



Consolidated Financial Statements and
Report of Independent Certified Public Accountants

expl ratorium

Year ended June 30, 2011 (with summarized information
for the year ended June 30, 2010)

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Report of Independent Certified Public Accountants

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Exploratorium

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We have audited the accompanying consolidated statement of financial position of the Exploratorium (a non-profit organization), as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Exploratorium'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 Exploratorium's 2010 financial statements and, in our report dated October 11, 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 Exploratorium'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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Exploratorium as of June 30, 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Exploratorium's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

San Francisco, California
November 8, 2011

Exploratorium

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2011

(with summarized financial information for June 30, 2010)

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 11,546,647	\$ -
CONTRIBUTIONS RECEIVABLE - NET	1,364,221	2,188,912
ACCOUNTS RECEIVABLE - NET	1,003,758	469,936
INVENTORY	522,253	526,676
OTHER ASSETS AND PREPAID EXPENSES	968,180	639,175
PREPAID FINANCING COSTS	1,448,218	-
INVESTMENTS	23,992,126	62,197,136
CONTRIBUTIONS RECEIVABLE FROM CAPITAL CAMPAIGN - NET	32,745,709	29,793,974
EXHIBIT SERVICES		
Rental exhibits - net	1,341,711	1,603,062
EXHIBITS, LEASEHOLD IMPROVEMENTS AND EQUIPMENT:		
Finished exhibits and components - net	2,756,271	2,186,099
Leasehold improvements and equipment at cost - net	217,774	284,350
DEFERRED RENT ASSET	9,027,186	-
CONSTRUCTION IN PROGRESS		
Exhibits	483,886	717,321
Future site	69,594,875	22,829,426
TOTAL ASSETS	\$ 157,012,815	\$ 123,436,067
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Checks written in excess of funds available	\$ -	\$ 610,350
Line of credit liability	-	204,158
Construction payables	7,540,631	1,414,300
Trade payables	486,374	121,784
Other accrued expenses	3,345,383	2,502,940
Deferred revenue	462,814	425,420
Construction retainage	4,446,092	-
Total liabilities	16,281,294	5,278,952
NET ASSETS:		
Unrestricted	21,342,141	9,421,449
Temporarily restricted	103,832,985	93,179,271
Permanently restricted	15,556,395	15,556,395
Total net assets	140,731,521	118,157,115
TOTAL LIABILITIES AND NET ASSETS	\$ 157,012,815	\$ 123,436,067

The accompanying notes are an integral part of this consolidated financial statement.

Exploratorium

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2011

(with summarized financial information for the year ended June 30, 2010)

	2011			2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUE AND SUPPORT:					
Private contributions	\$ 4,117,253	\$ 38,660,103	\$ -	\$ 42,777,356	\$ 43,037,934
Government grants	2,171,736	-	-	2,171,736	1,375,538
Exhibit services-domestic	1,684,346	-	-	1,684,346	1,591,378
Exhibit services-foreign	1,353,556	-	-	1,353,556	936,158
Admissions and other revenue	6,497,869	-	-	6,497,869	5,380,176
Store sales	1,223,984	-	-	1,223,984	1,207,549
Net assets released from restrictions	29,517,369	(29,517,369)	-	-	-
Total revenue and support	<u>46,566,113</u>	<u>9,142,734</u>	<u>-</u>	<u>55,708,847</u>	<u>53,528,733</u>
OPERATING EXPENSES:					
Program services:					
Visitor, learner, and educator programs	21,149,525	-	-	21,149,525	18,797,368
Exhibit services	4,124,714	-	-	4,124,714	3,382,741
Admissions and other	796,881	-	-	796,881	684,075
Store expenses	1,163,735	-	-	1,163,735	1,108,474
Support services:					
General and administrative	3,380,265	-	-	3,380,265	2,467,921
Fundraising and membership	3,030,522	-	-	3,030,522	2,446,659
Operations	2,354,871	-	-	2,354,871	2,075,436
Total operating expenses	<u>36,000,513</u>	<u>-</u>	<u>-</u>	<u>36,000,513</u>	<u>30,962,674</u>
CHANGE IN NET ASSETS					
FROM OPERATING ACTIVITIES:	<u>10,565,600</u>	<u>9,142,734</u>	<u>-</u>	<u>19,708,334</u>	<u>22,566,059</u>
NON-OPERATING INVESTMENT ACTIVITY:					
Investment income	169,194	137,619	-	306,813	378,997
Net realized and unrealized gains	1,185,898	1,373,361	-	2,559,259	1,379,704
Total non-operating investment activity	<u>1,355,092</u>	<u>1,510,980</u>	<u>-</u>	<u>2,866,072</u>	<u>1,758,701</u>
CHANGE IN NET ASSETS	11,920,692	10,653,714	-	22,574,406	24,324,760
NET ASSETS BEGINNING OF YEAR	<u>9,421,449</u>	<u>93,179,271</u>	<u>15,556,395</u>	<u>118,157,115</u>	<u>93,832,355</u>
NET ASSETS END OF YEAR	<u>\$ 21,342,141</u>	<u>\$ 103,832,985</u>	<u>\$ 15,556,395</u>	<u>\$ 140,731,521</u>	<u>\$ 118,157,115</u>

The accompanying notes are an integral part of this consolidated financial statement.

Exploratorium

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2011

(with summarized financial information for the year ended June 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 22,574,406	\$ 24,324,760
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	811,126	858,689
Change in allowance for uncollectible accounts	384,505	-
Change in discount on long-term contributions receivable	(665,911)	3,239,721
Change in market value of investments	(2,559,259)	(1,379,704)
Stock contributions	(2,466,202)	(539,717)
Write off of property and equipment	12,403	90,194
Contributions restricted for investment in museum improvements	(38,379,192)	(42,971,121)
Changes in assets and liabilities:		
Receivables	(43,654)	444,114
Inventory	4,423	(24,209)
Other assets	(329,005)	(334,311)
Trade payables and accrued expenses	1,207,033	(1,200,088)
Deferred rent liability	847,615	-
Deferred revenue	37,394	(176,266)
Net cash from operating activities	(18,564,318)	(17,667,938)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(48,348,384)	(10,463,286)
Proceeds from sales of investments	111,312,799	31,731,868
Purchase of investments	(68,082,328)	(38,430,486)
Net cash from investing activities	(5,117,913)	(17,161,904)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for investment in endowment and museum improvements	36,043,386	34,145,476
Checks written in excess of funds available	(610,350)	480,208
Line of credit	(204,158)	204,158
Net cash from financing activities	35,228,878	34,829,842
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,546,647	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 11,546,647	\$ -
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	\$ 32,973	\$ 52,498
Noncash investing activities:		
Noncash adjustment for the capital expenditures reflected in construction payables and construction retainage	\$ 10,572,423	\$ 1,414,300

The accompanying notes are an integral part of this consolidated financial statement.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Exploratorium, a California nonprofit organization, is a museum of science, art, and human perception located in San Francisco, California. The Exploratorium creates tools and experiences which help visitors to become active explorers. Some of the tools used include: hundreds of “explore-for-yourself” exhibits; a website with several thousand pages of content; film screenings; workshops for lifelong learners including day camps for children and family investigations; and evening art and science events for adults. Professional development programs have been and are being created for educators, and are at the forefront of changing the way science is taught. Exhibits created and expertise learned are shared with museums worldwide.

Summary of Significant Accounting Policies

A summary of significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation

The accompanying consolidated financial statements as of June 30, 2011, include the financial statements of the Exploratorium and Exploratorium Master Holdings, Inc, its wholly owned subsidiary. As further discussed in Note 10, the subsidiary and its related entities were created during the year ended June 30, 2011 as vehicles to assist the Exploratorium in partially financing the construction of its new facilities. Inter-organizational transactions and balances have been eliminated in the consolidation.

Summarized 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 Exploratorium’s financial statements for the year ended June 30, 2010, from which the summarized information is derived.

Basis of Presentation

The Exploratorium’s consolidated financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets represent unconditional promises to give by a donor without any use or time restrictions.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

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

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions and other assets received from donors that are limited in use by the Exploratorium in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Exploratorium according to the terms of the contribution. Upon satisfaction of such stipulations, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets represent unconditional promises to give by a donor that specifies that the assets donated be invested to provide a permanent source of income. Permanently restricted gifts (endowments) are managed according to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) of the State of California. If the donor does not restrict the allowed use of the income, the organization classifies income as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. As of June 30, 2011 and 2010, the Exploratorium had \$15,556,395 in permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and short-term investments with original maturities of 90 days or less at purchase, which are not considered investments. In the regular course of business, the Exploratorium may maintain operating cash balances at a bank in excess of federally insured limits. Management does not believe it is exposed to any significant credit risk on uninsured amounts.

Accounts Receivable – non-contribution

The Exploratorium evaluates the collectability of its non-contribution receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. At June 30, 2011 and 2010, the Exploratorium has determined that all non-contribution receivables are fully collectible and therefore, has not recorded an allowance for doubtful accounts.

Contributions Receivable

As of June 30, 2011 and 2010, contributions receivable consist of grants and pledges from either grantmaking foundations or donors and relate substantially to the Exploratorium’s capital campaign (refer to Note 10). The Exploratorium has evaluated the collectability of these receivables. As a result, an allowance for doubtful accounts of \$469,329 and \$84,824 has been reflected in the Consolidated Statement of Financial Position as of June 30, 2011 and 2010, respectively. As further described in Note 2, these receivables are subject to discount.

Inventory

Inventory, consisting mostly of items available for sale at the museum, is stated at the lower of average cost or market.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

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

Exhibit Services (“EXS”) Rental Exhibits

EXS rental exhibits are recorded at the costs of construction materials and labor and are built solely for rental to other museums. Depreciation is provided on the straight-line method over the estimated useful life of ten years.

Exhibits, Leasehold Improvements and Equipment

Costs associated with research, development, and maintenance of exhibits created for the Exploratorium’s own use are expensed as incurred. Upon determination the exhibit is viable, the Exploratorium will capitalize the costs of construction, which generally includes materials and labor. Depreciation is provided on the straight-line method over an estimated useful life of ten years.

Equipment is recorded at cost or, if donated, at fair value on the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 10 years. Leasehold improvements at the Exploratorium’s current location have been amortized on a straight-line basis over the shorter of their useful lives or the remaining period of the original lease. At June 30, 2011 and 2010, all leasehold improvements at the Exploratorium’s current site were fully amortized.

During 2008, the Exploratorium began to capitalize the costs related to its future site, currently under construction. These capitalized costs include capital construction costs and capitalizable costs of exhibits to be housed in the new facility. Such amounts are reflected as construction in progress on the Consolidated Statement of Financial Position. Reference should be made to Note 10.

Fair Value of Financial Instruments

The carrying amounts of the Exploratorium’s financial instruments, which include, contributions and accounts receivable, accounts payable, and other accrued expenses approximate their fair value due to their short maturities. Based on borrowing rates currently estimated to be available to the Exploratorium’s donors being consistent with discount rates used historically, long-term contributions receivable also approximate fair value. Investments are reflected at fair value in the Consolidated Statement of Financial Position.

Investments

Investments consist of cash and cash equivalents (not held for operations) and equity and debt securities held by investment custodians and are carried at fair value, as determined by quoted market prices, on the Consolidated Statement of Financial Position. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the Consolidated Statement of Activities.

Investments, which are not readily marketable, often referred to as “alternative investments”, are carried at estimated fair value as provided by the investment managers or general partners. The Exploratorium reviews and evaluates the values provided by the third parties and agrees with the valuation methods and assumptions used in determining the fair values of the alternative investments. Because the alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

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

Investments (continued)

Alternative investments include investments in partnerships and investment funds that invest in various securities in all types of market environments.

Deferred Revenue

Deferred revenue consists primarily of advance deposits for rental exhibits, museum rentals, and field trips which will occur after the fiscal year-end.

Deferred Rent Asset

As further described in Note 8, the Exploratorium recognizes rent expense on a straight line method over the term of its lease with the Port of San Francisco. In addition to the monthly lease payments, the Exploratorium is obligated under the lease agreement to pay for certain costs associated with the lease. These costs have been considered minimum lease payments and, as a result, have been included in the straight line rent computation. Some of these required payments were made during the period from lease signing to June 30, 2011, and others are payable over a period of time.

Revenue Recognition

Contributions are recognized as revenue when received or unconditionally promised. Gifts of cash and other assets are reported as restricted support if received with donor stipulations that limit the use, either for time and/or purpose, of the donated assets. Donor-restricted contributions, whose restrictions are met in the same reporting period as the contribution is recorded, are reported as temporarily restricted contributions with a corresponding release of restrictions. Conditional promises to give are not recognized as revenue until the donor conditions are substantially met.

The Exploratorium is currently involved in a multi-year, multi-purpose capital campaign (the "Campaign") for the construction of its new site to be located on the San Francisco Waterfront (i.e., the San Francisco Historic Port District). (Refer to Note 10.) The Campaign not only encompasses the renovation and construction of the new facility, but also, the design and creation of the exhibits to be housed at the new site, new program content, and an increase in the Exploratorium's endowment. Unless a donor makes a Campaign contribution with a specific purpose restriction, contributions received are expendable on both capitalizable and non-capitalizable expenditures of the new site. Pursuant to Board policy, contributions received from donors through the Campaign are released once costs are incurred. To the extent costs are capitalized as either construction in progress (leasehold improvements) or exhibit costs in progress, such donations are maintained in temporarily restricted through the construction phase.

The Exploratorium recognizes revenues from store sales upon sale of the merchandise. Admission revenues are recognized upon sale of admission tickets.

Revenue from Exhibit Services is recorded using the percentage-of-completion method for exhibits built for sale and is recognized pro-rata over the term of the lease agreement for exhibits leased.

Revenue from government grants are recognized as the related services are provided. Payments under such transactions are generally received on a cost-reimbursement basis.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

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

Contributions of Services

Contributed services, which require a specialized skill and/or enhance or create nonfinancial assets and which the Exploratorium would have paid for if not contributed, are recorded at their estimated fair market value. For the years ended June 30, 2011 and 2010, the Exploratorium recognized approximately \$149,000 and \$171,000 respectively, in contributed services. The Exploratorium also has a substantial number of unpaid volunteers performing various functions who contributed over 16,000 hours during the year ended June 30, 2011. The value of this contributed time is not reflected in the consolidated financial statements, as it does not meet the criteria for recognition.

Income Tax Status

The Exploratorium has received rulings from the Internal Revenue Service and the California Franchise Tax Board granting it exemption from income taxes.

The consolidated subsidiary of the Exploratorium and its related entities are organized as for profit entities. The subsidiary is subject to tax at the subsidiary level. The subsidiary's controlled entities are flow through entities, whereby the tax attributes stemming from these entities are flowed through and are subject to tax at the individual member level. As of June 30, 2011, the Exploratorium is not subject to any income tax as a result of its ownership of its subsidiary.

The Exploratorium adopted the provisions of FASB Accounting Standards Codification ("ASC") 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on July 1, 2009. The Exploratorium had no unrecognized tax benefits which would require an adjustment to the July 1, 2009 beginning balance of net assets and had no unrecognized tax benefits at June 30, 2011 or 2010 nor is an adjustment anticipated for the twelve months following June 30, 2011. The Exploratorium files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. federal and California jurisdictions. The Exploratorium's tax returns for the years ended May 31, 2008, June 30, 2009, June 30, 2010 and June 30, 2011 are open for potential IRS/California Franchise Tax Board examination. To date, the Exploratorium has not been notified by either taxing authority of any pending examination. The subsidiaries are required to file corporate or partnership tax returns in the U.S. federal and California jurisdictions. The first returns for these entities were filed for the year ended December 31, 2010.

Functional Expense Allocations

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities. Expenses which apply to more than one functional category have been allocated between program, management and general, and fundraising based on the time spent on these functions by specific employees as estimated by management. Indirect expenses are allocated based on the overall number of staff in the various functional categories. Certain marketing material costs are allocated based on the percentage of the publication devoted to each functional area. All other costs are charged directly to the appropriate functional category.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

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

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expense included in the accompanying Consolidated Statement of Activities approximated \$198,000 and \$209,000 for the years ended June 30, 2011 and 2010, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Risk

The Exploratorium recognizes there are inherent risks associated with publicly and non-publicly traded securities. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations and regular communication with investment managers. To address market risk of investments, the Exploratorium maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers' performances. Investments are managed by investment managers, who have responsibility for investing the funds in various investment alternatives.

The Exploratorium does transact some activities with organizations located outside the United States. For the years ended June 30, 2011 and 2010, revenues from such activities amounted to \$1,353,556 and \$936,158 respectively.

New Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU amends Topic 820 (Fair Value Measurements) to provide for changed wording to describe the requirements of U.S. GAAP for measuring fair value and disclosing information about fair value. ASU No. 2011-04 is effective prospectively for the fiscal year ending June 30, 2013. The adoption of this ASU is not expected to change how the Exploratorium will apply Topic 820.

Recently Adopted Accounting Pronouncements

The Exploratorium adopted the provisions of ASC Topic 820, *Fair Value Measurement and Disclosure*, during the year ended June 30, 2011 which required additional disclosures relating to transfers of assets in and out Level 1 and 2 of the fair value hierarchy and the reasons for those transfers and separate presentation of purchases and sales of the Level 3 asset reconciliation. The adoption of this standard did not have a material impact on the Exploratorium's consolidated financial statements.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

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

Reclassifications

Certain 2010 balances have been reclassified to conform with 2011 presentation. None of these reclassifications had any impact to previously reported net assets.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give by donors. Contributions that are expected to be collected after one year have been discounted at a rate of 4% in both 2011 and 2010, and are reflected in the consolidated financial statements at their net present value.

Contributions receivable are due as follows as of June 30, 2011:

Contributions receivable (other than Capital Campaign)	
Less than one year	\$ 1,263,309
One to five years	109,604
Discount on receivables due in more than one year	(2,987)
Allowance for uncollectible contributions	<u>(5,705)</u>
Total	<u>\$ 1,364,221</u>
Contributions receivable (Capital Campaign)	
Less than one year	\$ 6,779,832
One to five years	18,821,930
More than five years	14,000,000
Discount on receivables due in more than one year	(6,392,429)
Allowance for uncollectible contributions	<u>(463,624)</u>
Total	<u>\$ 32,745,709</u>

The Exploratorium has received notification from various donors of gifts to be restricted to the Capital Campaign totaling \$15,800,000 and \$11,300,000 as of June 30, 2011 and 2010, respectively. Such amounts have and will be recorded as revenue when received or upon satisfying any specific conditions, based on the specified payment schedules provided by the donors. Revenues from these gifts is expected to be recorded as follows:

Year ending December 31,	
2012	\$ 4,358,333
2013	4,358,333
2014	4,358,334
2015	1025,000
2016	700,000
Thereafter	<u>1,000,000</u>
Total	<u>\$ 15,800,000</u>

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 3 – EXHIBIT SERVICES, EXHIBITS, LEASEHOLD IMPROVEMENTS AND EQUIPMENT

EXS exhibits held for rental consists of the following as of June 30:

	2011	2010
Traveling exhibits	\$ 4,356,718	\$ 4,304,847
Less accumulated depreciation and amortization	<u>(3,015,007)</u>	<u>(2,701,785)</u>
Total	<u>\$ 1,341,711</u>	<u>\$ 1,603,062</u>

Finished exhibits and components consist of the following as of June 30:

	2011	2010
Finished exhibits and components	\$ 6,761,563	\$ 5,804,030
Less accumulated depreciation	<u>(4,005,292)</u>	<u>(3,617,931)</u>
Total	<u>\$ 2,756,271</u>	<u>\$ 2,186,099</u>

Leasehold improvements and equipment consist of the following as of June 30:

	2011	2010
Leasehold improvements	\$ 6,600,702	\$ 6,600,702
Equipment	<u>1,428,581</u>	<u>1,428,581</u>
	8,029,283	8,029,283
Less accumulated depreciation and amortization	<u>(7,811,509)</u>	<u>(7,744,933)</u>
Total	<u>\$ 217,774</u>	<u>\$ 284,350</u>

NOTE 4 – INVESTMENTS

Investments are carried at fair value and consist of the following as of June 30:

	2011	2010
Cash equivalents held for investment	\$ 5,401,915	\$ 46,366,065
Domestic equity	4,651,569	4,875,673
International equity	1,837,626	1,254,561
Emerging equity	1,481,895	1,053,134
Domestic fixed income	5,433,699	5,209,078
Alternative investments	<u>5,185,422</u>	<u>3,438,625</u>
Total	<u>\$ 23,992,126</u>	<u>\$ 62,197,136</u>

The Exploratorium nets investment fees and expenses against investment income. For the years ended June 30, 2011 and 2010, investment fees and expenses amounted to \$79,773 and \$71,183, respectively.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 4 – INVESTMENTS (continued)

Fair Value Measurements

Investments in marketable equity securities and debt securities are carried at fair value based on quoted market prices. Fair value of alternative investments is based on information provided by fund managers, external investment advisors, and other market factors to determine if the carrying value of these investments should be adjusted. Other factors may include, but are not limited to: estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

Current accounting standards allow for the use of a practical expedient for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The Exploratorium utilizes the Net Asset Value (“NAV”) as the practical expedient to value the funds that (a) the underlying investments held by the fund do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The funds’ administrator, appointed by and under supervision of the Board of Directors, provides the NAV’s considering variables such as the actual market exchanges and/or trade quotations provided by third parties. In the case of securities for which independent pricing is not available, a fund may adopt fair value pricing. The Exploratorium reviewed the valuations provided by funds’ administrator and believes that the carrying amounts of these investments are reasonable estimates of fair value.

Valuation of Investments

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

- Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities held in the name of the Exploratorium.
- Level II - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.
- Level III - Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include investments in privately held investment companies. The fair value of such investments was determined by the investment managers, based on the fair value of the assets held by the funds.

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

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 4 – INVESTMENTS (continued)

Valuation of Investments (continued)

As of June 30, 2011, the Exploratorium's investments were classified by level within the valuation hierarchy as follows:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Cash equivalents	\$ 5,401,915	\$ 5,401,915	\$ -	\$ -
Domestic equity	4,651,569	4,651,569	-	-
International equity	1,837,626	1,837,626	-	-
Emerging equity	1,481,895	1,481,895	-	-
Domestic fixed income	5,433,699	5,433,699	-	-
Alternative investments	<u>5,185,422</u>	<u>-</u>	<u>3,258,062</u>	<u>1,927,360</u>
Investment securities	<u>\$ 23,922,126</u>	<u>\$ 18,806,704</u>	<u>\$ 3,258,062</u>	<u>\$ 1,927,360</u>

As of June 30, 2010, the Exploratorium investments were classified by level within the valuation hierarchy as follows:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Cash equivalents	\$ 46,366,065	\$ 46,366,065	\$ -	\$ -
Domestic equity	4,875,673	4,875,673	-	-
International equity	1,254,561	1,254,561	-	-
Emerging equity	1,053,134	1,053,134	-	-
Domestic fixed income	5,209,078	5,209,078	-	-
Alternative investments	<u>3,438,625</u>	<u>-</u>	<u>1,186,591</u>	<u>2,252,034</u>
Investment securities	<u>\$62,197,136</u>	<u>\$ 58,758,511</u>	<u>\$ 1,186,591</u>	<u>\$ 2,252,034</u>

The changes in investments classified as Level III for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Balance, July 1	\$ 2,252,034	\$ 2,036,266
Sale of investments	(400,000)	-
Unrealized gains	<u>75,326</u>	<u>215,768</u>
Balance, June 30	<u>\$ 1,927,360</u>	<u>\$ 2,252,034</u>

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 4 – INVESTMENTS (continued)

Investments In Entities That Calculate Fair Value Using Net Asset Value Per Share Or Its Equivalent

The following table presents the unfunded commitments, redemption frequency and notice period for investments in entities that calculate fair value using net asset value per share or its equivalent at June 30, 2011 and 2010.

<u>Investments</u>	<u>2011 Fair Value</u>	<u>2010 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Notice</u>
Giovine LP	\$ 1,752,506	\$ 1,153,023	None	45 days notice
Miura Global	\$ 1,505,556	\$ -	None	None
Criterion	\$ -	\$ 33,568	None	None
BHC	\$ 385,536	\$ 412,033	None	NA (1)
King Street	\$ 1,541,824	\$ 1,840,001	None	NA (2)

- (1) The fund allows for a 5 day redemption notice but restricts redemptions to 25% of original investment each quarter.
- (2) The fund is illiquid and will only be redeemed upon termination of the fund.

NOTE 5 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes as of June 30:

	<u>2011</u>	<u>2010</u>
Capital campaign initiatives/museum project (purpose and time restrictions)	\$ 31,225,130	\$ 67,206,402
Program restrictions (purpose and time restrictions)	1,295,421	2,330,148
Exhibits and future site (time restrictions)	69,973,444	23,438,507
Unappropriated endowment earnings	<u>1,338,990</u>	<u>204,214</u>
Total	<u>\$103,832,985</u>	<u>\$ 93,179,271</u>

Net assets were released from donor restrictions during the year ended June 30, 2011 by incurring expenses satisfying the purpose of the restriction or by the passage of time:

	<u>2011</u>
Capital campaign initiatives (purpose restrictions)	\$ 26,760,561
Program restrictions (purpose restrictions)	<u>2,756,808</u>
Total	<u>\$ 29,517,369</u>

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 5 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (continued)

Permanently restricted net assets (“PRNA”) generate earnings that are either purposely restricted for various program initiatives by donors, or unrestricted as to purpose as follows as of June 30:

	<u>2011</u>	<u>2010</u>
PRNA generating purpose restricted investment earnings	\$ 13,726,623	\$ 13,726,623
PRNA generating earnings with no purpose restriction	<u>1,829,772</u>	<u>1,829,772</u>
Total	<u>\$ 15,556,395</u>	<u>\$ 15,556,395</u>

NOTE 6 – ENDOWMENT

California enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) effective January 1, 2009. As a result, the Exploratorium reviewed all relevant gift instruments and its organizing documents to determine if it had funds with donor-imposed restrictions that are subject to the state enacted version of the UPMIFA. The Exploratorium continues to review all new gift instruments in relationship to the enacted law.

Interpretation of Relevant Law

The Board of Directors, with the advice of legal counsel, has determined it holds net assets which meet the definition of endowment funds under UPMIFA. As a result of this interpretation, the corpus of funds subject to UPMIFA is classified as permanently restricted. The corpus represents the fair value of the original gifts as of the gift date, and all subsequent gifts where the donor has indicated the gift be retained permanently. The value of assets in excess of original gifts in donor restricted endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Exploratorium.

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets. At June 30, 2011 and 2010, the Exploratorium had 3 and 12 endowment funds with deficiencies of this nature totaling \$423,444 and \$1,733,297, respectively. These deficiencies are reflected in unrestricted net assets.

In accordance with UPMIFA, the Exploratorium considers the following factors in making a determination as to the appropriation of assets for expenditure: 1) the duration and preservation of the fund, 2) the purposes of the organization 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 organization, and 7) the investment policies of the Exploratorium.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 6 – ENDOWMENT (continued)

Investment and Spending Policies

The Exploratorium has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowed assets. The investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

To accomplish the long-term rate of return objectives, the Exploratorium relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Exploratorium targets a diversified asset allocation with an emphasis on equity based investments, within prudent risk parameters.

The spending policy determines the amount of money to be distributed annually from the Exploratorium's various endowed funds for operational support. The Exploratorium adopted a spending policy to address underwater funds, defined as those funds with balances below historic gift value. The spending rate is calculated over a twelve trailing quarter average.

For the years ended June 30, 2011 and 2010, the Exploratorium's endowment net assets changed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ (3,043,207)	\$ -	\$ 15,556,395	\$ 12,513,188
Investment return:				
Investment income	290,918	-	-	290,918
Net appreciation	<u>1,018,992</u>	<u>204,214</u>	<u>-</u>	<u>1,223,206</u>
 Endowment net assets, June 30, 2010	 (1,733,297)	 204,214	 15,556,395	 14,027,312
Investment return:				
Investment income	108,845	111,041	-	219,886
Net appreciation	1,201,008	1,083,735	-	2,284,743
Withdrawals	<u>-</u>	<u>(60,000)</u>	<u>-</u>	<u>(60,000)</u>
 Endowment net assets, June 30, 2011	 <u>\$ (423,444)</u>	 <u>\$ 1,338,990</u>	 <u>\$ 15,556,395</u>	 <u>\$ 16,471,941</u>

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 7 – CREDIT AGREEMENT

The Exploratorium entered into a Credit Agreement on November 1, 2010 with Bank of America as the lead lender of a lending consortium. The Credit Agreement provides that the Exploratorium may borrow up to \$100,000,000 for purposes of construction of its new facilities located at Piers 15 and 17 and for operating working capital. (Refer to Note 10.)

The Credit Agreement has two initial components:

- **Construction Loan** – During the availability period (defined as 30 months commencing November 2010), the Exploratorium may not borrow more than the lesser of the Borrowing Base, as defined, or \$95,000,000. The Borrowing Base is defined as the sum of, (i) the amount of Cash Collateral, plus (ii) seventy-five percent (75%) of the amount of Eligible Pledge Receivables, as defined by the Agreement, plus (iii) eighty percent (80%) of the amount of Eligible Pledge Receivables (Guaranteed) plus, after the occurrence of the Historical Tax Credit Contingency (see below), and (iv) the amount of the Second Payment as defined in the Master Tenant Operating.
- **Working Capital Loan** – The Exploratorium may not borrow more than \$5,000,000 during the period beginning November 2010 through the maturity date of the loan (see below).

Both loans are subject to interest-only payments (upon credit extension) of the existing LIBOR rate plus 3.5%. Upon the end of the availability period, the Exploratorium shall have the option to convert the above described construction loan to a term loan. The terms of the converted term loan will require the Exploratorium to repay the debt (actual borrowings not to exceed \$100 million) over 36 months from conversion date but amortized over a five year period.

The credit agreement calls for certain financial and non-financial covenants as follows:

- The Exploratorium must have of cash pledges received of no less than 85% of the planned pledges based on a campaign to date basis.
- Upon incurrence of debt, the Exploratorium must maintain a debt service coverage ratio of 1.25:1 each quarter.
- Compliance and base borrowing certificates must be provided to the lender. Quarterly certificates are due with the internally prepared financial statements and be presented within 45 days of quarter end. Year-end certificates are due with the audited financial statements and be presented within 150 days of year-end.

As of June 30, 2011, the Exploratorium has no outstanding debt against this credit facility.

As part of the financing structure and as more fully discussed in Note 10, the Exploratorium entered into a Historical Tax Credit arrangement.

The Exploratorium had a revolving \$3 million line of credit with a different financial institution, that expired September 30, 2010, and was secured by various assets including receivables, inventory and equipment, at the bank's prime rate plus 1.5% (4.75% at June 30, 2010). The Exploratorium had an outstanding balance of \$204,158 at June 30, 2010. The line of credit was replaced with the debt facility described above. Interest expense was \$32,973 and \$55,801 for the years ended June 30, 2011 and 2010, respectively.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 8 – LEASE COMMITMENTS

The Exploratorium is obligated under an operating lease with the City of San Francisco (Parks and Recreation Commission) for the space it occupies in The Palace of Fine Arts through February 28, 2013. The lease includes an adjustment clause which provides for an annual increase in rent at the lesser of the current Consumer Price Index (“CPI”) or 3%.

Future minimum commitments under this agreement are as follows:

Year ending June 30:

2012	\$ 519,264
2013	<u>401,131</u>
Total	<u>\$ 920,395</u>

Additionally, the Exploratorium has a Special Use Permit with the United States Department of the Interior, National Park Service, for the space it currently occupies for office and exhibit services in The Presidio of San Francisco. The period of authorization to use the occupied space was a one year period which expired on December 31, 2002. Since January 1, 2003, the Exploratorium has been operating under a month-to-month agreement.

Rent expense for the operating leases discussed above amounted to approximately \$939,000 and \$985,000 for the years ended June 30, 2011 and 2010, respectively.

Effective November 3, 2010, the Exploratorium entered into a 66 year lease with the City and County of San Francisco operating by and through the San Francisco Port Commission (the “Port”). The lease provides for the Exploratorium to lease Pier 15 and a portion of Pier 17, both located in the Historical Port District of the Port of San Francisco.

It is the intention of the Exploratorium to move both the museum and corporate offices to the Piers in early 2013. Key lease provisions of the lease are as follows:

- **Pier 15**
 - **Initial minimum monthly rent** - \$66,107. Upon BayDelta (refer to Note 10) relocating from Pier 15 to Pier 17, the monthly rent increases to \$78,805. BayDelta relocated on or about May 1, 2011.
 - **Rent escalation** – The monthly minimum lease payment is subject to CPI increases every 5th year beginning on the 5th anniversary of the lease commencement. Minimum CPI increase is 10%, with a maximum of 20%.
 - **Rent incentives** – In consideration of the tenant improvements to be constructed by the Exploratorium, the Port will provide the Exploratorium rent incentives equal to the minimum monthly rent from lease commencement through the 50th anniversary of the lease.
 - **Percentage rent** – The Exploratorium is obligated to pay a monthly percentage rent based on revenues generated on Pier 15 once museum operations commence. If the total computed percentage rent on quarterly basis exceeds the minimum monthly rent computed before the application of the rent incentives, the Exploratorium will be obligated to pay the Port the differential.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 8 – LEASE COMMITMENTS (continued)

- **Pier 17**
 - **Initial minimum monthly rent** - \$66,961. Such initial minimum monthly rent shall be reduced to \$42,032 for the first six months of the lease.
 - **Rent escalation** – The monthly minimum lease payment is subject to a CPI increase each year effective January 1, 2012 of 3% until the application of the rent incentive applicable for Pier 17, or on or about January 2024. Upon entering the rent incentive period, the minimum lease payments will increase by the existing CPI every 5th anniversary. The minimum increase will be no less than 10% and no more than 20%. Pier 17 rent increases are also subject to a prevailing rental clause.
 - **Rent incentive** – In consideration for tenant improvements, which may be made to Pier 17 by the Exploratorium, the Port will provide the Exploratorium a rent incentive to be determined upon completion of Pier 17 improvements.
 - **Percentage rent** – The Exploratorium will be obligated to pay percentage rent on certain revenues generated on Pier 17 and then, if the Exploratorium expands the museum to Pier 17, on all revenues. Payment provisions are and will be similar to Pier 15.

- **General provisions**
 - The Exploratorium is obligated to pay to the Port’s “transaction costs” directly associated with the lease. Such payments are due quarterly in advance. The transactions costs, which are estimated to be approximately \$1.5 million have been included in minimum rent for purposes of the deferred rent computation.
 - The Exploratorium, at its sole expense, is obligated to improve a portion of Pier 17 to allow BayDelta (a tenant of the Port) to relocate its maritime facility from Pier 15 to Pier 17. Substantially all of these improvements, which totaled approximately \$7.9 million, were incurred by June 30, 2011 and have been included in minimum rent for purposes of computation of deferred rent.
 - The Exploratorium will, at its sole expense, construct a Water Taxi Dock (“Dock”) for the exclusive use of the Port. In the event the Exploratorium does not commence construction of the Dock by the 5th anniversary of the lease, the Exploratorium will be obligated to compensate the Port, as additional rent, to design and build the Dock. In addition to the hard costs, the Exploratorium will be required to pay an additional amount equal to 10% of the hard costs as administrative burden. The Exploratorium currently estimates the Dock will cost \$530,000 to construct. Since the Exploratorium is obligated under the lease to incur this expense, the estimated construction costs have been included in minimum rent for purposes of computation of deferred rent.
 - The Exploratorium is obligated to pay \$50,000 annually on the 2nd through 5th anniversary of the lease for a substructure reserve. On the 6th anniversary of the lease and every 5th year thereafter, the Exploratorium is to increase the balance in the account to an amount based on the most recent substructure condition report. Interest on the fund shall accrue to the reserve account. The funds in the account are to be used only for the maintenance, repair, and replacement of the substructure, if necessary.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 8 – LEASE COMMITMENTS (continued)

- **General provisions (continued)**

- The Exploratorium is also potentially obligated to pay up to \$400,000 for dredging costs incurred during a certain period after lease commencement.
- The Port leased the Piers to the Exploratorium on an “as is” basis. The cost of any hazardous waste cleanup will be at the sole expense of the Exploratorium. The Exploratorium is in the process of removing all hazardous waste as required by the lease and current law.
- The Exploratorium is required to maintain a \$5 million deposit with a qualified financial institution acceptable to the Port for a period of not less than twelve months commencing November 1, 2010. The funds are required to be held as security for the Port against any default by the Exploratorium during construction. The first priority security interest reverts to the lender (see Note 7) on November 1, 2011. Such amount is included in investments on the Consolidated Statement of Financial Position. To date the Exploratorium is not in default on the construction.

The lease calls for the Exploratorium to expand the museum’s footprint to encompass substantially all of Pier 17 under the Phase II construction section of the lease. In order to accomplish this expansion, three events must occur:

1. BayDelta must vacate the space it currently leases at Pier 17 directly from the Port.
2. The Port Commission must determine that Pier 17 is no longer needed for maritime use. This determination cannot occur until a maritime use study has been conducted after BayDelta has vacated the space.
3. The Exploratorium must start construction by on the planned Pier 17 renovations by the 16th anniversary of the lease.

It is the Exploratorium’s intention to expand to Pier 17, even if BayDelta does not vacate their current space. The Exploratorium can still renovate and expand the museum’s footprint to the rest of Pier 17 not occupied by BayDelta, assuming point 3 above is achieved.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 8 – LEASE COMMITMENTS (continued)

Future minimum commitments under this agreement are as follows:

Year ending June 30:

2012	\$ 1,761,245
2013	1,785,713
2014	1,810,914
2015	1,836,872
2016	1,926,652
2017-2021	10,290,195
2022-2026	11,545,421
2027-2031	8,147,300
2032-2036	7,015,007
2037-2041	7,716,507
2042-2046	8,488,158
2047-2051	9,336,974
2052-2056	10,270,671
2057-2061	11,297,739
2062-2066	12,427,512
2067-2071	13,670,264
2072-2076	15,037,290
2077	<u>1,088,225</u>
	135,452,658
Less sublease revenue	<u>(791,261)</u>
	<u>\$134,661,397</u>

The above lease schedule includes the future minimum rents for Pier 17 only through the 17th anniversary of the lease. While it is the intention of the Exploratorium to expand to whatever portion of Pier 17 it is allowed to (see above), the possibility does exist that the lease for substantially all of Pier 17 could terminate in either 2026 or 2027.

Concurrent with entering into the lease with the Port, the Exploratorium assumed, as substitute landlord, a lease previously held by the Port. The lease is with an unrelated third party. The lease is set to expire no later than December 31, 2013 with no availability for the tenant to extend the lease beyond this date.

As described in Note 1, the Exploratorium recognizes both lease expense and rent incentives on a straight line method over the term of the lease. As a result, approximately \$9.0 million has been recognized as a deferred rent asset on the Consolidated Statement of Financial Position. Total lease expense, associated with the Port lease, for the year ended June 30, 2011 amounted to approximately \$1.25 million. This amount is net of approximately \$736,000 in recognized rent incentives provided by the Port through the rent credit clauses of the lease.

As further described in Note 10, the Exploratorium is currently in the process of constructing the necessary tenant improvements on the Piers so that it can operate its museum and education operations. Expected completion of all the tenant improvements is early 2013.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 9 – CONTINGENCIES

The Exploratorium receives funds from and administers various federal and state government funded programs which are subject to audit by the cognizant governmental agencies. Some of these grants also contain provisions that subject certain assets purchased with governmental funds to be subject to reversion. To date, the Exploratorium has not been required to either refund any grant funding or return any assets purchased with government funding.

NOTE 10 – NEW MUSEUM SITE CONSTRUCTION, CAPITAL CAMPAIGN, AND HISTORICAL TAX CREDIT ARRANGEMENT

As detailed in Note 7, the Exploratorium has embarked on a multi-year, multi-purpose Campaign to construct a new and improved museum and educational facility located on Piers 15 and 17 at the San Francisco Historic Port District. To date, the Exploratorium has limited the Campaign to major donors and benefactors. Plans to begin a larger public Campaign are currently being considered with an expected targeted launch date of such a campaign yet to be determined.

The majority of the proceeds to be received from the Campaign described above are to be used for the renovation of Piers 15 and 17. Pier 15 will house the Exploratorium's new museum space as well as certain of its administrative functions. Pier 17 will also house some of the Exploratorium's administrative functions. The most significant cost of the Pier 17 renovations have been associated with the renovations necessary to allow BayDelta to relocate to the north side of Pier 17. Internally, the Exploratorium has also earmarked a portion of the Campaign proceeds to fund the planning, design, and ultimate construction of the museum. Expenses associated with planning, research, and development of the museum space are being expensed as incurred.

As of June 30, 2011, the Exploratorium had construction commitments for the new site of approximately \$139 million. It is expected that construction will be complete by January 2013.

As detailed in Note 7, the Exploratorium has entered into a credit facility of \$100 million to provide funding during the construction phase and to allow for long term contribution receivables to be collected over time. To supplement the credit facility, the Exploratorium entered into a Historical Tax Credit arrangement, whereby tax credits generated from the renovation of Pier 15 will be purchased by an investor group. The agreed upon purchase price is \$1.25 per historical tax credit earned from the project. Currently, it is estimated the tax credits will total approximately \$40 million for a total investor purchase price of approximately \$50 million. It is anticipated a significant payment will be made by the investor group by December 2012, the approximate date the Exploratorium expects to receive temporary occupancy on Pier 15.

To effectuate the historical tax credit arrangement, the Exploratorium assisted in the creation of various flow through entities which will enable the investor group to take advantage of the tax credits generated as well as depreciations on the improvements during the time period the tax structure exists. As described in Note 1, these entities are fully consolidated with the operations of the Exploratorium.

Exploratorium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2011 and 2010

NOTE 11 – RETIREMENT PLAN

The Exploratorium has a defined contribution plan which is a qualified plan under Section 403 (b) of the Internal Revenue Code. The plan covers employees who have reached the age of 21, have completed one year of service, and who have worked at least 975 hours during any plan year. The plan allows for the Exploratorium, as plan sponsor, to make elective matching contributions to the plan. During the years ended June 30, 2011 and 2010, the Exploratorium contributed \$373,032 and \$350,262 to the plan, respectively.

NOTE 12 – RELATED PARTY TRANSACTIONS

As of and for the year ended June 30, 2011 and 2010, contributions receivable and recorded contribution revenue from members of the Board of Directors of the Exploratorium or companies or individuals with which the Board of Directors are affiliated were \$33,046,519 and \$13,571,268 and \$32,236,375 and \$4,437,662, respectively. One member of the Board of Directors is also an employee of the bank that holds the Exploratorium's bank accounts and is part of the lending group described in Note 7.

NOTE 13 – SUBSEQUENT EVENTS

The Exploratorium evaluated subsequent events through November 8, 2011 the date on which the financial statements were available to be issued.

Subsequent to June 30, 2011, the Exploratorium signed a letter of intent with an unrelated third party to lease approximately 18,000 square feet of Pier 17 for a 5 year period. The lease is expected to commence October 2011. Sublease revenue (inclusive of common area maintenance) expected to be received over the lease term approximates \$1,150,000.

The Exploratorium has made advances against the construction loan (see Note 7) totaling approximately \$15.3 million through November 8, 2011.

Subsequent to June 30, 2011, a donor loaned the Exploratorium \$3 million with a stipulation the funds be used as collateral for the debt facility (see Note 7). The Exploratorium has segregated these funds in a separate savings account. The donor/lender agreed to accept the interest rate obtained by the Exploratorium as the interest rate on the loan.

SUPPLEMENTARY INFORMATION

Exploratorium

SCHEDULE OF OPERATING UNRESTRICTED REVENUE AND SUPPORT

Year ended June 30, 2011

(with summarized financial information for June 30, 2010)

	<u>2011</u>	<u>2010</u>
PRIVATE CONTRIBUTIONS:		
Program activities	\$ 2,298,393	\$ 1,621,350
Awards dinner	873,739	830,005
Contributed membership	<u>945,121</u>	<u>855,179</u>
Total private contributions	<u>4,117,253</u>	<u>3,306,534</u>
GOVERNMENT GRANTS	<u>2,171,736</u>	<u>1,375,538</u>
EXHIBIT SERVICES	<u>3,037,902</u>	<u>2,527,536</u>
ADMISSIONS AND OTHER REVENUE:		
Earned membership	6,140	9,715
Admissions	3,593,271	3,153,673
Field trips	269,728	276,334
Tactile dome	362,244	334,707
Corporate convention sales	446,917	455,316
Learning tools	275,733	250,317
Other	<u>1,543,836</u>	<u>900,114</u>
Total admissions and other revenue	<u>6,497,869</u>	<u>5,380,176</u>
STORE SALES (BEFORE COST OF SALES)	<u>1,223,984</u>	<u>1,207,549</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Program	2,212,263	2,245,951
Capital campaign	26,760,561	11,617,100
Government	484,545	3,410,988
Income earned from permanently restricted net assets	<u>60,000</u>	<u>-</u>
Total net assets released from restrictions	<u>29,517,369</u>	<u>17,274,039</u>
TOTAL OPERATING UNRESTRICTED REVENUE AND SUPPORT	<u><u>\$ 46,566,113</u></u>	<u><u>\$ 31,071,372</u></u>