Also included are investments reported at net asset value per share with lock-up periods in excess of 90 days.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to that instrument. Subsequent market fluctuations could materially affect the fair value of instruments reported in these financial statements.

### 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. At June 30, 2014 and 2013, 98% and 97%, respectively of cash and cash equivalents were held in excess of federally insured limits.

### Pledges Receivable and Contribution Revenue

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the period committed. Conditional promises to give are not recognized until such time as the conditions on which they depend are substantially met. Intentions to give which are not legally enforceable are recorded when the gift is received.

Contributions of assets other than cash are recorded at their estimated fair value when originally pledged or donated. The initially recorded fair value is generally considered a Level 1 or Level 2 measurement depending

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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on the nature of the donated asset. Contributions to be received after one year are discounted using risk-adjusted discount rates at the date of the pledge agreement. These discount rates range from approximately one to seven percent. This is considered a Level 2 fair value measurement. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based on management's judgement of potential defaults based on the performance and circumstances associated with each pledge.

### Investments

Investments are carried at fair value. Investments associated with the Museum's endowment are pooled, with returns net of investment fees being allocated based on the source of the funds.

Interest, dividends, and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the use of income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

### Assets and Liabilities under Split Interest Agreements

Assets and liabilities under split-interest agreements are recorded at fair value and in the appropriate net asset category based on donor stipulation. 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. Separate liabilities have been established for those agreements for which the Museum is a trustee. Agreements for which the Museum is not the trustee are recorded as assets net of the associated liability.

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. The initially recorded fair value of the donated investments are determined based on the nature of the investment received, and have generally represented Level 1 measurements. Due to unobservable inputs relating to actuarial assumptions made with respect to the income beneficiaries, the initial measurement of the related obligations are Level 2 or Level 3, depending on the existence of comparable instruments in the market.

### Museum Collections

The Museum's collections consist of approximately 30,000 artifacts used primarily for educational activities encompassing interpretations, discovery spaces, exhibits, lectures, classes, demonstrations, reference services, or other programs. The Museum also has a historical and archival collection that documents the history of the institution. The composition of the Museum's collections by artifact type is as follows:

Natural Sciences	20,000 items
Cultural/Physical Science	5,000 items
Artwork	2,000 items
Institutional History	3,000 items
Archives	300 linear feet

The Museum's Collections Management Policy stipulates that the Museum will only acquire objects useful in fulfilling the educational purpose stated in its mission. The Museum accepts only those objects that can be immediately put on display in an exhibit, used in educational programs, or used in future programming.

Items may be de-accessioned from the collections if they are determined to be no longer useful or relevant in assisting the Museum in fulfilling its mission. Consistent with the American Alliance of Museums' Code of Ethics, Museum policy specifies that proceeds from the de-accessioning of an item may only be used for the conservation or acquisition of other collections items.

In accordance with current practice generally followed by museums, collections are not recorded as assets in the accompanying financial statements. Purchased additions to the collections are recorded as expenses at the time

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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acquired. Although artifacts from the collections may from time to time be incorporated into exhibits, the Museum's exhibits themselves are not considered part of its collections and may be capitalized under the Museum's property, plant, and equipment policies.

### Property, Plant, and Equipment

Property, plant and equipment are stated at cost, or fair value at the date of donation in the case of gifts. The level of the fair value measurement depends on the nature of the donated asset. Betterments which materially add to the value of the related assets or materially extend the useful life of the assets are capitalized. Normal replacements and minor equipment purchases are included as operating expenses. The Museum capitalizes the cost of standing exhibits, while traveling exhibitions and other exhibits of a short-term duration are expensed as incurred.

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

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

### Recognition of Earned Revenue and Deferred Revenue

Government grant revenue consists of federal, state, and international government funds awarded in support of the Museum's exhibits and programs, and is recorded as revenue as expenditures are made for the supported activities. Grants received in support of the Museum's general operations are recorded as revenue when received.

Admissions revenue consists of fees paid for entrance to the Museum's exhibit halls, theaters, and special attractions, and is recorded as revenue on the date of visit.

Membership revenue consists of fees paid for household, library, and corporate memberships, and is recorded proportionally over the period of the membership.

Program fees include revenue received for the Museum's overnights program, courses, traveling and outreach programs, professional development, rental of traveling exhibits, and sale of curriculum materials. These fees are recorded at the time the related service is provided.

Ancillary services revenue includes income derived from the Museum's events and conference services, garage, food services, and store, and is recorded on the date the related service is provided.

Other income includes facility rental income, fund-raising and other event ticket sales, and corporate sponsorships. Sponsorship agreements provide for the sponsors' name and/or logo to be displayed on Museum signage, exhibits, advertising, and website, and also provide certain admission and event privileges. Sponsorship revenue is recognized proportionally over the term of the sponsorship agreement. The remaining components of other income are recognized as the related services are provided.

In accordance with these revenue recognition policies, prepayments and deposits are recorded as deferred revenue until the corresponding revenue recognition processes are complete.

### Asset Retirement Obligation

The Museum recognizes the initial 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. This is considered a Level 2 fair value measurement. 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.

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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### **Contributed Services and Gifts in Kind**

Donated materials are reported as contributions in the accompanying financial statements at their estimated fair values at the time of receipt. Donated services are reported when services are performed which would otherwise have been purchased or performed by Museum personnel, and are recorded at the estimated amount the Museum would have paid for their performance. Fair value determination of these contributions is generally a Level 1 or Level 2 measurement depending on the nature of the donated goods or services.

### **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, additions to reserves, and other discretionary transfers. Other transfers include allocations from board designated funds to fund capital projects, redesignation of reserves to quasi-endowment, and other redesignations.

### **Income Taxes**

The Museum is exempt from income taxation on activities related to its charitable purposes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is qualified to receive tax-deductible gifts and bequests under the U.S. tax code. The Museum is subject to tax on income from any business it conducts which is unrelated to its charitable purposes. The Museum's unrelated business income tax is limited and no tax provision has been made in the accompanying financial statements.

The Museum accounts for the effect of any uncertain tax positions based on a "more-likely-than-not" threshold applied to the likelihood of positions taken or expected to be taken in a tax return being sustained upon examination by the relevant taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Museum has identified its status as a tax-exempt entity and the determination of income as related or unrelated to its exempt purpose to be its only significant tax positions and has determined that such tax positions do not result in an uncertainty requiring recognition. The Museum is not currently under examination by any taxing jurisdiction. The Museum's Federal and state tax returns are generally open for examination for three years following the date filed.

### **Use of Accounting Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Significant estimates include allowances for doubtful accounts and pledges receivable, present value factors used for pledges, fair values of certain investments, capitalization of assets and determination of useful lives assigned to depreciable assets, asset and liability values associated with leased equipment, obligations under annuity and split-interest arrangements, and liabilities associated with asset retirement obligations.

### **Reclassifications**

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

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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### NOTE 3 – PLEDGES RECEIVABLE

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

<i>(in thousands)</i>	2014	2013
In one year or less	\$ 6,862	\$ 5,453
Between one and five years	12,021	15,091
Greater than five years	-	1,500
Less allowance for unfulfilled pledges	(347)	(376)
Less discount to present value	(471)	(774)
Net present value of pledges receivable, net of allowances	<u>\$ 18,065</u>	<u>\$ 20,894</u>

Net present value of pledges by purpose as of June 30, 2014 and 2013 are as follows:

<i>(in thousands)</i>	2014	2013
Purpose Restrictions		
Operating and similar funds		
Exhibits		\$ 15
Visitor and outreach programs	\$ 515	951
Formal education programs	453	391
Other program activities	103	103
General and other	1,621	1,761
Capital exhibits, property, plant, and equipment	8,105	11,193
Total operating and similar funds	<u>10,797</u>	<u>14,414</u>
Endowment and quasi-endowment		
Visitor and outreach programs	6,804	5,900
Total endowment and quasi-endowment	<u>6,804</u>	<u>5,900</u>
Unrestricted pledges with effective time restrictions	811	956
Less allowance for unfulfilled pledges	(347)	(376)
Net present value of pledges receivable, net of allowances	<u>\$ 18,065</u>	<u>\$ 20,894</u>

#### Concentration of Risk

As of June 30, 2014 and 2013, 83% and 78%, respectively, of gross pledges consisted of pledges from three major donors.

#### Conditional Promises to Give

As of June 30, 2014 and 2013, the Museum had \$2,120,000 and \$2,650,000, respectively, in conditional pledges.

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

### NOTE 4 – INVESTMENTS AND ASSETS OF SPLIT INTEREST AGREEMENTS

The Museum's investments include both its endowment and miscellaneous non-endowment holdings. Investments and assets of split interest agreements at June 30 were as follows:

(in thousands)	2014				2013			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<b>Investments</b>								
Cash and cash equivalents	\$ 1,900			\$ 1,900	\$ 1,352			\$ 1,352
Domestic equities	4,560			4,560	4,195			4,195
Fixed income	113			113	106			106
Mutual funds								
Domestic equity (growth)	4,620			4,620	4,259			4,259
International equity	3,744			3,744	3,112			3,112
Natural resources	3,712			3,712	2,328			2,328
US government debt	7,008			7,008	2,970			2,970
Commingled trust funds								
Global fixed income	-	\$ 3,629		3,629	-	\$ 3,401		3,401
Small and mid cap int'l equity	-	3,605		3,605	-	2,987		2,987
Large cap international equity	-	4,071		4,071	-	3,294		3,294
Emerging market	-	3,200		3,200	-	-		-
Natural resources	-	3,295		3,295	-	5,556		5,556
Equity hedge funds								
Domestic equity	-	14,127		14,127	-	11,043		11,043
Emerging market equity	-	-		-	-	2,689		2,689
Hedge fund of funds								
Equity long/short	-	5,961	\$ 11,126	17,087	-	5,112	\$ 10,089	15,201
Multi-strategy	-	-	6,812	6,812	-	-	8,077	8,077
Private investments								
Debt	-	-	3,534	3,534	-	-	2,843	2,843
Distressed / undervalued assets	-	-	801	801	-	-	350	350
Natural resources	-	395	-	395	-	97	-	97
Private equities	-	-	4,568	4,568	-	-	3,525	3,525
Real estate	-	-	2,711	2,711	-	-	2,664	2,664
Other alternative investments								
Emerging market debt	-	2,354	-	2,354	-	3,837	-	3,837
Other debt	-	5,676	-	5,676	-	3,978	-	3,978
Emerging market equity	-	8,011	-	8,011	-	6,802	-	6,802
Real estate	-	-	3,539	3,539	-	-	3,368	3,368
Other	-	-	117	117	-	-	110	110
<b>Total investments</b>	<b>25,657</b>	<b>54,324</b>	<b>33,208</b>	<b>113,189</b>	<b>18,322</b>	<b>48,796</b>	<b>31,026</b>	<b>98,144</b>
<b>Assets of split interest agreements</b>								
Internally managed	3,106	-	-	3,106	2,908	-	-	2,908
Administered by external trustees	-	1,497	11,583	13,080	-	1,300	10,144	11,444
<b>Total assets of split interest agreements</b>	<b>3,106</b>	<b>1,497</b>	<b>11,583</b>	<b>16,186</b>	<b>2,908</b>	<b>1,300</b>	<b>10,144</b>	<b>14,352</b>
<b>Total investments and assets of split interest agreements</b>	<b>\$ 28,763</b>	<b>\$ 55,821</b>	<b>\$ 44,791</b>	<b>\$ 129,375</b>	<b>\$ 21,230</b>	<b>\$ 50,096</b>	<b>\$ 41,170</b>	<b>\$ 112,496</b>

Included in Levels 2 and 3 are interests in split-interest agreements of which the Museum is not the trustee. The fair value consists of market values of assets held as reported by the trustees, net of the present value of the distributions expected to be paid to the income beneficiaries during their lives. Market price data is generally available for the assets held by these trusts, however the actuarial assumptions relating to the income beneficiaries render these trusts other than Level 1.

## Museum of Science

### Notes to Financial Statements – June 30, 2014 and 2013

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As of June 30, 2014, investments utilizing net asset value as a practical expedient to fair value are as follows:

	Fair value (in thousands)	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled trust funds				
Global fixed income	\$ 3,629		Monthly	10 days
Small and mid cap int'l equity	3,605		Monthly	10 days
Large cap international equity	4,071		Monthly	30 days
Emerging market	3,200		Monthly	10 days
Natural resources	3,295		Monthly	10 days
Equity hedge funds				
Domestic equity	14,127		Quarterly	60 days
Hedge fund of funds				
Equity long/short	17,088		Quarterly to Annually	45-95 days
Multi-strategy	6,812		Quarterly to Illiquid	95 days
Private investments				
Debt	3,534	\$ 2,325	Illiquid	
Distressed / undervalued assets	801	1,184	Illiquid	
Natural resources	395	1,216	Illiquid	
Private equities	4,568	1,600	Illiquid	
Real estate	2,711	1,084	Illiquid	
Other alternative investments				
Emerging market debt	2,354	-	Weekly	14 days
Other debt	5,676	-	Monthly	None
Emerging market equity	8,011	-	Monthly	30-60 days
Real estate	3,539	-	Annually	60 days
Other	117	-	Illiquid	
Total investments	<u>\$ 87,533</u>	<u>\$ 7,409</u>		

Certain of the funds above are also subject to further lock-up periods. Some investment managers reserve the right under unusual circumstances to suspend withdrawals notwithstanding the redemption and notice periods noted above; however, none of the Museum's managers has exercised those rights for the two years ended June 30, 2014 and 2013.

Management has no intentions or plans to liquidate any NAV practical expedient investments at other than NAV per share.



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### Notes to Financial Statements – June 30, 2014 and 2013

The following table shows the changes in instruments for which Level 3 inputs were used to determine fair value:

<i>(in thousands)</i>	Hedge fund of funds	Private investments	Other alternative	Split interest agreements	Total Level 3 investments
Fair Value, June 30, 2012	\$ 18,032	\$ 8,579	\$ 3,355	\$ 6,444	\$ 36,410
Contributions	11	51	-	-	62
Purchases	-	2,316	-	-	2,316
Sales	(2,057)	(2,259)	-	-	(4,316)
Income net of expenses, fees, and distributions	(41)	(189)	12	-	(218)
Realized gains/(losses)	5	262	21	-	288
Unrealized gains	2,216	622	90	-	2,928
Change in value of split interests	-	-	-	3,700	3,700
Fair Value, June 30, 2013	18,166	9,382	3,478	10,144	41,170
Purchases	-	2,712	-	-	2,712
Sales	(2,151)	(1,786)	-	-	(3,937)
Income net of expenses, fees, and distributions	(39)	(140)	4	-	(175)
Realized gains/(losses)	1,854	1,234	3	-	3,091
Unrealized gains/(losses)	108	212	171	-	491
Change in value of split interests	-	-	-	1,439	1,439
Fair Value, June 30, 2014	<u>\$ 17,938</u>	<u>\$ 11,614</u>	<u>\$ 3,656</u>	<u>\$ 11,583</u>	<u>\$ 44,791</u>

Certain funds' management fees are embedded as a cost against investment returns and, accordingly, the investment fees reported above include only those costs incurred directly by the Museum or separately disclosed by fund managers.

#### NOTE 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 112 individual donor-restricted endowment funds and 27 quasi-endowment funds established for a variety of purposes. The net assets associated with endowment funds including quasi-endowments, are classified and reported based on the existence or absence of donor imposed restrictions. As of June 30, 2014 and 2013, the endowment accounted for \$110,077,000 and \$96,410,000 of the Museum's investments, respectively. These figures do not include \$994,000 and \$989,000, respectively, of additions to the endowment which had been received but not yet invested at each year-end.

The Museum follows the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as promulgated in Massachusetts. The Board of Trustees of the Museum has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. 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

## Museum of Science

### Notes to Financial Statements – June 30, 2014 and 2013

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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.

Endowment funds segregated by net asset class at June 30, 2014 and 2013 are as follows:

<i>(in thousands)</i>	<b>2014</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
Donor-restricted funds		\$ 65,156	\$ 35,093	\$ 100,249
Board-designated funds	\$ 10,822	-	-	10,822
Total endowment net assets	<u>\$ 10,822</u>	<u>\$ 65,156</u>	<u>\$ 35,093</u>	<u>\$ 111,071</u>
	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted funds	\$ (2)	\$ 55,453	\$ 32,686	\$ 88,137
Board-designated funds	9,252	-	-	9,252
Total endowment net assets	<u>\$ 9,250</u>	<u>\$ 55,453</u>	<u>\$ 32,686</u>	<u>\$ 97,389</u>

## Museum of Science

### Notes to Financial Statements – June 30, 2014 and 2013

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The following schedules summarize the change in endowment net assets for the years ended June 30, 2014 and 2013:

<i>(in thousands)</i>	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 9,250	\$ 55,453	\$ 32,686	\$ 97,389
Investment return:				
Investment income, net of fees	155	302	-	457
Net appreciation (realized and unrealized)	1,416	13,270	38	14,724
Total investment return	1,571	13,572	38	15,181
Contributions and other additions to corpus	536	-	2,369	2,905
Endowment income allocated per spending policy	(537)	(3,867)	-	(4,404)
Other changes:				
Recovery of underwater funds	2	(2)	-	-
Endowment net assets, end of year	<u>\$ 10,822</u>	<u>\$ 65,156</u>	<u>\$ 35,093</u>	<u>\$ 111,071</u>
	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 7,959	\$ 51,619	\$ 30,982	\$ 90,560
Investment return:				
Investment income, net of fees	145	240	-	385
Net appreciation (realized and unrealized)	722	7,620	22	8,364
Total investment return	867	7,860	22	8,749
Contributions and other additions to corpus	899	-	1,682	2,581
Endowment income allocated per spending policy	(511)	(3,990)	-	(4,501)
Other changes:				
Recovery of underwater funds	36	(36)	-	-
Endowment net assets, end of year	<u>\$ 9,250</u>	<u>\$ 55,453</u>	<u>\$ 32,686</u>	<u>\$ 97,389</u>

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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### **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 \$2,000 as of June 30, 2013. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or other endowment additions. There were no deficits as of June 30, 2014.

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

### **Return Objectives and Risk Parameters**

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

### **Strategies Employed for Achieving Investment Objectives**

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

### **Endowment Spending Allocation Policy and Relationship to Investment Objectives**

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

## **NOTE 6 – BENEFICIAL INTEREST IN PERPETUAL TRUST**

The Museum receives distributions from certain funds held by a community foundation. The underlying fair value of the funds was \$1,644,000 and \$1,503,000 at June 30, 2014 and 2013, respectively. These funds are not recorded by the Museum given the variance power the community foundation holds over them. Distributions were approximately \$70,000 and \$73,000 during the years ended June 30, 2014 and 2013, respectively, and have been included in other income.

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

### NOTE 7 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2014 and 2013 consist of the following:

<i>(in thousands)</i>	2014				
	In service	Construction in progress	Total before depreciation	Accumulated depreciation	Net
Building and improvements	\$ 73,975	\$ 4,595	\$ 78,570	\$ (46,868)	\$ 31,702
Equipment	27,443	2,328	29,771	(17,069)	12,702
Exhibits	32,428	2,009	34,437	(17,592)	16,845
	<u>\$ 133,846</u>	<u>\$ 8,932</u>	<u>\$ 142,778</u>	<u>\$ (81,529)</u>	<u>\$ 61,249</u>

  

	2013				
	In service	Construction in progress	Total before depreciation	Accumulated depreciation	Net
Building and improvements	\$ 73,708	\$ 2,894	\$ 76,602	\$ (45,033)	\$ 31,569
Equipment	27,420	393	27,813	(14,558)	13,255
Exhibits	26,368	7,102	33,470	(16,808)	16,662
	<u>\$ 127,496</u>	<u>\$ 10,389</u>	<u>\$ 137,885</u>	<u>\$ (76,399)</u>	<u>\$ 61,486</u>

Depreciation expense amounted to \$7,018,000 and \$6,425,000 for the years ended June 30, 2014 and 2013, respectively.

Net losses on disposal of property, plant, and equipment were \$416,000 and \$246,000 for the years ended June 30, 2014 and 2013, respectively.

The Museum's total expenditures for constructing, hosting, and refurbishing exhibits for the years ended June 30, 2014 and 2013 were as follows:

<i>(in thousands)</i>	2014	2013
Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations	\$ 3,407	\$ 2,424
Standing exhibits added to property, plant, and equipment	<u>2,013</u>	<u>4,580</u>
	<u>\$ 5,420</u>	<u>\$ 7,004</u>

The Museum has a 99-year lease with the Massachusetts Department of Conservation and Recreation for the land occupied by the Museum's buildings. The lease calls for payment of \$1 per year over the term of the lease and expires on December 1, 2047, with an option to renew for another 99 years under the same terms and conditions as the original lease. Management does not assign a value to this agreement due to the nature of the parcel at the time the Museum entered into the agreement. Therefore no value is recorded on the statement of financial position, nor is any contribution recognized on the statement of activities.

All capitalized assets associated with asset retirement obligations have been fully depreciated in prior years.

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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### NOTE 8 – MANAGEMENT AGREEMENTS AND OTHER VENDOR CONTRACTS

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 20-year term of the agreement and renewal terms. At June 30, 2014 and 2013, the unamortized balance under this agreement was \$2,205,000 and \$2,410,000, respectively.

In addition to the food services agreement, the Museum has contracted with an outside vendor to operate its gift shop. This contract was extended in 2014 and expires in 2020. Both agreements provide for minimum annual rental payments to the Museum, with additional amounts due based on each vendor's revenue. The combined minimum rent due each year under these contracts is \$1,825,000. Total actual revenue realized was \$2,286,000 and \$2,167,000 for the years ended June 30, 2014 and 2013, respectively, which is included in ancillary services and other income.

### NOTE 9 – ANNUITY PAYABLE, DEFERRED COMPENSATION, AND BENEFIT PLANS

The Museum has an annuity agreement with a related party individual which provides for fixed annual payments for life. Using standard actuarial methods and life tables, management has estimated the net present value of this obligation as \$242,000 and \$254,000 at June 30, 2014 and 2013, respectively. Of these amounts, the current portion of \$45,000 is included in accounts payable and accrued expenses each year.

In addition, the Museum has a non-qualified deferred compensation plan under section 457 of the Internal Revenue Code covering certain employees. Assets associated with this plan in the amount of \$364,000 and \$278,000 at June 30, 2014 and 2013, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. For the years ended June 30, 2014 and 2013, the Museum contributed \$22,000 and \$19,000, respectively, to the 457 plan.

The Museum has offered certain employees retention compensation conditional on the employees' satisfactory performance and continued service through a specified future date. Due to their conditional nature, no amount is recorded for these incentives on the financial statements.

The Museum has a long-term employment agreement with its President and Director that provides a variety of benefits typical in the education sector. As these provisions are conditional on the President and Director's continued employment and/or termination in good standing, no amounts are recorded for the future portion of this contract on the financial statements.

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

The Savings Plan allows employees to defer a percentage of their compensation on a pre- or post-tax basis (or both) subject to IRS limits. All employees, excluding interns, are automatically enrolled in the Savings Plan on the first day of the month following their date of hire at a rate of 3% of the employee's compensation. All employees are eligible to participate in the Savings Plan, and may cease or resume participation at any time.

The Museum contributes an age-based percentage of eligible employees' annual compensation to the Retirement Plan. The Retirement Plan also provides for a 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. 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 the Retirement Plan. Vesting provisions for Retirement Plan vary according to length of service.

For the years ended June 30, 2014 and 2013, the Museum incurred \$1,084,000 and \$1,052,000, respectively, in contribution costs to the Retirement Plan. The Museum does not make contributions to the Savings Plan.

## Museum of Science

### Notes to Financial Statements – June 30, 2014 and 2013

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#### NOTE 10 – LEASES

The Museum leases certain energy conservation and other facility equipment under a capital lease which expires in July, 2024. The lease allows for an annual prepayment at the election of the Museum with a modest prepayment penalty.

The Museum has financed the acquisition of equipment for its 4-D theater under a capital lease which expires in July, 2024. The agreement also includes the provision of programs, supplies, and maintenance services for the theater. The portion of the annual payments representing those items are expensed in the year paid.

The Museum also leases certain pieces of office equipment under capital leases which expire at various dates through July, 2018.

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2014 are as follows:

<i>(in thousands)</i>	<b>Capital leases</b>	<b>Programs and services</b>
2015	\$ 617	\$ 252
2016	605	286
2017	597	298
2018	585	311
2019	550	324
After 2019	2,676	1,849
Total minimum lease payments	<u>5,630</u>	<u>\$ 3,320</u>
Interest	(1,312)	
Present value of net minimum lease payments	<u>4,318</u>	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	(396)	
Long term obligations under capital leases	<u>\$ 3,922</u>	

The net book value of assets acquired under capital leases was \$4,392,000 and \$3,375,000 as of June 30, 2014 and 2013, respectively.

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

### NOTE 11 – NET ASSETS

The following tables present the three categories of net assets by purpose as of June 30:

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
<i>(in thousands)</i>				
Operating funds, gifts and grants, and endowment income available for spending				
Exhibits	\$ 2,240	\$ 1,633		\$ 3,873
Visitor and outreach programs	501	3,860		4,361
Formal education programs	537	543		1,080
Visitor and member services	-	105		105
Other program activities	10	173		183
General and other	6,598	325		6,923
Capital exhibits, property, plant, and equipment	53,045	4,616		57,661
Split interest agreements	-	12,324	\$ 2,357	14,681
Total operating and similar funds	62,931	23,579	2,357	88,867
Endowment and quasi-endowment corpus and accumulated gains not allocated for spending				
Exhibits	2,320	32,033	11,525	45,878
Visitor and outreach programs	7,071	13,915	16,232	37,218
Formal education programs	467	867	315	1,649
Visitor and member services	-	47	8	55
Other program activities	690	1,143	1,787	3,620
General and other	274	17,151	5,226	22,651
Total endowment and quasi-endowment	10,822	65,156	35,093	111,071
Pledges receivable	-	11,329	6,736	18,065
Total net assets	\$ 73,753	\$ 100,064	\$ 44,186	\$ 218,003
	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating funds, gifts and grants, and endowment income available for spending				
Exhibits	\$ 1,445	\$ 1,788		\$ 3,233
Visitor and outreach programs	658	2,934		3,592
Formal education programs	884	495		1,379
Visitor and member services	-	103		103
Other program activities	-	214		214
General and other	7,140	286		7,426
Capital exhibits, property, plant, and equipment	54,296	2,057		56,353
Split interest agreements	-	10,757	\$ 2,083	12,840
Total operating and similar funds	64,423	18,634	2,083	85,140
Endowment and quasi-endowment corpus and accumulated gains not allocated for spending				
Exhibits	2,090	27,748	11,487	41,325
Visitor and outreach programs	5,924	11,124	13,888	30,936
Formal education programs	421	751	299	1,471
Visitor and member services	-	41	8	49
Other program activities	570	852	1,787	3,209
General and other	243	14,937	5,217	20,397
Total endowment and quasi-endowment	9,248	55,453	32,686	97,387
Pledges receivable	-	15,053	5,841	20,894
Total net assets	\$ 73,671	\$ 89,140	\$ 40,610	\$ 203,421



# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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Temporarily restricted net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by the occurrence of other events specified by the donors or implied by the nature of the gift. For the years ended June 30, 2014 and 2013 restricted net assets were released for the following uses:

<i>(in thousands)</i>	2014	2013
Operating funds		
Exhibits	\$ 1,451	\$ 1,697
Visitor and outreach programs	3,446	3,508
Formal education programs	1,233	1,100
Visitor and member services	105	113
Other program activities	224	310
Administration and general	(12)	73
Facility operations	20	27
Fundraising	255	288
Total operating funds	<u>6,722</u>	<u>7,116</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	784	1,379
Total board designated funds and quasi-endowment	<u>816</u>	<u>1,379</u>
Plant fund		
Capital exhibits	1,708	2,066
Other property, plant, and equipment	957	1,310
Total plant fund	<u>2,665</u>	<u>3,376</u>
Total net assets released from restrictions	<u>\$ 10,203</u>	<u>\$ 11,871</u>

### NOTE 12 – CONTRIBUTED SERVICES AND GIFTS IN KIND

Contributed services and gifts in kind for the years ended June 30, 2014 and 2013 were as follows:

<i>(in thousands)</i>	2014	2013
Pro bono outside services:		
Legal	\$ 140	\$ 246
Marketing	1,838	1,760
Miscellaneous	51	50
In-house volunteers	790	764
Gifts in kind:		
Capital software	367	150
Miscellaneous	19	17
Total	<u>\$ 3,205</u>	<u>\$ 2,987</u>

# Museum of Science

## Notes to Financial Statements – June 30, 2014 and 2013

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### NOTE 13 – GOVERNMENT AWARDS

The Museum has received federal, state, and non-U.S. government awards to support both its general operations and specific projects and programs. Funds expended in connection with these grants are subject to review or audit by the granting agencies. Government support for the years ended June 30, 2014 and 2013 was as follows:

<i>(in thousands)</i>	2014	2013
Direct cost support		
General operating support	\$ 55	\$ 50
Exhibits	3,404	3,768
Programs	2,611	1,853
Capital projects	508	5,201
	<u>6,578</u>	<u>10,872</u>
Indirect cost recovery	811	747
Net change in estimate for unbilled subawards	124	(49)
Total	<u>\$ 7,513</u>	<u>\$ 11,570</u>

The Museum's federal awards include substantial subawards. At the end of each fiscal year, the Museum estimates and accrues for charges incurred, but not yet billed, by its subawardees in order to more accurately reflect total program costs. The accrual is reversed in the subsequent fiscal year as actual subaward billings are received.

### NOTE 14 – RELATED PARTIES

The Museum maintains vendor relationships with several companies, the principals of which are members or related to members of the Museum's Board of Trustees. 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, 2014 and 2013 the Museum expended funds totaling \$236,000 and \$257,000, 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. Trustees receive a 15% discount on pricing for such events; otherwise these companies are subject to the same policies and controls as the Museum applies to its other customers. For the years ended June 30, 2014 and 2013 the Museum earned \$117,000 and \$19,000, respectively, from these transactions.

### NOTE 15 – COLLABORATIVE ARRANGEMENTS

The Museum is a member of the Science Museum Exhibit Collaborative ("SMEC"). Membership requires the payment of an annual membership fee and a commitment to produce a major travelling exhibition every five years. Standard exhibit rental fees are waived when SMEC member institutions host exhibits produced by other members under this arrangement.

In addition to the requirements under the SMEC agreement, the Museum may from time to time invest funds in travelling exhibitions produced by other institutions in return for a share of the proceeds.

### NOTE 16 – NON-CASH ACTIVITIES

Non-cash investing and financing activities included \$1,622,000 and \$101,000 of additions to property, plant and equipment purchased with capital leases for the year ended June 30, 2014 and 2013, respectively.

## **Museum of Science**

### **Notes to Financial Statements – June 30, 2014 and 2013**

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#### **NOTE 17 – SUBSEQUENT EVENTS**

The Museum has performed an evaluation of subsequent events through October 9, 2014, which is the date the financial statements were issued. No material subsequent events were noted.

#### **NOTE 18 – CONTINGENCIES**

The Museum generally is subject to claims which arise in the normal course of its operations. In the opinion of management, the outcome of these actions will not have a material adverse effect on the financial position of the Museum.