



Report of Independent Auditors
and Financial Statements for

Oregon Museum of Science
and Industry

May 31, 2011 and 2010

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Oregon Museum of Science and Industry

We have audited the accompanying statements of financial position of Oregon Museum of Science and Industry (the Museum) as of May 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Museum's 2010 financial statements and, in our report dated October 4, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of May 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
September 28, 2011

OREGON MUSEUM OF SCIENCE AND INDUSTRY
STATEMENTS OF FINANCIAL POSITION
(WITH SUMMARIZED FINANCIAL INFORMATION FOR MAY 31, 2010)

	May 31, 2011			May 31, 2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,499,956	\$ 931,944	\$ 476,573	\$ 2,908,473	\$ 1,872,165
Net accounts, pledges and contracts receivable, current portion	2,991,634	3,678,718	-	6,670,352	4,499,163
Inventories	165,118	-	-	165,118	171,724
Prepaid expenses and other assets	263,839	-	-	263,839	144,615
Due from other funds	-	296,560	-	296,560	423,714
Total current assets	4,920,547	4,907,222	476,573	10,304,342	7,111,381
LONG-TERM ASSETS					
Accounts, pledges and contracts receivable, net of current portion	42,126	508,208	-	550,334	621,057
Beneficial interest in perpetual trust	-	-	391,609	391,609	348,480
Land, buildings, exhibits and equipment, net	34,036,188	-	-	34,036,188	35,240,924
Debt issuance costs, net	74,063	-	-	74,063	80,599
Total long-term assets	34,152,377	508,208	391,609	35,052,194	36,291,060
TOTAL ASSETS	\$ 39,072,924	\$ 5,415,430	\$ 868,182	\$ 45,356,536	\$ 43,402,441
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 1,741,415	\$ -	\$ -	\$ 1,741,415	\$ 1,906,786
Accrued interest payable	21,893	-	-	21,893	30,697
Due to other funds	296,560	-	-	296,560	423,714
Deferred revenues, current portion	3,011,525	-	-	3,011,525	2,537,227
Annuity agreement, current portion	7,400	-	-	7,400	7,400
Capital lease obligations, current portion	76,324	-	-	76,324	76,324
Long-term debt, current portion	258,794	-	-	258,794	256,603
Total current liabilities	5,413,911	-	-	5,413,911	5,238,751
LONG-TERM LIABILITIES					
Deferred revenues, net of current portion	633,279	-	-	633,279	1,230,973
Annuity agreement, net of current portion	34,158	-	-	34,158	27,921
Capital lease obligations, net of current portion	293,119	-	-	293,119	379,797
Long-term debt, net of current portion	5,021,062	-	-	5,021,062	5,700,146
Total long-term liabilities	5,981,618	-	-	5,981,618	7,338,837
Total liabilities	11,395,529	-	-	11,395,529	12,577,588
NET ASSETS	27,677,395	5,415,430	868,182	33,961,007	30,824,853
TOTAL LIABILITIES AND NET ASSETS	\$ 39,072,924	\$ 5,415,430	\$ 868,182	\$ 45,356,536	\$ 43,402,441

OREGON MUSEUM OF SCIENCE AND INDUSTRY
STATEMENTS OF ACTIVITIES
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED MAY 31, 2010)

	Year Ended May 31, 2011			Year Ended May 31, 2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING:					
Revenues					
Admissions	\$ 4,238,972	\$ -	\$ -	\$ 4,238,972	\$ 4,215,414
Memberships	2,193,432	-	-	2,193,432	2,203,678
Educational programs	2,621,564	-	-	2,621,564	2,591,734
Auxiliary activities	2,373,876	-	-	2,373,876	2,316,229
Exhibit fees	1,632,902	-	-	1,632,902	2,494,081
Contributions and grants	2,124,537	5,201,933	-	7,326,470	5,162,607
Change in value of perpetual trust	-	-	43,129	43,129	33,460
Contributed services of volunteers and in-kind donations	1,587,718	-	-	1,587,718	1,764,301
Interest and other income	850,067	9,128	-	859,195	338,336
Gain (loss) on sale of land, buildings, exhibits and equipment	533,319	-	-	533,319	(845)
Net assets released from restrictions	4,063,243	(4,063,243)	-	-	-
Total revenues	22,219,630	1,147,818	43,129	23,410,577	21,118,995
Expenses					
Program services:					
Museum activities	12,055,021	-	-	12,055,021	11,682,902
Educational programs	3,347,696	-	-	3,347,696	3,170,122
Total program services	15,402,717	-	-	15,402,717	14,853,024
Supporting services:					
Management and general	2,897,730	-	-	2,897,730	2,045,502
Fund-raising	859,659	-	-	859,659	532,352
Total supporting services	3,757,389	-	-	3,757,389	2,577,854
Auxiliary activities	1,114,317	-	-	1,114,317	1,171,275
Total expenses	20,274,423	-	-	20,274,423	18,602,153
CHANGE IN NET ASSETS	1,945,207	1,147,818	43,129	3,136,154	2,516,842
NET ASSETS, beginning of year	25,732,188	4,267,612	825,053	30,824,853	28,308,011
NET ASSETS, end of year	\$ 27,677,395	\$ 5,415,430	\$ 868,182	\$ 33,961,007	\$ 30,824,853

OREGON MUSEUM OF SCIENCE AND INDUSTRY
STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended May 31, 2011							
	Program Services			Supporting Services			Auxiliary Activities	Total
	Museum Activities	Educational Programs	Subtotal	Management and General	Fund- Raising	Subtotal		
Salaries, wages, and related expenses	\$ 4,306,496	\$ 2,074,677	\$ 6,381,173	\$ 1,655,818	\$ 487,221	\$ 2,143,039	\$ 307,685	\$ 8,831,897
Depreciation and amortization of capital assets	1,868,625	64,061	1,932,686	71,290	-	71,290	42,560	2,046,536
Contributed services of volunteers and in-kind donations	1,346,219	74,505	1,420,724	25,650	141,344	166,994	-	1,587,718
Professional services	517,960	101,811	619,771	692,369	144,711	837,080	5,513	1,462,364
Rentals	613,047	229,713	842,760	75	2,116	2,191	1,428	846,379
Cost of merchandise sold	1,630	9,384	11,014	-	-	-	687,285	698,299
Supplies and miscellaneous	447,476	133,048	580,524	83,643	10,591	94,234	8,933	683,691
Utilities	593,757	29,246	623,003	-	-	-	-	623,003
Publicity, printing, and postage	500,161	40,408	540,569	4,100	31,841	35,941	15,167	591,677
Repairs and maintenance	456,865	155,584	612,449	(70,494)	5,115	(65,379)	8,682	555,752
Museum support services	421,305	56,798	478,103	-	8,649	8,649	2,980	489,732
Transportation	305,694	102,601	408,295	524	187	711	-	409,006
Interest expense on ODOE loan	325,220	-	325,220	-	-	-	-	325,220
Insurance	963	8,734	9,697	302,293	-	302,293	-	311,990
Bank fees	140,337	35,514	175,851	87,113	6,027	93,140	33,408	302,399
Food	27,647	180,991	208,638	14,880	13,011	27,891	496	237,025
Travel	140,034	33,740	173,774	24,501	6,850	31,351	-	205,125
Telephone	41,585	14,399	55,984	5,819	1,794	7,613	180	63,777
Miscellaneous	-	2,482	2,482	-	-	-	-	2,482
Bad debts	-	-	-	149	202	351	-	351
Total functional expenses	\$ 12,055,021	\$ 3,347,696	\$ 15,402,717	\$ 2,897,730	\$ 859,659	\$ 3,757,389	\$ 1,114,317	\$ 20,274,423

See accompanying notes.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended May 31, 2010							
	Program Services			Supporting Services			Auxiliary Activities	Total
	Museum Activities	Educational Programs	Subtotal	Management and General	Fund- Raising	Subtotal		
Salaries, wages, and related expenses	\$ 4,192,707	\$ 1,805,798	\$ 5,998,505	\$ 1,175,105	\$ 193,322	\$ 1,368,427	\$ 344,775	\$ 7,711,707
Depreciation and amortization of capital assets	1,668,838	71,965	1,740,803	104,952	-	104,952	42,560	1,888,315
Contributed services of volunteers and in-kind donations	1,527,970	25,475	1,553,445	48,285	156,572	204,857	-	1,758,302
Professional services	429,883	115,011	544,894	266,324	120,893	387,217	15,052	947,163
Rentals	615,496	304,904	920,400	150	1,300	1,450	1,010	922,860
Cost of merchandise sold	3,848	18,649	22,497	-	-	-	690,310	712,807
Utilities	639,594	36,330	675,924	-	-	-	-	675,924
Supplies and miscellaneous	404,152	198,799	602,951	59,300	4,619	63,919	6,555	673,425
Publicity, printing, and postage	526,692	49,562	576,254	6,174	28,523	34,697	29,497	640,448
Repairs and maintenance	448,091	95,243	543,334	(82,711)	566	(82,145)	4,964	466,153
Museum support services	327,092	73,450	400,542	-	3,030	3,030	2,738	406,310
Bank fees	137,781	38,655	176,436	129,352	4,355	133,707	32,929	343,072
Insurance	963	8,596	9,559	318,726	-	318,726	-	328,285
Interest expense on ODOE loan	327,329	-	327,329	-	-	-	-	327,329
Transportation	213,867	103,166	317,033	78	27	105	-	317,138
Food	16,643	152,316	168,959	6,104	12,733	18,837	677	188,473
Travel	121,890	44,110	166,000	10,938	4,867	15,805	(18)	181,787
Telephone	39,266	24,878	64,144	2,725	1,545	4,270	-	68,414
Bad debts	40,800	1,549	42,349	-	-	-	226	42,575
Miscellaneous	-	1,666	1,666	-	-	-	-	1,666
Total functional expenses	<u>\$ 11,682,902</u>	<u>\$ 3,170,122</u>	<u>\$ 14,853,024</u>	<u>\$ 2,045,502</u>	<u>\$ 532,352</u>	<u>\$ 2,577,854</u>	<u>\$ 1,171,275</u>	<u>\$ 18,602,153</u>

**OREGON MUSEUM OF SCIENCE AND INDUSTRY
STATEMENTS OF CASH FLOWS**

	Years Ended May 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,136,154	\$ 2,516,842
Adjustments to reconcile change in net assets to net cash from operating activities:		
Increase (decrease) to allowance for doubtful accounts	(38,300)	38,300
Contribution of exhibits and equipment	-	(5,999)
Depreciation and amortization expense	2,046,536	1,888,315
Present value adjustment to annuities payable	13,637	(9,949)
Fair market value adjustment to perpetual trust	(43,129)	(33,460)
(Gain) loss on disposition of assets	(533,319)	845
Changes in assets and liabilities:		
Accounts, pledges and contracts receivable	(2,062,166)	(1,422,980)
Inventories	6,606	25,252
Prepaid expenses and other assets	(119,224)	(62,639)
Accounts payable and accrued expenses	(490,371)	(249,357)
Accrued interest payable	(8,804)	2,313
Deferred support and revenues	(123,396)	(998,268)
Net cash from operating activities	<u>1,784,224</u>	<u>1,689,215</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land, buildings, exhibits, and equipment	918,879	-
Purchase of land, buildings, exhibits, and equipment	(895,824)	(926,362)
Net cash from investing activities	<u>23,055</u>	<u>(926,362)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(676,893)	(228,432)
Payments on capital lease obligations	(86,678)	(223,935)
Payments of annuities	(7,400)	(7,400)
Net cash from financing activities	<u>(770,971)</u>	<u>(459,767)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,036,308	303,086
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,872,165</u>	<u>1,569,079</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,908,473</u>	<u>\$ 1,872,165</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 334,024</u>	<u>\$ 325,016</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Conversion of line of credit to long-term debt	<u>\$ -</u>	<u>\$ 609,520</u>
Proceeds from sale of land required to be pledged as a liability for future Water Avenue construction	<u>\$ 325,000</u>	<u>\$ -</u>

See accompanying notes.

OREGON MUSEUM OF SCIENCE AND INDUSTRY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Oregon Museum of Science and Industry (OMSI or the Museum) was founded in 1946 to provide the public with science and technology learning through relevant and entertaining exhibits, programs, and experiences. The Museum is located in Portland, Oregon.

Financial statement presentation – The accompanying financial statements of MSI have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. The balances and activities of the Museum have been segregated into net asset classifications according to the nature of the activity and related restrictions imposed by donors. The principal classifications are as follows:

Unrestricted – This classification reflects revenues and activities primarily related to the operation and management of the Museum.

Temporarily restricted – This classification is used to account for contributions whose use by the Museum is limited by donor-imposed stipulations that expire either by the passage of time or can be fulfilled and removed by actions of the Museum pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted – This classification is used to account for all contributions received with a donor stipulation that the principal be maintained intact in perpetuity and such stipulation neither expires by the passage of time nor can be fulfilled or otherwise removed by actions of the Museum. Such donations have been deposited in an investment account and the related investments consist primarily of securities, mutual funds, and money market funds.

Cash and cash equivalents – Cash and cash equivalents include cash on hand and amounts deposited in banks, money market accounts, and commercial paper with a maturity of less than 90 days. Certain amounts may exceed the limits of FDIC insurance coverage. However, the Museum has not incurred any credit related losses to date.

Accounts receivable – Accounts receivable consist primarily of admissions and fees due to the Museum from various organizations and is reported on the statement of financial position net of the allowance for doubtful accounts of \$20,000 and \$58,300 at May 31, 2011 and 2010, respectively. The allowance for doubtful accounts is estimated by evaluating the credit worthiness of those from whom amounts are due as well as current economic trends. Receivables are considered delinquent if not paid by the due date. Accounts are charged off when all collection efforts have been exhausted.

Pledges receivable – Pledges are considered unconditional commitments of the donors. Accordingly, recognition of these contributions is recognized when the pledge is made. Management evaluates collectability at the time the pledge is recorded and annually thereafter. There was no allowance for uncollectible pledges at May 31, 2011 and 2010.

Inventories – Inventories, principally retail merchandise, are recorded at the lower of average cost or market.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Land, buildings, exhibits, and equipment – Land, buildings, exhibits, and equipment are stated at cost or, for donated items, estimated value at the date of donation. Upon retirement or sale of such assets, the cost of the asset and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded. Depreciation of buildings and equipment is recorded over the estimated useful lives of the respective assets on the straight-line basis with such lives ranging from 3 to 50 years.

New equipment and expenditures for major repairs and improvements exceeding \$2,500 are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. Costs related to the design, construction, and refurbishment of traveling exhibits are capitalized and depreciated over the period during which the exhibit is actively displayed, generally five years. Costs related to all other nontraveling exhibits are expensed during the period in which they are incurred.

Collections – During 1994, the U.S. Department of the Navy donated the use of the U.S.S. Blueback submarine to the Museum as a permanent exhibit. Additionally, during 2006, an anonymous donor contributed a neonatal exhibit to the Museum. It is not practicable to estimate the fair market value of these collections and, as such, they have not been capitalized in the accompanying statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, and as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from de-accessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Debt issuance costs – All costs related to the issuance of debt are capitalized. Amortization is computed on the straight-line basis over the term of the debt. Accumulated amortization at May 31, 2011 and 2010 aggregated \$122,012 and \$115,476, respectively. Amortization expense for the years ended May 31, 2011 and 2010 totaled \$6,536.

Deferred revenues – OMSI owns certain traveling exhibits which have been contracted to other museums through fiscal year 2013. Revenues from these contracts, deferred initially, are recognized over the terms of the contracts upon delivery of the exhibit at each site. At May 31, 2011 and 2010, deferred revenue related to these contracts aggregated \$1,312,550 and \$1,175,350, respectively. OMSI also receives prepayments on certain camps, classes, and other events. Such prepayments are deferred and recognized as revenue when the event occurs. Deferred revenue relating to these prepayments aggregated \$1,599,414 and \$1,310,381 at May 31, 2011 and 2010, respectively.

During the year ended May 31, 2006, OMSI entered into a six-year, nine-month lease with the City of Portland for land purchased by OMSI from Portland General Electric. The lease amount of \$3,710,000 was paid by the City to OMSI at the inception of the lease. OMSI is recognizing revenue (per month) over the life of the lease agreement. Deferred revenue related to the lease is \$732,840 and \$1,282,469, at May 31, 2011 and 2010, respectively.

Admissions and memberships – Revenues from admissions and memberships with a one-year term are recognized on receipt.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Contributions and grants – Contributions and grants are reported as revenue, with a corresponding receivable, in the period in which the promise is received or the grant is awarded.

All contributions are considered to be available for OMSI’s use unless specifically restricted by the donor. Contributions restricted by the donor are recorded as temporarily restricted or permanently restricted, as appropriate. Grants are restricted by the grantor for specific activities and are recorded as temporarily restricted. When the restrictions are satisfied, the temporarily restricted amounts are released to unrestricted net assets.

Contributed services of volunteers and in-kind donations – Donated materials are reported as contributions in the accompanying financial statements at their estimated values at the date of receipt. Donated services are similarly reported when specialized services are performed such as exhibit repair or production, or would otherwise be purchased or performed by salaried personnel, and when the Museum exercises control over the duties of the donor’s services. These services have been recorded as revenue and expense in the accompanying statements of activities as follows at May 31:

	<u>2011</u>	<u>2010</u>
Contributed services of volunteers and in-kind donations	\$ 1,587,718	\$ 1,758,302
Capitalized in-kind donations	<u>-</u>	<u>5,999</u>
	<u>\$ 1,587,718</u>	<u>\$ 1,764,301</u>

Functional allocation of expenses – The costs of the Museum’s various activities and programs have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs, supporting services, and auxiliary activities benefited. Auxiliary activities include the Museum’s science store and special events.

Advertising expenses – The Museum advertises primarily through publications, broadcasts, and outdoor media throughout the Portland metropolitan area. Advertising and development funding promotion costs are expensed as incurred and are included in publicity, printing, and postage in the statement of functional activities. Advertising expenses aggregated \$504,869 and \$435,525 for the years ended May 31, 2011 and 2010, respectively.

Income taxes – The Museum is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the Museum qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

The Museum recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Museum recognizes interest and penalties related to income tax matters in operating expenses.

The Museum had no unrecognized tax benefits at May 31, 2011 or 2010. The Museum files an exempt organization return and applicable unrelated business income tax return in the U.S. federal jurisdiction and Oregon Department of Revenue. The Museum is no longer subject to income tax examinations by taxing authorities for years before 2007 for its federal and state filings.

Use of estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of public support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Museum recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Museum’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

The Museum has evaluated subsequent events through September 28, 2011 which is the date the financial statements were issued.

NOTE 2 – COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum’s financial statements for the year ended May 31, 2010, from which the summarized information was derived.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - ACCOUNTS, PLEDGES AND CONTRACTS RECEIVABLE

Accounts, pledges and contracts receivable consist of the following at May 31:

	<u>2011</u>	<u>2010</u>
Unrestricted accounts, pledges and contracts receivable:		
Trade	\$ 466,645	\$ 354,135
Traveling exhibit and exhibit sales contracts	889,485	1,082,788
Pledges, net of discount	1,374,440	52,140
Grants	<u>323,190</u>	<u>344,672</u>
	3,053,760	1,833,735
Less allowance for doubtful accounts	<u>(20,000)</u>	<u>(58,300)</u>
Unrestricted accounts, pledges and contracts receivable, net of discount	<u>3,033,760</u>	<u>1,775,435</u>
Temporarily restricted accounts, pledges and contracts receivable:		
Pledges, net of discount	1,024,456	732,375
Grants	<u>3,162,470</u>	<u>2,612,410</u>
Temporarily restricted accounts, pledges and contracts receivable	<u>4,186,926</u>	<u>3,344,785</u>
Total accounts, pledges and contracts receivable	7,220,686	5,120,220
Less accounts, pledges and contracts receivable due within one year	<u>(6,670,352)</u>	<u>(4,499,163)</u>
Long-term accounts, pledges and contracts receivable	<u>\$ 550,334</u>	<u>\$ 621,057</u>

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – ACCOUNTS, PLEDGES AND CONTRACTS RECEIVABLE – (continued)

Pledges receivable greater than one year are reflected at the present value of estimated future payments using an estimated discount rate of four percent. The discount totaled \$92,016 for the year ended May 31, 2011.

As of May 31, 2011, pledges receivable are due as follows:

Less than one year	\$ 1,890,912
One to five years	<u>600,000</u>
	2,490,912
Less: Discount to net present value	<u>(92,016)</u>
Pledges receivable, net of discount	<u><u>\$ 2,398,896</u></u>

NOTE 4 – BENEFICIAL INTEREST IN PERPETUAL TRUST

OMSI is the sole beneficiary of a perpetual trust whereby the investment principal remains part of the trust and is not the property of the Museum. The trust is managed by a third-party trustee, Bank of America, N.A. Each year, OMSI receives income distributions from the trust which is to be used for scholarship or educational purposes. The Museum has no right to the investment principal. The annual fluctuation in the market value of the trust is included in the statements of activities as an increase or decrease in permanently restricted net assets. As of May 31, 2011 and 2010, the fair value of the trust assets totaled \$391,609 and \$348,480, respectively.

NOTE 5 – FAIR VALUE OF ASSETS

The Museum accounts for fair value instruments in accordance with the standard for *Fair Value Measurements*. This standard defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The Museum determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Museum's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1** Quoted prices in active markets for identical assets.
- Level 2** Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – FAIR VALUE OF ASSETS – (continued)

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Museum’s own data used to develop unobservable inputs is adjusted for market consideration when available.

The Museum used the following method and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

Beneficial interest in perpetual trust – The Museum’s beneficial interest in perpetual trust is recorded at fair value based on the fair value of the underlying trust assets as determined by the third-party trustee. The trust assets are valued at fair value based on quoted market prices. The third-party trustee controls the investments in the trust and makes all management and investment decisions.

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring and non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2011 and 2010:

	Fair Value Measurement at Report Date Using:			
	Fair Value at May 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in perpetual trust	\$ 391,609	\$ -	\$ -	\$ 391,609

	Fair Value Measurement at Report Date Using:			
	Fair Value at May 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in perpetual trust	\$ 348,480	\$ -	\$ -	\$ 348,480

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – FAIR VALUE OF ASSETS – (continued)

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the years ended May 31, 2011 and 2010:

	<u>Beneficial Interest in Perpetual Trust</u>
Balance, June 1, 2010	\$ 348,480
Adjustment to fair value included in earnings	<u>43,129</u>
Balance, May 31, 2011	<u><u>\$ 391,609</u></u>

	<u>Beneficial Interest in Perpetual Trust</u>
Balance, June 1, 2009	\$ 315,020
Adjustment to fair value included in earnings	<u>33,460</u>
Balance, May 31, 2010	<u><u>\$ 348,480</u></u>

NOTE 6 – LAND, BUILDINGS, EXHIBITS, AND EQUIPMENT

Land, buildings, exhibits, and equipment consist of the following at May 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 8,743,278	\$ 8,758,433
Buildings and improvements	39,434,416	39,486,938
Exhibits	9,586,394	8,574,536
Equipment	<u>7,126,515</u>	<u>7,516,852</u>
Total land, buildings, exhibits and equipment	64,890,603	64,336,759
Less accumulated depreciation and amortization	<u>(31,028,965)</u>	<u>(30,112,527)</u>
	33,861,638	34,224,232
Construction in progress	<u>174,550</u>	<u>1,016,692</u>
Land, buildings, exhibits and equipment, net	<u><u>\$ 34,036,188</u></u>	<u><u>\$ 35,240,924</u></u>

Equipment includes assets purchased under capital leases with an aggregate cost of \$646,375 and \$1,450,860, and accumulated amortization of \$129,275 and \$731,844 at May 31, 2011 and 2010, respectively. Amortization expense for the years ended May 31, 2011 and 2010 totaled \$43,092 and \$203,989, respectively.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – LAND, BUILDINGS, EXHIBITS, AND EQUIPMENT – (continued)

In April 2011, the Museum sold a piece of land with a cost basis of \$15,155 in connection with the Portland Streetcar Loop Project. The Museum received cash proceeds in the amount of \$918,879 and recognized a gain in the amount of \$578,724. The remaining \$325,000 was required to be set aside for the funding of the future development of Water Avenue in connection with the Eastside Streetcar Project.

NOTE 7 – LINES OF CREDIT

The Museum has an operating line of credit which has an approved maximum borrowing limit of \$2,000,000 from a bank. At May 31, 2011 and 2010, there was no outstanding balance on the line of credit. The line is secured by accounts, general intangibles, and rights to payments and bore interest at 5.00% at May 31, 2011 (calculated as the bank's prime rate plus .125% per annum, subject to a 5.00% floor). The operating line matured on June 1, 2011. Subsequent to year-end, the Museum renewed this line of credit in the amount of \$1,000,000 under the same terms with a maturity of June 1, 2012.

NOTE 8 – LONG-TERM DEBT

Long-term debt consists of the following at May 31:

	<u>2011</u>	<u>2010</u>
Oregon Department of Energy, interest rate of 5.88%, with quarterly installments of \$84,897 through May 1, 2013, and escalating every three years thereafter until November 2039, when due in full, secured by a substantial portion of the Museum's assets.	\$ 5,033,362	\$ 5,455,049
Note Payable, Capital Pacific Bank, monthly installment of \$18,825, interest rate of 5.00%, due June 2012, secured by all business assets.	232,014	434,139
Notes Payable, Ford Motor Credit, paid in full in 2011.	-	47,185
Note Payable, Daimler Chrysler Financial, interest rate of 7.49%, monthly installment of \$726, due 2013, secured by the vehicle.	<u>14,480</u>	<u>20,376</u>
	5,279,856	5,956,749
Less current portion	<u>(258,794)</u>	<u>(256,603)</u>
	<u>\$ 5,021,062</u>	<u>\$ 5,700,146</u>

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – LONG-TERM DEBT – (continued)

Following is a summary of scheduled principal maturities of long-term debt:

Years ending May 31, 2012	\$	258,794
2013		82,196
2014		73,536
2015		39,551
2016		35,550
Thereafter		<u>4,790,229</u>
	<u>\$</u>	<u>5,279,856</u>

NOTE 9 – TRUST FUNDS HELD BY OTHERS

Securities and cash with a fair market value of \$997,362 and \$854,772 at May 31, 2011 and 2010, respectively, are held in trust for the benefit of OMSI and various other charitable organizations. No portion of these assets held in trust for OMSI has been included in the accompanying financial statements. The principal is to remain in trust in perpetuity and investment income is distributed to OMSI at the discretion of the trustees. Such distributions are recorded as contributions when received.

In addition, an endowment fund was established on July 16, 1998, for the benefit of OMSI, for the maintenance or renovation of OMSI's buildings, and the construction or maintenance of exhibits. The endowment is subject to various conditions, including the continued support of state and local governments until the existing indebtedness to the ODOE is satisfied. A portion of the earnings on the endowment funds is distributed on an annual basis. The fair market value of the endowment, including matching funds, totaled \$5,436,602 and \$4,720,994 at May 31, 2011 and 2010, respectively. OMSI recorded temporarily restricted contributions from the endowment of \$236,248 and \$249,077 for the years ended May 31, 2011 and 2010, respectively.

NOTE 10 – DEFINED CONTRIBUTION PLAN

On April 1, 1989, the Museum established a salary deferral retirement savings plan (the Plan) under the provisions of Section 401(k) of the Internal Revenue Code whereby eligible employees may defer a portion of their gross wages. On January 1, 2003 the Museum changed from a 401(k) plan to a 403(b) plan. Employees are eligible to participate in the Plan on the first day of employment. Employees are eligible to participate in the Plan match once they have completed one year of service and are over 21 years of age. Employees may contribute a maximum of 100% of their compensation to the Plan (subject to annual limitations by the IRS). OMSI makes discretionary matching contributions to the Plan, the amount of which is determined at the end of the Plan year, December 31. Employer contributions vest over a period of five years. OMSI contributed \$64,108 and \$28,680 to the Plan for the Plan years ended December 31, 2010 and 2009, respectively.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease commitments – As of May 31, 2011, the Museum leased certain equipment under capital lease obligations.

Future minimum payments associated with capital lease agreements for succeeding years are as follows:

	<u>Capital Leases</u>
Years ending May 31, 2012	\$ 112,664
2013	112,664
2014	112,664
2015	<u>65,721</u>
Total minimum payments	403,713
Less amount representing interest	<u>(34,270)</u>
Present value of total minimum capital lease payments	369,443
Less current portion	<u>(76,324)</u>
Capital lease obligations, net of current portion	<u><u>\$ 293,119</u></u>

For the years ended May 31, 2011 and 2010, rental expense included in the statements of activities totaled \$846,379 and \$992,860, respectively.

Grant revenues – The grant revenues reported in the accompanying statements of activities are subject to audit and adjustment by grantor agencies. Grant revenues relating to costs, which may be ultimately questioned or disallowed by the grantor agencies, may become a liability of the Museum as a result of audit findings. However, management does not expect any significant liabilities related to grant revenues.

NOTE 12 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets relating to restricted contributions and grants are released from temporarily restricted net assets to unrestricted net assets when the Museum incurs expenses satisfying the restricted purposes or when other events specified by donors occur. Such releases are summarized as follows at May 31:

	<u>2011</u>	<u>2010</u>
Satisfaction of program restrictions for grants	\$ 2,570,273	\$ 2,057,137
Satisfaction of program restrictions for contributions	<u>1,492,970</u>	<u>1,024,381</u>
	<u><u>\$ 4,063,243</u></u>	<u><u>\$ 3,081,518</u></u>

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at May 31:

	2011	2010
Donations and grants restricted for various projects and exhibits	\$ 3,162,476	\$ 2,224,435
Donations and grants restricted for special operating purposes	1,389,200	967,952
Donations restricted by time for operations	740,708	936,328
Donations restricted for scholarships	123,046	138,897
	\$ 5,415,430	\$ 4,267,612

NOTE 14 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of:

	2011	2010
OMSI Educational Endowment – General	\$ 442,602	\$ 442,602
OMSI Educational Endowment – Steere	26,282	26,282
OMSI Educational Endowment – Naftalin	6,294	6,294
OMSI Educational Endowment – Poulsen	1,395	1,395
	476,573	476,573
 Total endowments	 476,573	 476,573
 Peterson Trust	 391,609	 348,480
	391,609	348,480
 Total trusts held for endowment	 391,609	 348,480
	\$ 868,182	\$ 825,053
 Total permanently restricted net assets	 \$ 868,182	 \$ 825,053

NOTE 15 – ENDOWMENTS

Unrestricted endowments represent quasi-endowments. Quasi-endowments represent unrestricted net assets designated by the Board of Trustees to provide support and resources for Museum operations. A Board-designated endowment, which results from an internal Board designation, is not an outside donor-restricted endowment and is, therefore, classified as unrestricted net assets. The Board of Trustees of the Museum has the right to decide at any time to expend the designated portion of such funds. The Museum did not have any unrestricted endowments as of May 31, 2011 or 2010.

Temporarily restricted endowments are those funds resulting from earnings whose use by the Museum is restricted by donor-imposed stipulations that either expire by the passage of time or by fulfilling the specified purpose restriction.

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 15 - ENDOWMENTS - (continued)

Permanently restricted endowments have outside donor-imposed stipulations, which neither expire by the passage of time nor can be fulfilled by actions of the Museum. Income earned from permanently restricted endowments is generally temporarily restricted by donor-imposed stipulations.

Endowment dollars invested with growth in mind may have the fair value of assets, associated with individual donor restricted funds, fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. There were no such deficiencies as of May 31, 2011 and 2010.

The Museum adopted the Uniform Prudent Management of Institutional Funds Act of 2007 (UPMIFA or the Act), the provisions of which apply to endowment funds existing on or established after the effective date of January 1, 2008. The Board of Trustees of the Museum has interpreted the Act as requiring the preservation of the fair value 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 in 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 the Act. In accordance with the Act, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted 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

The Museum has implemented a spending policy that allows a percentage of total program cost, varied by program, to be spent on financial assistance for camp attendees.

Endowment net assets consist of the following at May 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 66,846</u>	<u>\$ 476,573</u>	<u>\$ 543,419</u>

OREGON MUSEUM OF SCIENCE AND INDUSTRY
NOTES TO FINANCIAL STATEMENTS

NOTE 15 - ENDOWMENTS - (continued)

Endowment net assets consist of the following at May 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 66,169	\$ 476,573	\$ 542,742

Changes in endowment net assets for the year ended May 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2010	\$ -	\$ 66,169	\$ 476,573	\$ 542,742
Investment return				
Investment income	-	7,092	-	7,092
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(6,415)</u>	<u>-</u>	<u>(6,415)</u>
Endowment net assets, May 31, 2011	<u>\$ -</u>	<u>\$ 66,846</u>	<u>\$ 476,573</u>	<u>\$ 543,419</u>

Changes in endowment net assets for the year ended May 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2009	\$ -	\$ 65,621	\$ 476,373	\$ 541,994
Investment return				
Investment income	-	6,643	-	6,643
Contributions	-	-	200	200
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(6,095)</u>	<u>-</u>	<u>(6,095)</u>
Endowment net assets, May 31, 2010	<u>\$ -</u>	<u>\$ 66,169</u>	<u>\$ 476,573</u>	<u>\$ 542,742</u>