

The Sports Museum of New England, Inc.
(A Non-Profit Organization)

Financial Statements

December 31, 2010 and 2009

The Sports Museum of New England, Inc.
(A Non-Profit Organization)

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FRIEDMAN
SUVALLE & SALOMON PC

Certified Public Accountants and Business Consultants

Member of CPA Associates International, Inc.

Independent Auditors' Report

To the Board of Directors of
The Sports Museum of New England, Inc.

We have audited the accompanying statement of financial position of The Sports Museum of New England, Inc. (a non-profit organization) (the "Museum") as of December 31, 2010, 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 Sports Museum of New England, Inc.'s 2009 financial statements and, in our report dated October 29, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 provide 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 Sports Museum of New England, Inc. as of December 31, 2010, 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.

Friedman, Suvalle & Salomon P.C.
November 4, 2011

The Sports Museum of New England, Inc.
(A Non-Profit Organization)

Statements of Financial Position
December 31,

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 348,166	\$ 215,951
Marketable securities	66,020	63,034
Accounts receivable, net	436,226	264,128
Prepaid expenses	10,133	199
Total current assets	860,545	543,312
Property and equipment, net	26,792	26,792
Total assets	\$ 887,337	\$ 570,104
Liabilities and Net Assets (Deficit)		
Current liabilities		
Current maturity of note payable	\$ 10,000	\$ 10,000
Accounts payable and accrued expenses	44,024	41,089
Deferred sponsorship	210,657	111,667
Due to management company	935,607	667,876
Total current liabilities	1,200,288	830,632
Note payable, less current portion	130,000	140,000
Total liabilities	1,330,288	970,632
Net assets (deficit)		
Unrestricted	(514,871)	(504,449)
Temporarily restricted	71,920	103,921
Total net assets (deficit)	(442,951)	(400,528)
Total liabilities and net assets (deficit)	\$ 887,337	\$ 570,104

See independent auditors' report and notes to financial statements.

The Sports Museum of New England, Inc.
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Statements of Activities
For the Year Ended December 31, 2010 with Comparative Totals for 2009

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
Revenue and other support:				
Event income	\$ 457,457	\$ -	\$ 457,457	\$ 397,335
Less: Event expense	(228,574)	-	(228,574)	(190,602)
Net revenues from events	228,883	-	228,883	206,733
Sponsor income	196,095	-	196,095	200,191
DVD and video sales	-	-	-	67,174
Use of contributed facilities	40,000	-	40,000	40,000
Admissions	64,311	-	64,311	46,451
Grants and gifts	21,000	27,000	48,000	102,432
Auctions	6,930	-	6,930	24,403
Investment income	2,869	-	2,869	2,339
Unrealized gain (loss) on investments	129	-	129	(1,567)
Net assets released from restriction	59,001	(59,001)	-	-
Revenue and other support	619,218	(32,001)	587,217	688,156
Expenses:				
Program services	573,458	-	573,458	621,857
Management and general	56,182	-	56,182	45,442
Total expenses	629,640	-	629,640	667,299
Change in net assets	(10,422)	(32,001)	(42,423)	20,857
Net assets (deficit) at beginning of year	(504,449)	103,921	(400,528)	(421,385)
Net assets (deficit) at end of the year	\$ (514,871)	\$ 71,920	\$ (442,951)	\$ (400,528)

See independent auditors' report and notes to financial statements.

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Statements of Functional Expenses
For the Year Ended December 31, 2010, with Comparative Totals for 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>2010 Total</u>	<u>2009 Total</u>
Bad debt expense	\$ -	\$ -	\$ -	\$ 7,023
Bank charges	-	3,810	3,810	536
Contributions	7,500	-	7,500	7,500
Educational programs	60,979	-	60,979	47,114
Exhibit expense	245	-	245	7,039
Facility maintenance and repair	55,428	-	55,428	55,927
Insurance	27,863	-	27,863	26,254
Leased payroll and related expenses	379,411	-	379,411	425,498
Outside services	-	5,842	5,842	6,794
Postage and shipping	-	6,496	6,496	6,391
Professional fees	-	14,000	14,000	13,147
Promotions	-	-	-	400
Rent expense	40,000	-	40,000	40,000
Seminars and membership dues	-	805	805	200
State filing fees	-	265	265	265
Supplies	-	14,746	14,746	11,034
Telephone	-	3,028	3,028	2,887
Travel and entertainment	-	7,190	7,190	3,788
Utilities	2,032	-	2,032	5,502
	<u>\$ 573,458</u>	<u>\$ 56,182</u>	<u>\$ 629,640</u>	<u>\$ 667,299</u>

See independent auditors' report and notes to financial statements.

The Sports Museum of New England, Inc.
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Statements of Cash Flows
For the Years Ended December 31,

	2010	2009
Cash flows from operating activities		
Change in net assets	<u>\$ (42,423)</u>	<u>\$ 20,857</u>
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Unrealized (gain) loss on investments	(129)	1,567
(Increase) decrease in:		
Accounts receivable, net	(172,098)	(19,698)
Prepaid expenses	(9,934)	1,438
Increase (decrease) in:		
Accounts payable and accrued expenses	2,935	8,119
Deferred sponsorship	98,990	(7,500)
Due to management company	<u>267,731</u>	<u>(29,617)</u>
Total adjustments	<u>187,495</u>	<u>(45,691)</u>
Net cash provided by (used in) operating activities	145,072	(24,834)
Cash flows from investing activities		
Principal payments note payable	(10,000)	(20,000)
Cash payments for the purchase of investments	<u>(2,857)</u>	<u>(2,113)</u>
Net cash (used in) investing activities	<u>(12,857)</u>	<u>(22,113)</u>
Net increase (decrease) in cash and cash equivalents	132,215	(46,947)
Cash and cash equivalents, beginning	<u>215,951</u>	<u>262,898</u>
Cash and cash equivalents, ending	<u><u>\$ 348,166</u></u>	<u><u>\$ 215,951</u></u>

See independent auditors' report and notes to financial statements.

The Sports Museum of New England, Inc.
(A Non-Profit Organization)

Notes to Financial Statements
December 31, 2010 and 2009

Note 1 – Nature of Organization

The Sports Museum of New England, Inc. (the “Museum”) was organized in 1977 for the purpose of planning, implementing, and administering a non-profit museum of sports. The Museum, located in Boston, Massachusetts, is a repository and display center for important sports objects and an institution for enriching and broadening the experience of visitors. The majority of the Museum’s revenue is generated from sponsorships, memberships, events and admissions to the Museum.

Note 2 – Summary of Significant Accounting Policies

Classifications of Net Assets

The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. Those classifications are defined as follows:

Unrestricted Net Assets – consist of assets created through public support and program revenues which are available and used for operations and programs. Grants and donations are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets – consist of assets created through public support and program revenues with donor-imposed restrictions which are satisfied either by the passage of time or by completion of actions by the organization that satisfy the restriction.

Permanently Restricted Net Assets – consists of assets which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permit the Museum to expend part or all of the income derived from the donated assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash and other highly liquid investments, such as money market funds, with original maturities of three months or less when purchased.

Marketable Securities

The Museum carries investments in marketable securities at their fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities.

Accounts Receivable

The Museum extends credit in the ordinary course of business. After reviewing aged outstanding balances and giving consideration for the Museum’s overall collection history, a reserve for uncollectible accounts is established. After all reasonable attempts to collect the outstanding balances, the accounts are written off. The allowance for uncollectible accounts was \$7,000 for the each of the years ended December 31, 2010 and 2009, respectively.

Property and Equipment

Property and equipment is carried at cost, except equipment donated to the Museum, which is recorded at estimated fair value on the date the property is received. Equipment and exhibits are depreciated over their estimated useful lives using the straight-line method.

The Sports Museum of New England, Inc.
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Notes to Financial Statements
December 31, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (continued)

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

Income Tax Status

The Museum is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

The Organization accounts for the uncertainty in income taxes in accordance with current generally accepted accounting principles. The Organization remains subject to examination by major tax jurisdictions for the years ended December 31, 2008 through December 31, 2010 inclusive.

Collection of Artwork

The Museum has a collection of antiques and artwork relating to sports memorabilia totaling \$4,639,450. The collection is partly on display at the Museum and partly contained at a storage facility in Brighton, Massachusetts. The Museum has adopted a policy of not capitalizing the collection of antiques and artwork in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. Proceeds from sales or insurance recoveries are recorded as increases in net assets when received. The Museum employs a curator to ensure that the collection is protected and preserved.

Fair Value Measurements

The Museum applies generally accepted accounting principles for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

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Notes to Financial Statements
December 31, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.

Level 3 – Unobservable inputs in which there is little or no market data, which would require the Museum to develop its own assumptions.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2010.

	2010			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	<u>\$ 66,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,020</u>

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2009.

	2009			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	<u>\$ 63,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,034</u>

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Notes to Financial Statements
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Note 3 – Marketable Securities

Marketable securities as of December 31, 2010 and 2009, are summarized as follows:

	Government Income Fund	
	<u>2010</u>	<u>2009</u>
Cost	<u>\$ 62,015</u>	<u>\$ 59,158</u>
Fair Value	<u>\$ 66,020</u>	<u>\$ 63,034</u>
Unrealized Gain	<u>\$ 4,005</u>	<u>\$ 3,876</u>

Note 4 – Property and Equipment

Property and equipment consisted of the following at December 31,

	<u>2010</u>	<u>2009</u>
Work of art	\$ 26,792	\$ 26,792
Equipment	9,933	9,933
Exhibits	<u>675,617</u>	<u>675,617</u>
	712,342	712,342
Less accumulated depreciation and amortization	<u>(685,550)</u>	<u>(685,550)</u>
	<u>\$ 26,792</u>	<u>\$ 26,792</u>

There was no depreciation expense recorded in 2010 or 2009.

Note 5 – Note Payable

On January 29, 1993, the Museum entered into a loan agreement for \$2,040,000 with Cambridge Side Galleria Associates Trust for construction costs at a new facility. Prior to 2000, the lender forgave \$1,790,000 of the original note, leaving a balance of \$250,000 at December 31, 1999. According to the debt restructure agreement this amount is to be repaid over 25 years at a fixed payment of \$10,000 per year. The note is secured by all capital assets.

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Notes to Financial Statements
December 31, 2010 and 2009

Note 5 – Note Payable (continued)

Future maturities are as follows:

2011	\$ 10,000
2012	10,000
2013	10,000
2014	10,000
2015	10,000
2016 and thereafter	<u>90,000</u>
	<u>\$ 140,000</u>

In connection with the debt restructure agreement, the Museum will pay contingent interest equal to 25% of the Museum's net profits from operations above \$250,000 in any calendar year. That threshold has not been met to date. Grants, donations and similar contributions will not be included in the calculation. Payments of contingent interest will commence only after the Museum has achieved the \$250,000 threshold for two consecutive calendar years. The obligation to pay contingent interest will terminate in twenty-five years, or earlier if cumulative contingent interest totals approximately \$5,400,000. If the Museum merges with or is acquired by another entity, the contingent interest payment will cease, and the Museum will pay an additional \$10,000 per year in lieu of the contingent interest.

Note 6 – Leases

The Museum has a five year lease at the Christian A. Herter Center Building in Brighton, Massachusetts, with the Commonwealth of Massachusetts, Department of Conservation and Recreation for a nominal rental of one dollar per year. The estimated fair market value of \$40,000 for use of the above facility has been reported as revenue and support with an offsetting amount included as rent expense. All utilities and routine maintenance are paid by the Museum. The lease will terminate December 31, 2013 unless extended.

Note 7 – Commitments

The Museum entered into a management agreement with the New Boston Garden Corporation (the "NBGC") on March 7, 2000. This agreement states that the NBGC shall conduct the day-to-day management of the Museum facilities and shall be financially responsible for such management. The NBGC shall supply all working capital and shall assume responsibility for all operating costs and related expenses as defined within the agreement. In consideration of the services to be rendered by the NBGC to the Museum, the NBGC will receive a management fee equal in aggregate to 25% of the annual operating surplus as defined in the agreement. However, any operating deficit incurred in any of the years of the agreement may be carried forward to the following years and taken into consideration for each following year's operating budget until recovered. The agreement is in effect until December 31, 2012. There were no management fees calculated under this agreement for the years ended December 31, 2010 and 2009.

Working capital due to the management company totaled \$935,607 and \$667,876 for the years ended December 31, 2010 and 2009, respectively.

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Notes to Financial Statements
December 31, 2010 and 2009

Note 8 – Deferred Sponsorship

The Museum solicits various sponsorships for its events from which it receives income which is recognized in the period in which the event takes place.

In 2006, the Museum entered into a sponsorship and advertising agreement with New Balance Athletic Shoe, Inc. The agreement period is September 1, 2006 through August 31, 2009. The agreement was extended on September 15, 2009 for an additional three years. The contract now expires August 31, 2012. Under this agreement, New Balance Athletic Shoe, Inc. pays the Museum \$150,000 per contract year. \$115,000 of this income is recognized as sponsorship income on the income statement. The remaining \$35,000 is included in event income in the year in which the event takes place. At December 31, 2010, there is \$35,000 in deferred sponsorship due to an early payment for 2011 event income. Additional amounts included in deferred sponsorship from this contract are \$76,667 at December 31, 2010 and 2009.

Note 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets include the balance of the Swasey bequest which is restricted to funding social research which documents that participation in sports develops wholesome human beings and grants received from various organizations to support the Museum's Stand Strong program. The following is a summary of temporarily restricted net assets at December 31:

	<u>2010</u>	<u>2009</u>
Stand Strong program grants	\$ 38,282	\$ 55,639
Swasey bequest	<u>33,638</u>	<u>48,282</u>
Total	<u>\$ 71,920</u>	<u>\$ 103,921</u>

During the years ended December 31, 2010 and 2009, there were releases from restriction for costs incurred for the development of the exhibit and the Stand Strong Program totalling \$59,001 and \$78,861, respectively.

Note 10 – Concentration of Credit Risk

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of uninsured cash. Cash balances are maintained primarily at one Massachusetts bank and sometimes exceed the Federal Deposit Insurance Corporation coverage limit. To date the Museum has not experienced any loss in its account and does not believe it is exposed to any significant credit risk.

Note 11 – Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through November 4, 2011, the date the financial statements were issued.