

 **Museum of Science**

**Financial Statements**  
**June 30, 2015 and 2014**



# Museum of Science

## Financial Statements — June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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.



*Other Matters*

*Supplemental Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Schedules of Functional Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Mayer Hoffman McCann P.C.*

October 15, 2015  
Boston, Massachusetts

**Museum of Science**  
**Statements of Financial Position — June 30, 2015 and 2014**

<i>(in thousands)</i>	2015	2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 23,140	\$ 21,265
Accounts receivable	1,765	1,341
Grants receivable	1,801	2,919
Pledges receivable, net (Note 3)	7,687	6,632
Prepaid expenses and other current assets	1,007	1,964
Total current assets	35,400	34,121
Noncurrent assets		
Pledges receivable, net (Note 3)	10,648	11,433
Investments (Notes 4 and 5)	111,191	113,189
Assets of split interest agreements (Note 4)	15,795	16,186
Other assets, net of amortization	952	841
Property, plant and equipment, net (Note 7)	68,379	61,249
Total assets	\$ 242,365	\$ 237,019
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,105	\$ 5,105
Deferred revenue	5,856	4,670
Total current liabilities	10,961	9,775
Noncurrent liabilities		
Annuity payable and deferred compensation (Note 9)	753	561
Liability under split interest agreements	1,447	1,505
Liability under management agreement (Note 8)	1,795	2,000
Asset retirement obligation	1,331	1,253
Capital leases (Note 10)	4,010	3,922
Total liabilities	20,297	19,016
Net assets (Note 11)		
Unrestricted		
Unrestricted operating	303	295
Board designated operating	8,137	8,591
Board designated quasi-endowment	10,506	10,822
Net investment in plant	60,040	54,045
Total unrestricted	78,986	73,753
Temporarily restricted		
Gifts, grants, and endowment income	35,291	34,909
Temporary endowment principal	1,964	1,964
Unappropriated endowment gains	59,347	63,191
Total temporarily restricted	96,602	100,064
Permanently restricted		
Endowment principal and other	46,480	44,186
Total permanently restricted	46,480	44,186
Total net assets	222,068	218,003
Total liabilities and net assets	\$ 242,365	\$ 237,019

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

**Museum of Science**  
**Statement of Activities for the Year Ended June 30, 2015**  
**(with comparative totals for the year ended June 30, 2014)**

(in thousands)

	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	2015 Total	2014 Total
	Operating	Designated Funds	Quasi-Endowment	Plant Fund					
<b>Income</b>									
Support									
Contributions, grants, and pledges (Note 3)	\$ 3,183	\$ 2,103	\$ 5		\$ 5,291	\$ 12,885	\$ 1,080	\$ 19,256	\$ 15,390
Contributed services and gifts in kind (Note 12)	2,558	-	-	\$ 4,577	7,135	-	-	7,135	3,205
Government grants (Note 13)	6,333	820	-	326	7,479	-	-	7,479	7,513
Total support	12,074	2,923	5	4,903	19,905	12,885	1,080	33,870	26,108
Revenue									
Admissions	12,135	-	-	-	12,135	-	-	12,135	11,800
Memberships	6,918	-	-	15	6,933	-	-	6,933	7,233
Program fees	9,738	287	-	-	10,025	-	-	10,025	7,715
Ancillary services	6,360	-	-	-	6,360	-	-	6,360	6,561
Endowment income allocated per spending policy (Note 5)	1,116	537	-	-	1,653	2,831	-	4,484	4,404
Other income	1,339	470	2	358	2,169	26	-	2,195	2,126
Net assets released from restrictions (Note 11)	7,600	1,258	-	5,073	13,931	(13,931)	-	-	-
Use of designated funds	5,824	(9,135)	-	3,311	-	-	-	-	-
Total revenue	51,030	(6,583)	2	8,757	53,206	(11,074)	-	42,132	39,839
Total income	63,104	(3,660)	7	13,660	73,111	1,811	1,080	76,002	65,947
<b>Expenses</b>									
Program services									
Exhibits	7,276	-	-	-	7,276	-	-	7,276	7,894
Visitor and outreach programs	13,031	-	-	-	13,031	-	-	13,031	11,280
Formal education programs	9,445	-	-	-	9,445	-	-	9,445	7,837
Visitor and member services	4,229	-	-	-	4,229	-	-	4,229	4,518
Other program activities	9,585	-	-	-	9,585	-	-	9,585	9,285
Total program services	43,566	-	-	-	43,566	-	-	43,566	40,814
Supporting services									
Administration and general	5,847	-	-	-	5,847	-	-	5,847	5,734
Facility operations	5,089	-	-	-	5,089	-	-	5,089	5,456
Fundraising	4,820	-	-	-	4,820	-	-	4,820	4,243
Interest expense	233	-	-	-	233	-	-	233	144
Depreciation, amortization, and losses on disposal	5	-	-	7,895	7,900	-	-	7,900	7,612
Transfers from operating fund	3,536	(3,212)	(94)	(230)	-	-	-	-	-
Total supporting services	19,530	(3,212)	(94)	7,665	23,889	-	-	23,889	23,189
Total expenses	63,096	(3,212)	(94)	7,665	67,455	-	-	67,455	64,003
Change in net assets from income and expenses	8	(448)	101	5,995	5,656	1,811	1,080	8,547	1,944
Other transfers	-	(6)	-	-	(6)	(1,280)	1,286	-	-
Investment earnings, net of endowment income per spending policy (Notes 4 & 5)	-	-	(417)	-	(417)	(3,851)	(1)	(4,269)	10,782
Change in value of split-interest agreements	-	-	-	-	-	(142)	(71)	(213)	1,856
Change in net assets	8	(454)	(316)	5,995	5,233	(3,462)	2,294	4,065	14,582
Net assets, beginning of year	295	8,591	10,822	54,045	73,753	100,064	44,186	218,003	203,421
Net assets, end of year	\$ 303	\$ 8,137	\$ 10,506	\$ 60,040	\$ 78,986	\$ 96,602	\$ 46,480	\$ 222,068	\$ 218,003

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

# Museum of Science

## Statement of Activities for the Year Ended June 30, 2014

(in thousands)	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operating	Designated Funds	Quasi-Endowment	Plant Fund				
<b>Income</b>								
Support								
Contributions, grants, and pledges (Note 3)	\$ 3,230	\$ 1,869			\$ 5,099	\$ 6,995	\$ 3,296	\$ 15,390
Contributed services and gifts in kind (Note 12)	2,836	-		\$ 369	3,205	-	-	3,205
Government grants (Note 13)	6,193	768		552	7,513	-	-	7,513
Total support	12,259	2,637		921	15,817	6,995	3,296	26,108
Revenue								
Admissions	11,800	-		-	11,800	-	-	11,800
Memberships	7,233	-		-	7,233	-	-	7,233
Program fees	6,630	1,085		-	7,715	-	-	7,715
Ancillary services	6,561	-		-	6,561	-	-	6,561
Endowment income allocated per spending policy (Note 5)	1,120	539		-	1,659	2,745	-	4,404
Other income	1,360	468		205	2,033	93	-	2,126
Net assets released from restrictions (Note 11)	6,751	784	\$ 32	2,665	10,232	(10,232)	-	-
Use of designated funds	5,229	(8,119)	505	2,385	-	-	-	-
Total revenue	46,684	(5,243)	537	5,255	47,233	(7,394)	-	39,839
Total income	58,943	(2,606)	537	6,176	63,050	(399)	3,296	65,947
<b>Expenses</b>								
Program services								
Exhibits	7,894	-	-	-	7,894	-	-	7,894
Visitor and outreach programs	11,280	-	-	-	11,280	-	-	11,280
Formal education programs	7,837	-	-	-	7,837	-	-	7,837
Visitor and member services	4,518	-	-	-	4,518	-	-	4,518
Other program activities	9,285	-	-	-	9,285	-	-	9,285
Total program services	40,814	-	-	-	40,814	-	-	40,814
Supporting services								
Administration and general	5,734	-	-	-	5,734	-	-	5,734
Facility operations	5,456	-	-	-	5,456	-	-	5,456
Fundraising	4,243	-	-	-	4,243	-	-	4,243
Interest expense	144	-	-	-	144	-	-	144
Depreciation, amortization, and losses on disposal	53	-	-	7,559	7,612	-	-	7,612
Transfers from operating fund	2,468	(2,219)	-	(249)	-	-	-	-
Total supporting services	18,098	(2,219)	-	7,310	23,189	-	-	23,189
Total expenses	58,912	(2,219)	-	7,310	64,003	-	-	64,003
Change in net assets from income and expenses	31	(387)	537	(1,134)	(953)	(399)	3,296	1,944
Other transfers	-	2	-	-	2	(18)	16	-
Investment earnings, net of endowment income per spending policy (Notes 4 and 5)	-	-	1,033	-	1,033	9,711	38	10,782
Change in value of split-interest agreements	-	-	-	-	-	1,630	226	1,856
Change in net assets	31	(385)	1,570	(1,134)	82	10,924	3,576	14,582
Net assets, beginning of year	264	8,976	9,252	55,179	73,671	89,140	40,610	203,421
Net assets, end of year	\$ 295	\$ 8,591	\$ 10,822	\$ 54,045	\$ 73,753	\$ 100,064	\$ 44,186	\$ 218,003

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

# Museum of Science

## Statements of Cash Flows for the Years Ended June 30, 2015 and 2014

<i>(in thousands)</i>	2015	2014
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 4,065	\$ 14,582
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation, capital amortization, and loss on disposal	7,895	7,559
Net realized and unrealized investment losses (gains) before appropriation for endowment spending policy	214	(14,729)
Dividends and interest retained for investing activities	(221)	(323)
Contributions of capitalized assets	(4,577)	(369)
Contributions and grants restricted to endowment	(2,115)	(2,410)
Contributions and grants restricted for capital projects	(5,129)	(5,730)
Change in value of split interest agreements	213	(1,856)
Changes in assets and liabilities:		
Accounts receivable	(424)	245
Grants receivable	1,118	501
Pledges receivable for operating activities	(4,855)	636
Prepaid expenses and other assets	975	(368)
Accounts payable, accrued liabilities, and other liabilities	(206)	(784)
Deferred revenue	1,186	(134)
Net cash used in operating activities	<u>(1,861)</u>	<u>(3,180)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(45,904)	(25,326)
Sales of investments	47,909	25,332
Purchases of other investment assets	(202)	(85)
Cash paid to acquire property, plant, and equipment	(9,632)	(4,924)
Net cash used in investing activities	<u>(7,829)</u>	<u>(5,003)</u>
<b>Cash flows from financing activities</b>		
Contributions and grants restricted to endowment	2,115	2,410
Contributions and grants restricted for capital projects	5,129	5,730
Net decrease in pledges receivable for financing activities	4,585	2,193
Payments on capital leases	(384)	(256)
Net increase in split interest agreements	120	15
Net cash provided by financing activities	<u>11,565</u>	<u>10,092</u>
Net change in cash and cash equivalents	1,875	1,909
Cash and cash equivalents at beginning of year	21,265	19,356
Cash and cash equivalents at end of year	<u>\$ 23,140</u>	<u>\$ 21,265</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest on capital leases	\$ 233	\$ 144

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



# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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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 1.4 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 liabilities on management agreements (see Note 8), capital leases (see Note 10), asset retirement obligations (see below within this Note), and other liabilities management considers capital-related.

#### **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, 2015 and 2014

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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 measures certain investments using the net asset value ("NAV") per share (or its equivalent) as reported by its investment managers under the so-called "practical expedient" to reflect fair value. 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, except for investments which measure fair value using the NAV practical expedient, for which classification into the fair value hierarchy is not required.

Instruments measured and reported at fair value other than those using the NAV practical expedient 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.

**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.

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. Bank deposits are often in excess of federally insured limits. However, management monitors its banking partners relative to their credit standing and has not experienced any losses on such accounts.

### 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 on the nature of the donated asset. Contributions to be received after one year are discounted using risk-

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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adjusted discount rates at the date of the pledge agreement. These discount rates range from approximately one to five 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, as described earlier. 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 these agreements 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 acquired. Although artifacts from the collections may from time to time be incorporated into exhibits, the

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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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 and traveling exhibits produced by the Museum for rent by other institutions. The cost of hosted traveling exhibitions produced by others and other exhibits of a short-term duration are expensed as incurred.

Depreciation is recorded on the 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, 2015 and 2014

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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.

### **Use of Designated Funds**

Use of designated funds represents allocations from reserves, quasi-endowment income, and other board designated funds to fund operating activities and capital projects.

### **Transfers from Operating Funds**

Transfers from the operating fund include the use of operating funds to fund capital projects, additions to reserves, and other discretionary transfers.

### **Other Transfers**

Other transfers include the redesignation of temporarily restricted funds to endowment, either as a result of donor stipulations that unused endowment income revert to principal at year-end, or as part of special fund-raising programs whereby funds in excess of a capital project's needs are to be used to create an endowment to support the ongoing operations or maintenance of the funded assets. Other transfers also includes transfers related to the funding or recovery of underwater endowment funds.

### **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. These reclassifications include changes resulting from the Museum's early application of the provisions of the Financial Accounting Standards Board's Accounting Standards Update No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)".

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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### NOTE 3 – PLEDGES RECEIVABLE

Pledges are expected to be realized in the following time frame as of June 30, 2015 and 2014:

<i>(in thousands)</i>	2015	2014
In one year or less	\$ 7,923	\$ 6,862
Between one and five years	11,014	12,021
Greater than five years	90	-
Less allowance for unfulfilled pledges	(344)	(347)
Less discount to present value	(348)	(471)
Net present value of pledges receivable, net of allowances	<u>\$ 18,335</u>	<u>\$ 18,065</u>

Net present value of pledges by purpose as of June 30, 2015 and 2014 are as follows:

<i>(in thousands)</i>	2015	2014
Purpose Restrictions		
Operating and similar funds		
Exhibits	\$ 536	
Visitor and outreach programs	2,792	\$ 515
Formal education programs	1,792	453
Other program activities	154	103
General and other	2,228	1,621
Capital exhibits, property, plant, and equipment	4,566	8,105
Total operating and similar funds	<u>12,068</u>	<u>10,797</u>
Endowment and quasi-endowment		
Visitor and outreach programs	5,748	6,804
Total endowment and quasi-endowment	<u>5,748</u>	<u>6,804</u>
Unrestricted pledges with effective time restrictions	863	811
Less allowance for unfulfilled pledges	(344)	(347)
Net present value of pledges receivable, net of allowances	<u>\$ 18,335</u>	<u>\$ 18,065</u>

#### Concentration of Risk

As of June 30, 2015 and 2014, 78% and 83%, respectively, of gross pledges consisted of pledges from three major donors.

#### Conditional Promises to Give

As of June 30, 2015 and 2014, the Museum had \$1,840,000 and \$2,120,000, respectively, in conditional pledges.

#### Non-binding Intentions

In addition to enforceable promises to give, the Museum often receives promises that an individual will recommend that a gift be made from a donor-advised fund or a foundation over which the individual does not have control. As donor-advised funds and foundations are not legally bound to honor such recommendations, these promises are not recorded in the financial statements. Any gifts resulting from these recommendations are recorded when received. As of June 30, 2015 and 2014, the Museum had \$4,667,000 and \$4,127,000, respectively, in outstanding non-binding intentions.

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

### 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)

	2015					2014				
	Investments measuring fair value using net asset value per share	Investments within the Level 1 hierarchy Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Investments measuring fair value using net asset value per share	Investments within the Level 1 hierarchy 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		\$ 2,732			\$ 2,732		\$ 1,900			\$ 1,900
Domestic equities		-			-		4,560			4,560
Fixed income		-			-		113			113
<b>Mutual funds</b>										
Asset allocation funds		10,159			10,159					-
Domestic equity (growth)		-			-		4,620			4,620
International equity		8,673			8,673		3,744			3,744
Natural resources		2,530			2,530		3,712			3,712
US government debt		4,958			4,958		7,008			7,008
<b>Commingled trust funds</b>										
Global fixed income	\$ 4,282	-			4,282	\$ 3,629	-			3,629
Small / mid cap int'l equity	3,350	-			3,350	3,605	-			3,605
Large cap int'l equity	3,815	-			3,815	4,071	-			4,071
All-cap int'l equity	4,903	-			4,903	-	-			-
Emerging market	2,899	-			2,899	3,200	-			3,200
Natural resources	-	-			-	3,295	-			3,295
<b>Equity hedge funds</b>										
Domestic equity	15,685	-			15,685	14,127	-			14,127
<b>Hedge fund of funds</b>										
Equity long/short	14,275	-			14,275	17,087	-			17,087
Multi-strategy	7,006	-			7,006	6,812	-			6,812
<b>Private investments</b>										
Debt	4,181	-			4,181	3,534	-			3,534
Distressed / undervalued	1,189	-			1,189	801	-			801
Natural resources	773	-			773	395	-			395
Private equities	5,977	-			5,977	4,568	-			4,568
Real estate	2,788	-			2,788	2,711	-			2,711
Tech / healthcare	92	-			92	-	-			-
<b>Other alternative investments</b>										
Emerging market debt	-	-			-	2,354	-			2,354
Other debt	-	-			-	5,676	-			5,676
Emerging market equity	7,157	-			7,157	8,011	-			8,011
Real estate	3,644	-			3,644	3,539	-			3,539
Other	123	-			123	117	-			117
<b>Total investments</b>	<b>82,139</b>	<b>29,052</b>			<b>111,191</b>	<b>87,532</b>	<b>25,657</b>			<b>113,189</b>
<b>Assets of split interest agreements</b>										
Internally managed	-	2,929			2,929	-	3,106			3,106
Administered by external trustees	-	-	\$ 1,514	\$ 11,352	12,866	-	-	\$ 1,497	\$ 11,583	13,080
<b>Total assets of split interest agreements</b>	<b>-</b>	<b>2,929</b>	<b>1,514</b>	<b>11,352</b>	<b>15,795</b>	<b>-</b>	<b>3,106</b>	<b>1,497</b>	<b>11,583</b>	<b>16,186</b>
<b>Total investments and assets of split interest agreements</b>	<b>\$ 82,139</b>	<b>\$ 31,981</b>	<b>\$ 1,514</b>	<b>\$ 11,352</b>	<b>\$ 126,986</b>	<b>\$ 87,532</b>	<b>\$ 28,763</b>	<b>\$ 1,497</b>	<b>\$ 11,583</b>	<b>\$ 129,375</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

## Museum of Science

### Notes to Financial Statements – June 30, 2015 and 2014

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available for the assets held by these trusts, however the actuarial assumptions relating to the income beneficiaries introduce significant uncertainties into the valuations.

#### Liquidity

As of June 30, 2015, the liquidity of the Museum's investments is as follows:

Redemption Frequency	Fair value (in thousands)
Daily	\$ 29,052
Weekly	2,899
Monthly	23,506
Quarterly	27,796
Annually	3,644
Less than annually	9,116
Illiquid	15,178
Total investments	<u>\$ 111,191</u>

Certain funds are subject to further lock-up periods. Some investment managers reserve the right under unusual circumstances to suspend withdrawals notwithstanding the redemption frequencies noted above; however, none of the Museum's managers has exercised those rights for the two years ended June 30, 2015 and 2014.

Management has no intentions or plans to liquidate any fund for which NAV per share is used to measure fair value at other than NAV per share.

#### Capital Commitments

Unfunded commitments totaled \$10,030,000 as of June 30, 2015.

#### Rollforward of Level 3 Valuations

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

<i>(in thousands)</i>	Split interest agreements
Fair Value, June 30, 2013	\$ 10,144
Change in value of split interests	<u>1,439</u>
Fair Value, June 30, 2014	11,583
Remainder distributions	(94)
Change in value of split interests	<u>(137)</u>
Fair Value, June 30, 2015	<u>\$ 11,352</u>



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## Notes to Financial Statements – June 30, 2015 and 2014

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### 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 114 individual donor-restricted endowment funds and 28 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, 2015 and 2014, the endowment accounted for \$109,296,000 and \$110,077,000 of the Museum's investments, respectively. These figures do not include \$1,016,000 and \$994,000, 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 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, 2015 and 2014 are as follows:

<i>(in thousands)</i>	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	\$ (6)	\$ 61,311	\$ 38,501	\$ 99,806
Board-designated funds	10,506	-	-	10,506
Total endowment net assets	<u>\$ 10,500</u>	<u>\$ 61,311</u>	<u>\$ 38,501</u>	<u>\$ 110,312</u>

  

	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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>

## Museum of Science

### Notes to Financial Statements – June 30, 2015 and 2014

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The following schedules summarize the change in endowment net assets for the years ended June 30, 2015 and 2014:

<i>(in thousands)</i>	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 10,822	\$ 65,156	\$ 35,093	\$ 111,071
Investment return:				
Investment income, net of fees	158	272	-	430
Net depreciation (realized and unrealized)	(21)	(193)	(1)	(215)
Total investment return	137	79	(1)	215
Contributions and other additions to corpus	101	-	3,409	3,510
Endowment income allocated per spending policy	(554)	(3,930)	-	(4,484)
Other changes:				
Funding of underwater funds	(6)	6	-	-
Endowment net assets, end of year	<u>\$ 10,500</u>	<u>\$ 61,311</u>	<u>\$ 38,501</u>	<u>\$ 110,312</u>
	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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>

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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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 \$6,000 as of June 30, 2015. 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 \$1,593,000 and \$1,644,000 at June 30, 2015 and 2014, respectively. These funds are not recorded by the Museum given the variance power the community foundation holds over them. Distributions were approximately \$58,000 and \$70,000 during the years ended June 30, 2015 and 2014, respectively, and have been included in other income.

**Museum of Science**  
**Notes to Financial Statements – June 30, 2015 and 2014**

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

Property, plant, and equipment at June 30, 2015 and 2014 consist of the following:

<i>(in thousands)</i>	<b>2015</b>				
	In service	Construction in progress	Total before depreciation	Accumulated depreciation	Net
Building and improvements	\$ 77,136	\$ 3,586	\$ 80,722	\$ (49,187)	\$ 31,535
Equipment	29,051	2,395	31,446	(13,186)	18,260
Exhibits	35,955	1,967	37,922	(19,338)	18,584
	<u>\$ 142,142</u>	<u>\$ 7,948</u>	<u>\$ 150,090</u>	<u>\$ (81,711)</u>	<u>\$ 68,379</u>

  

	<b>2014</b>				
	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>

Depreciation expense amounted to \$6,713,000 and \$7,018,000 for the years ended June 30, 2015 and 2014, respectively.

Net losses on disposal of property, plant, and equipment were \$1,032,000 and \$416,000 for the years ended June 30, 2015 and 2014, respectively.

The Museum's total expenditures for constructing, hosting, and refurbishing exhibits for the years ended June 30, 2015 and 2014 were as follows:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
Traveling exhibitions, shorter duration exhibits, and refurbishment costs charged to operations	\$ 2,331	\$ 3,407
Standing exhibits added to property, plant, and equipment	4,163	2,013
	<u>\$ 6,494</u>	<u>\$ 5,420</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.

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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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 2015 the Museum and the vendor exercised the first 5-year extension option. Under the original agreement, the vendor made capital improvements totaling \$4,056,000 associated with the food service facilities, with these outlays being amortized on a straight-line basis over a 20-year schedule. The Museum is permitted to terminate the agreement with notice by paying the vendor the unamortized balance of the capital investment, which was \$2,000,000 and \$2,205,000, as of June 30, 2015 and 2014, respectively. The current portion of \$205,000 is reflected in accounts payable and accrued liabilities each year.

The Museum has also 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 \$2,301,000 and \$2,286,000 for the years ended June 30, 2015 and 2014, respectively, which is included in ancillary services and other income.

In 2014, the Museum entered into a contract with a movie studio to develop a large traveling exhibition. The agreement licenses the Museum to use intellectual property and custom-developed materials for a period of 10 years. The exhibit will be hosted at the Museum for 6 months, after which it is management's intention to rent the exhibit to two institutions per year over the course of the license period, with the expectation that such rentals will cover the initial investment and generate additional revenue for future projects.

### 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 \$232,000 and \$242,000 at June 30, 2015 and 2014, 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 \$566,000 and \$364,000 at June 30, 2015 and 2014, respectively, are included in other assets, with the corresponding obligation to the employees included in deferred compensation. For the years ended June 30, 2015 and 2014, the Museum contributed \$36,000 and \$22,000, respectively, to the 457 plan.

The Museum has a long-term employment agreement with its President and Director that provides for severance payments upon termination. As these provisions are conditional on the President and Director's continued employment in good standing, no amount is 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 between 2.25% and 4.5% (depending on age) of eligible employees' compensation to the Retirement Plan. The Retirement Plan also provides for a match of up to 50% of the first 6% of an employee's contributions to the Savings Plan, with a maximum match of 3% of the employee's compensation. Employees 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, 2015 and 2014, the Museum incurred \$1,142,000 and \$1,084,000, 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, 2015 and 2014

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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 leases certain equipment for its 4-D theater under a capital lease which expires in July, 2024. The Museum's agreement with the vendor 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. Future payments on the programs, supplies, and maintenance portion of the agreement totaled \$3,068,000 as of June 30, 2015.

The Museum leases network equipment under a capital lease which expires in June, 2018.

The Museum also leases certain pieces of office equipment under capital leases which expire at various dates through July, 2019.

Future minimum lease payments under capital leases with terms of more than one year at June 30, 2015 are as follows:

<i>(in thousands)</i>	<b>Capital leases</b>	<b>4-D programs and services</b>
2016	\$ 822	\$ 286
2017	813	298
2018	802	311
2019	595	324
2020	541	337
After 2020	2,134	1,512
Total minimum lease payments	<u>5,707</u>	<u>\$ 3,068</u>
Interest	<u>(1,109)</u>	
Present value of net minimum lease payments	4,598	
Current portion of capital lease obligations included in accounts payable and accrued liabilities	<u>(588)</u>	
Long term obligations under capital leases	<u>\$ 4,010</u>	

The net book value of assets acquired under capital leases was \$4,589,000 and \$4,392,000 as of June 30, 2015 and 2014, respectively.

### Future Commitments

After June 30, 2015, the Museum entered into an agreement to lease data storage equipment. The agreement calls for payments totaling \$241,000 over three years.

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

### NOTE 11 – NET ASSETS

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

(in thousands)

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating funds, gifts and grants, and endowment income available for spending				
Exhibits	\$ 1,191	\$ 1,600		\$ 2,791
Visitor and outreach programs	935	3,703		4,638
Formal education programs	990	873		1,863
Visitor and member services	(1)	5		4
Other program activities	18	121		139
General and other	1,712	226		1,938
Capital exhibits, property, plant, and equipment	63,641	4,059		67,700
Split interest agreements	-	12,060	\$ 2,288	14,348
Total operating and similar funds	68,486	22,647	2,288	93,421
Endowment and quasi-endowment corpus and accumulated gains not allocated for spending				
Exhibits	2,325	30,363	11,524	44,212
Visitor and outreach programs	6,800	12,765	19,497	39,062
Formal education programs	449	821	324	1,594
Visitor and member services	-	44	8	52
Other program activities	663	1,029	1,793	3,485
General and other	263	16,289	5,355	21,907
Total endowment and quasi-endowment	10,500	61,311	38,501	110,312
Pledges receivable	-	12,644	5,691	18,335
Total net assets	\$ 78,986	\$ 96,602	\$ 46,480	\$ 222,068

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
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	6,596	325		6,921
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	62,929	23,579	2,357	88,865
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	276	17,151	5,226	22,653
Total endowment and quasi-endowment	10,824	65,156	35,093	111,073
Pledges receivable	-	11,329	6,736	18,065
Total net assets	\$ 73,753	\$ 100,064	\$ 44,186	\$ 218,003

# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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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, 2015 and 2014 restricted net assets were released for the following uses:

<i>(in thousands)</i>	2015	2014
Operating funds		
Exhibits	\$ 1,086	\$ 1,451
Visitor and outreach programs	4,794	3,446
Formal education programs	1,013	1,233
Visitor and member services	100	105
Other program activities	103	224
Administration and general	163	(12)
Facility operations	67	20
Fundraising	274	255
Total operating funds	<u>7,600</u>	<u>6,722</u>
Board designated funds and quasi-endowment		
Designated funds and reserves	1,258	784
Quasi-endowment principal	-	32
Total board designated funds and quasi-endowment	<u>1,258</u>	<u>816</u>
Plant fund		
Capital exhibits	2,580	1,708
Other property, plant, and equipment	2,493	957
Total plant fund	<u>5,073</u>	<u>2,665</u>
Total net assets released from restrictions	<u>\$ 13,931</u>	<u>\$ 10,203</u>

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

Contributed services and gifts in kind for the years ended June 30, 2015 and 2014 were as follows:

<i>(in thousands)</i>	2015	2014
Pro bono outside services:		
Legal	\$ 67	\$ 140
Marketing	1,786	1,838
Miscellaneous	51	51
In-house volunteers	650	790
Gifts in kind:		
Capital software	4,540	367
Miscellaneous	41	19
Total	<u>\$ 7,135</u>	<u>\$ 3,205</u>

The Museum receives contributed services from over 550 volunteers working in various capacities across the institution. US GAAP specifies that the value of volunteer time may be recognized as income and expense when the service provided requires specialized skills for which the Museum would otherwise have paid. For the year ended June 30, 2015, the value of contributed services meeting those criteria was \$650,000. The value of contributed time not meeting the recognition criteria was \$91,000. Volunteer time contributed across all categories totaled 22 full-time employee equivalents.



# Museum of Science

## Notes to Financial Statements – June 30, 2015 and 2014

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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, 2015 and 2014 was as follows:

<i>(in thousands)</i>	2015	2014
Direct cost support		
General operating support	\$ 68	\$ 55
Exhibits	3,930	3,404
Programs	2,288	2,611
Capital projects	315	508
	<u>6,601</u>	<u>6,578</u>
Indirect cost recovery	831	811
Net change in estimate for unbilled subawards	47	124
Total	<u>\$ 7,479</u>	<u>\$ 7,513</u>

These figures include only transactions under awards as that term is defined in applicable government regulations. Revenue under contracts and other agreements whereby a government entity procures goods or services from the Museum in the same manner as a non-government customer are recorded on the revenue line associated with the goods or services procured.

The Museum's federal awards include substantial subawards. At the end of each fiscal year, the Museum estimates and accrues 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. These accrued charges are not billed to government funders; only actual charges are billed for reimbursement.

### 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 or Senior Management Team. 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, 2015 and 2014 the Museum expended funds totaling \$292,000 and \$236,000, 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 related-party companies are subject to the same policies and controls as the Museum applies to its other customers. For the years ended June 30, 2015 and 2014 the Museum earned \$108,000 and \$117,000, respectively, from these transactions.

### NOTE 15 – NON-CASH ACTIVITIES

Non-cash investing and financing activities included \$664,000 and \$1,622,000 of additions to property, plant and equipment purchased with capital leases and \$5,540,000 and \$367,000 received as gifts-in-kind or in-kind payment on corporate sponsorship and membership agreements for the years ended June 30, 2015 and 2014, respectively.

## **Museum of Science**

### **Notes to Financial Statements – June 30, 2015 and 2014**

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#### **NOTE 16 – SUBSEQUENT EVENTS**

The Museum has performed an evaluation of subsequent events through October 15, 2015, which is the date the financial statements were issued. No material subsequent events were noted.

#### **NOTE 17 – 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.

# Museum of Science

## Supplemental Schedules of Functional Expenses

### For the Years Ended June 30, 2015 and 2014

(in thousands)

	Year Ended June 30, 2015										
	Program services						Supporting services				
	Exhibits	Visitor and outreach programs	Formal education programs	Visitor and member services	Other program activities	Total program services	Admin. and general	Facility operations	Fundraising	Total supporting services	Total
Personnel costs	\$ 2,113	\$ 7,478	\$ 3,354	\$ 2,702	\$ 3,448	\$ 19,095	\$ 4,231	\$ 2,218	\$ 3,514	\$ 9,963	\$ 29,058
Cost of goods sold	-	-	3,835	-	-	3,835	-	-	-	-	3,835
Equipment and fixtures	47	81	37	9	71	245	129	80	28	237	482
Conference and travel	101	330	254	8	73	766	188	-	34	222	988
Participant support	397	1,300	639	-	36	2,372	-	-	5	5	2,377
Supplies and materials	178	753	154	56	59	1,200	38	194	98	330	1,530
Outside services	569	833	795	696	5,327	8,220	1,489	624	829	2,942	11,162
Occupancy	4	5	7	8	14	38	66	1,963	1	2,030	2,068
Subawards	3,153	563	127	-	41	3,884	-	-	-	-	3,884
Miscellaneous and other	714	1,688	243	750	516	3,911	(294)	10	311	27	3,938
Total operating expenses	7,276	13,031	9,445	4,229	9,585	43,566	5,847	5,089	4,820	15,756	59,322
Interest	-	-	-	-	-	-	233	-	-	233	233
Depreciation, amortization, and loss on disposal	2,367	5	-	-	-	2,372	72	5,456	-	5,528	7,900
Total expenses	\$ 9,643	\$ 13,036	\$ 9,445	\$ 4,229	\$ 9,585	\$ 45,938	\$ 6,152	\$ 10,545	\$ 4,820	\$ 21,517	\$ 67,455

	Year Ended June 30, 2014										
	Program services						Supporting services				
	Exhibits	Visitor and outreach programs	Formal education programs	Visitor and member services	Other program activities	Total program services	Admin. and general	Facility operations	Fundraising	Total supporting services	Total
Personnel costs	\$ 2,178	\$ 7,310	\$ 2,928	\$ 2,769	\$ 3,443	\$ 18,628	\$ 4,190	\$ 2,240	\$ 3,151	\$ 9,581	\$ 28,209
Cost of goods sold	-	-	2,409	-	-	2,409	-	-	-	-	2,409
Equipment and fixtures	20	58	23	17	91	209	118	70	11	199	408
Conference and travel	253	228	228	6	85	800	159	1	35	195	995
Participant support	140	758	958	-	15	1,871	-	-	5	5	1,876
Supplies and materials	134	370	78	47	62	691	74	181	90	345	1,036
Outside services	771	623	766	908	5,083	8,151	1,361	865	733	2,959	11,110
Occupancy	-	4	-	11	9	24	65	2,090	1	2,156	2,180
Subawards	3,118	438	128	-	22	3,706	-	-	-	-	3,706
Miscellaneous and other	1,280	1,491	319	760	475	4,325	(233)	9	217	(7)	4,318
Total operating expenses	7,894	11,280	7,837	4,518	9,285	40,814	5,734	5,456	4,243	15,433	56,247
Interest	-	-	-	-	-	-	144	-	-	144	144
Depreciation, amortization, and loss on disposal	1,602	53	-	-	-	1,655	51	5,906	-	5,957	7,612
Total expenses	\$ 9,496	\$ 11,333	\$ 7,837	\$ 4,518	\$ 9,285	\$ 42,469	\$ 5,929	\$ 11,362	\$ 4,243	\$ 21,534	\$ 64,003