

**The Kentucky Science Center, Inc.**  
**Financial Statements**  
**and**  
**Supplementary Information**  
**Years Ended June 30, 2014 and 2013**

**The Kentucky Science Center, Inc.**

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June 30, 2014 and 2013

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## **Independent Auditor's Report**

To the Board of Directors of  
**The Kentucky Science Center, Inc.**

We have audited the accompanying financial statements of The Kentucky Science Center, Inc. ("KSC"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

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**Indiana**  
**Ohio**

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## **Independent Auditor's Report (Continued)**

### **Opinion**

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014, on our consideration of KSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KSC's internal control over financial reporting and compliance.



Louisville, Kentucky  
September 23, 2014

**The Kentucky Science Center, Inc.**  
**Statements of Financial Position**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 140,799	\$ 160,096
Accounts receivable	116,219	120,169
Pledges receivable, net	297,330	793,835
Inventory	30,604	24,324
Prepaid expenses	<u>23,065</u>	<u>54,975</u>
Total Current Assets	608,017	1,153,399
Pledges Receivable, net of current portion	140,288	4,638
Cash Designated for Capital Projects	1,226,307	295,955
Property and Equipment, net	4,055,790	4,954,108
Other Assets		
Investments	530,294	577,287
Collections		
Total Assets	<u>\$ 6,560,696</u>	<u>\$ 6,985,387</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 183,308	\$ 197,074
Accrued payroll and withholdings	197,346	199,726
Line of credit	114,000	75,000
Current portion of note payable	58,520	16,162
Unearned revenue	<u>229,801</u>	<u>235,569</u>
Total Current Liabilities	782,975	723,531
Note Payable, net of current portion	<u>166,535</u>	<u>28,605</u>
Total Liabilities	949,510	752,136
Commitments and Contingencies		
Net Assets		
Unrestricted		
Undesignated	3,317,832	4,402,780
Board designated	<u>150,286</u>	<u>216,509</u>
Total Unrestricted	3,468,118	4,619,289
Temporarily restricted	1,735,561	1,206,455
Permanently restricted	<u>407,507</u>	<u>407,507</u>
Total Net Assets	<u>5,611,186</u>	<u>6,233,251</u>
Total Liabilities and Net Assets	<u>\$ 6,560,696</u>	<u>\$ 6,985,387</u>

See accompanying notes.

**The Kentucky Science Center, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2014 and 2013**

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Earned Revenues</b>								
Admissions	\$ 807,902	\$ -	\$ -	\$ 807,902	\$ 1,356,344	\$ -	\$ -	\$ 1,356,344
Gift shop	182,830	-	-	182,830	204,413	-	-	204,413
School groups/programs	765,557	-	-	765,557	638,780	-	-	638,780
Memberships	463,235	-	-	463,235	488,882	-	-	488,882
ThunderBlast	90,936	-	-	90,936	69,015	-	-	69,015
Rentals	105,684	-	-	105,684	83,372	-	-	83,372
Parking	191,354	-	-	191,354	187,679	-	-	187,679
Concessions	24,914	-	-	24,914	30,577	-	-	30,577
Interest and investment income	635	1,583	-	2,218	2,225	175	-	2,400
Other income	7,483	-	-	7,483	14,376	-	-	14,376
Net unrealized and realized gain on investments	-	77,935	-	77,935	22,651	17,890	-	40,541
<b>Total Earned Revenues</b>	<b>2,640,530</b>	<b>79,518</b>	<b>-</b>	<b>2,720,048</b>	<b>3,098,314</b>	<b>18,065</b>	<b>-</b>	<b>3,116,379</b>
<b>Support</b>								
Corporate and other private	163,853	566,926	-	730,779	144,274	815,961	-	960,235
Fundraising event - net	67,413	5,000	-	72,413	91,678	-	-	91,678
State and federal grants	36,240	-	-	36,240	3,244	-	-	3,244
City government	812,500	125,000	-	937,500	812,500	-	-	812,500
<b>Total Support</b>	<b>1,080,006</b>	<b>696,926</b>	<b>-</b>	<b>1,776,932</b>	<b>1,051,696</b>	<b>815,961</b>	<b>-</b>	<b>1,867,657</b>
<b>Net Assets Released from Restrictions</b>								
Satisfaction of Program Restrictions	177,134	(177,134)	-	-	232,455	(232,455)	-	-
Satisfaction of Property Restrictions	70,204	(70,204)	-	-	223,501	(223,501)	-	-
<b>Total Earned Revenues, Support and Releases from Restrictions</b>	<b>3,967,874</b>	<b>529,106</b>	<b>-</b>	<b>4,496,980</b>	<b>4,605,966</b>	<b>378,070</b>	<b>-</b>	<b>4,984,036</b>

**The Kentucky Science Center, Inc.**  
**Statements of Activities and Changes in Net Assets (Continued)**  
**Years Ended June 30, 2014 and 2013**

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses and Losses								
Program Services								
Theater	173,325	-	-	173,325	386,048	-	-	386,048
Educational programs	832,391	-	-	832,391	786,106	-	-	786,106
Exhibits	10,957	-	-	10,957	499,153	-	-	499,153
Visitor services	328,424	-	-	328,424	324,959	-	-	324,959
Marketing	558,196	-	-	558,196	585,271	-	-	585,271
Facilities	738,602	-	-	738,602	741,909	-	-	741,909
Membership	45,106	-	-	45,106	29,813	-	-	29,813
ThunderBlast	30,203	-	-	30,203	30,653	-	-	30,653
Gift shop	86,368	-	-	86,368	102,922	-	-	102,922
Rentals	3,202	-	-	3,202	2,813	-	-	2,813
Depreciation - theater, exhibits and science education wing	689,970	-	-	689,970	728,181	-	-	728,181
Total Program Services	3,496,744	-	-	3,496,744	4,217,828	-	-	4,217,828
Supporting Services								
Finance and administration	742,929	-	-	742,929	703,122	-	-	703,122
Development	81,400	-	-	81,400	55,144	-	-	55,144
Facilities	79,043	-	-	79,043	82,434	-	-	82,434
Depreciation	238,738	-	-	238,738	219,135	-	-	219,135
Total Supporting Services	1,142,110	-	-	1,142,110	1,059,835	-	-	1,059,835
Loss on Disposal of Property and Equipment	480,191	-	-	480,191	-	-	-	-
Loss on Uncollectible Pledges	-	-	-	-	-	250	-	250
Total Expenses and Losses	5,119,045	-	-	5,119,045	5,277,663	250	-	5,277,913
Changes in Net Assets	(1,151,171)	529,106	-	(622,065)	(671,697)	377,820	-	(293,877)
Net Assets at Beginning of Year	4,619,289	1,206,455	407,507	6,233,251	5,290,986	828,635	407,507	6,527,128
Net Assets at End of Year	\$ 3,468,118	\$ 1,735,561	\$ 407,507	\$ 5,611,186	\$ 4,619,289	\$ 1,206,455	\$ 407,507	\$ 6,233,251

See accompanying notes.

**The Kentucky Science Center, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (622,065)	\$ (293,877)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	928,708	947,316
Loss on uncollectible pledges	-	250
Loss on disposal of property and equipment	480,191	-
Net realized and unrealized gain on investments	(77,935)	(40,541)
Contributions restricted for investment in property and equipment	(525,814)	(750,000)
Changes in:		
Accounts receivable	3,950	(47,960)
Pledges receivable, net	(20,057)	90,000
Inventory	(6,280)	(2,090)
Prepaid expenses	31,910	90,404
Accounts payable and accrued expenses	35,086	(121,012)
Accrued payroll and withholdings	(2,380)	38,255
Unearned revenue	(5,768)	55,168
Net Cash Provided (Used) by Operating Activities	<u>219,546</u>	<u>(34,087)</u>
Cash Flows from Investing Activities		
Increase in cash designated for capital projects	(930,352)	(276,499)
Purchases of property and equipment	(559,433)	(369,788)
Purchases of other investments	(370,881)	(231,581)
Sales of other investments	<u>495,809</u>	<u>204,588</u>
Net Cash Used by Investing Activities	<u>(1,364,857)</u>	<u>(673,280)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	220,000	50,000
Proceeds from line of credit	219,441	130,000
Payments on note payable	(39,712)	(5,233)
Payments on line of credit	(180,441)	(55,000)
Proceeds from contributions restricted for investment in property and equipment	<u>906,726</u>	<u>300,000</u>
Net Cash Provided by Financing Activities	<u>1,126,014</u>	<u>419,767</u>
Decrease in Cash and Cash Equivalents	(19,297)	(287,600)
Cash and Cash Equivalents at Beginning of Year	<u>160,096</u>	<u>447,696</u>
Cash and Cash Equivalents at End of Year	<u>\$ 140,799</u>	<u>\$ 160,096</u>
Supplemental Disclosures:		
Cash paid for interest	\$ 8,330	\$ 2,328
Schedule of Non-cash Transactions:		
Fixed assets in accounts payable	-	48,852

See accompanying notes.



**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note A - Nature of Organization and Operations**

The Kentucky Science Center, Inc. ("KSC") is a not-for-profit organization encouraging people of all ages to enjoy science, mathematics and technology in a stimulating and engaging environment that is educational as well as entertaining. KSC aims to be a 21st century leader in informal science education, serving a growing regional audience of families, teachers, and students with innovative programs, exhibits and films.

KSC operates as a component unit of the Louisville Metro Government.

**Note B - Summary of Significant Accounting Policies**

1. Basis of Accounting: The financial statements of KSC are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board is the sole source of authoritative U.S. GAAP for non-governmental entities.
2. Use of Estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
3. Reclassifications: Certain reclassifications have been made to the 2013 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.
4. Subsequent Events: Subsequent events for KSC have been considered through the date of the Independent Auditor's Report, which represents the date that the financial statements were available to be issued.
5. Donor-imposed Restrictions: KSC records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions.

KSC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restriction.

KSC reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, KSC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Permanently restricted net assets include those contributions and other inflows of assets whose use by KSC is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of KSC.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note B - Summary of Significant Accounting Policies (Continued)**

6. Cash and Cash Equivalents: KSC considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents except such instruments purchased with long-term investment assets which are reported as investments. KSC typically maintains balances with its banks in excess of federally insured limits.
7. Accounts Receivable: Accounts receivable primarily consists of amounts due from schools and other organizations for admissions, memberships, or venue rentals. Credit is based on creditworthiness and amounts are not secured. KSC provides an allowance for doubtful accounts which is based on a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables are written off when, in management's estimation, it is probable that the receivable is worthless. No allowance for uncollectible accounts has been included as of June 30, 2014 and 2013 as management considers all amounts collectible.
8. Pledges Receivable: KSC receives contributions primarily from individuals, grantors, or corporations in the community. KSC uses an allowance for uncollectible pledges based on a reasonable estimate of possible uncollectible pledges. No allowance for uncollectible pledges has been included as of June 30, 2014 and 2013 as management considers all amounts collectible. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.
9. Inventories: Inventories consist of items for sale through the gift shop of the Organization. They are stated at the lower of cost (first-in, first-out basis) or market.
10. Cash Designated for Capital Projects: Cash designated for capital projects consists of amounts restricted or designated for expenditures related to future capital projects.
11. Property and Equipment: Property and equipment are recorded at cost at date of acquisition or fair value at date of donation. It is KSC's policy to capitalize purchases of property and equipment over \$5,000. Lesser amounts are expensed. Depreciation expense is provided using the straight-line method over the assets estimated useful lives of 5 to 20 years for leasehold improvements, 3 to 10 years for furniture and equipment, 5 to 10 years for exhibits, and 5 to 40 years for theater assets. Depreciation expense for the years ended June 30, 2014 and 2013 was \$928,708 and \$947,316 respectively.
12. Investments: Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Net unrealized and realized gains or losses are reflected in the statements of activities.
13. Board Designated Unrestricted Net Assets: Board designated unrestricted net assets represent amounts designated for infrastructure improvements as determined by the Board.
14. Revenue Recognition: Admissions and other service revenues are recognized at the time the services are provided and the revenues are earned. All revenues associated with advance ticket sales and other advance revenues received for future fiscal years are reported as deferred revenues until earned. Membership payments received from KSC members are considered equivalent to unrestricted contributions and are recognized as revenue when received.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note B - Summary of Significant Accounting Policies (Continued)**

15. Income Tax Status: KSC has received a determination letter from the Internal Revenue Service indicating that it qualifies as a tax-exempt Organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes have been provided in the accompanying financial statements.

KSC recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements. KSC's 2010-2013 tax years remain open and subject to examination.

16. Advertising Costs: Advertising costs are expensed as incurred. Advertising costs amounted to \$345,396 and \$385,104 for the years ended June 30, 2014 and 2013, respectively.

**Note C - Deposits and Investments**

At June 30, 2014, KSC's carrying amount of deposits is \$1,362,511 and the bank balances are \$1,363,928. Of this amount, \$258,827 is covered by federal depository insurance and \$1,105,101 is uninsured and uncollateralized. At June 30, 2013, KSC's carrying amount of deposits is \$443,061 and the bank balances are \$485,493 which are covered by federal depository insurance. KSC's investment policy requires that investments be divided to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific user, or a specific class of securities. KSC requires no collateral or other security to support instruments subject to credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, KSC would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of KSC's investments are held by KSC or in the name of KSC by a Trustee.

At June 30, 2014, KSC's carrying amount of investments is:

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
Money market funds	Aaa-mf	\$ 45,158	0.1167
Bond mutual funds	Not rated *	83,853	4.4640
Equity mutual funds			
International large cap growth		30,037	
International large cap value		31,485	
Large cap core		147,909	
Large cap growth		40,071	
Large cap value		39,423	
Mid cap growth		29,875	
Mid cap value		25,958	
Real estate investment trust		7,122	
Small cap growth		27,146	
Small cap value		22,257	
Total Equity Mutual Funds	Not rated	401,283	N/A
		<u>\$ 530,294</u>	
Portfolio weighted average maturity			2.94

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note C - Deposits and Investments (Continued)**

At June 30, 2013, KSC's carrying amount of investments is:

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
Money market funds	Aaa-mf	\$ 169,864	0.1389
Bond mutual funds	Not rated *	77,111	5.6196
Equity mutual funds			
Emerging market value		9,496	
International large cap core		15,590	
Large cap growth		106,127	
Large cap value		101,965	
Mid cap growth		23,773	
Mid cap value		21,535	
Real estate investment trust		12,265	
Small cap growth		21,405	
Small cap value		18,156	
Total Equity Mutual Funds	Not rated	<u>330,312</u>	N/A
		<u>\$ 577,287</u>	
Portfolio weighted average maturity			1.85

\* Effective June 2010, the Financial Industry Regulatory Authority does not permit a credit quality rating to be published for a portfolio based on the average credit rating of the assets within the portfolio. However, each bond is individually rated by one of the nationally recognized credit rating services. As of June 30, 2014, 89% of the bonds are investment grade rated. As of June 30, 2013, over 98% of the bonds are investment grade rated. All investments fall within the Board approved investment policy guidelines.

Fair value measurements at June 30, 2014 and 2013 are quoted prices in active markets for identical assets (Level 1). Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of KSC. KSC's investment policy minimizes interest rate risk by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to seek securities on the open market prior to maturity, and investing operating funds primarily in short-term securities or similar investments. KSC minimizes credit risk by limiting investments to the safest types of securities, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which KSC does business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized. KSC places no limit on the amount KSC may invest in any one issuer.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note D - Pledges Receivable**

KSC has pledges for operations and other specified projects. Some of these pledges are restricted by time or for donor designated projects.

Pledges receivable at June 30, 2014 and 2013 consist of the following unconditional promises to give:

	<u>2014</u>	<u>2013</u>
Gross pledges receivable	\$ 450,830	\$ 798,835
Less discount to present value	<u>(13,212)</u>	<u>(362)</u>
	<u>\$ 437,618</u>	<u>\$ 798,473</u>

Amounts due in:

	<u>Amount</u>
Less than one year	\$ 297,330
One to five years	<u>153,500</u>
	<u>\$ 450,830</u>

Pledges receivable in future periods are discounted at 3.08%.

At June 30, 2014, KSC has two donors that represent 83% of the gross pledges receivable. At June 30, 2013, KSC had one donor that represents 94% of the gross pledges receivable.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note E - Property and Equipment**

Property and equipment activity for the year ended June 30, 2014 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Property and Equipment not Being Depreciated:				
Exhibits in progress	\$ 229,203	\$ 114,724	\$ (229,203)	\$ 114,724
Equipment not installed	42,884	-	-	42,884
Total Property and Equipment not Being Depreciated:	272,087	114,724	(229,203)	157,608
Other Property and Equipment:				
Leasehold improvements	6,069,648	30,867	-	6,100,515
Furniture, fixtures and equipment	1,135,690	5,390	-	1,141,080
Museum exhibits	18,575,771	588,803	(1,451,708)	17,712,866
Total Other Property and Equipment at Historical Costs	25,781,109	625,060	(1,451,708)	24,954,461
Less Accumulated Depreciation	(21,099,088)	(928,708)	971,517	(21,056,279)
Other Property and Equipment, net	4,682,021	(303,648)	(480,191)	3,898,182
Property and Equipment, net	\$ 4,954,108	\$ (188,924)	\$ (709,394)	\$ 4,055,790

During the year ended June 30, 2014, KSC upgraded from IMAX film projection to a four story digital theater, resulting in a \$480,191 loss on disposal of property and equipment recognized in the statement of activities and changes in net assets.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note E - Property and Equipment (Continued)**

Property and equipment activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Property and Equipment not Being Depreciated:				
Exhibits in progress	\$ 202,173	\$ 229,203	\$ (202,173)	\$ 229,203
Equipment not installed	-	42,884	-	42,884
Total Property and Equipment not Being Depreciated:	202,173	272,087	(202,173)	272,087
Other Property and Equipment:				
Leasehold improvements	6,049,575	20,073	-	6,069,648
Furniture, fixtures and equipment	1,079,803	55,887	-	1,135,690
Museum exhibits	18,401,499	174,272	-	18,575,771
Total Other Property and Equipment at Historical Costs	25,530,877	250,232	-	25,781,109
Less Accumulated Depreciation	(20,151,772)	(947,316)	-	(21,099,088)
Other Property and Equipment, net	5,379,105	(697,084)	-	4,682,021
Property and Equipment, net	\$ 5,581,278	\$ (424,997)	\$ (202,173)	\$ 4,954,108

**Note F - Endowments**

KSC's endowment consists of two donor-restricted endowment funds established to fund exhibit repairs and operations. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

KSC follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds. As such, KSC is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note F - Endowments (Continued)**

KSC has interpreted UPMIFA 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. KSC classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and 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 that is not classified as permanently restricted net assets is classified as temporarily restricted until appropriated for expenditure by KSC.

Changes in donor-restricted endowment net assets for the year ended June 30, 2014 are as follows:

	June 30, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of the Year	\$ -	\$ 43,269	\$ 407,507	\$ 450,776
Investment Return:				
Investment income	-	1,583	-	1,583
Net appreciation	-	77,935	-	77,935
Total Investment Return	-	79,518	-	79,518
Contributions	-	-	-	-
Appropriation for Expenditure	-	-	-	-
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 122,787</u>	<u>\$ 407,507</u>	<u>\$ 530,294</u>

Changes in donor-restricted endowment net assets for the year ended June 30, 2013 are as follows:

	June 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of the Year	\$ (24,016)	\$ 25,204	\$ 407,507	\$ 408,695
Investment Return:				
Investment income	1,365	175	-	1,540
Net appreciation	22,651	17,890	-	40,541
Total Investment Return	24,016	18,065	-	42,081
Contributions	-	-	-	-
Appropriation for Expenditure	-	-	-	-
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 43,269</u>	<u>\$ 407,507</u>	<u>\$ 450,776</u>



**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note F - Endowments (Continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires KSC to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$24,016 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors. All deficiencies were recouped during the year ended June 30, 2013.

KSC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that KSC must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. KSC expects its endowment funds, over time, to provide an average rate of return consistent with its investment objectives, goals, and guidelines as measured against commonly accepted performance benchmarks. Actual results in any given year may vary from this amount. To satisfy its long-term rate-of-return objective, KSC relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. KSC targets diversified assets allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

KSC has a policy of appropriating for distribution each year up to 5% of its endowment funds' average fair value over the prior 12 quarters ending March 31 of the year preceding the fiscal year in which the distribution is planned. The amount of the distribution is approved by the Executive Committee of the Board of Directors on an as-needed basis. In establishing this policy, KSC considered the long-term expected return on its endowment and its objective to maintain the purchasing power of the endowment assets held in perpetuity as well as additional growth through new gifts and investment return.

**Note G - Collections**

In accordance with the ASC, KSC does not capitalize donated or purchased collections. Such collections consist entirely of historical artifacts, scientific specimens, and art objects. Such donations and acquisitions need not be recognized since they are added to collections that are held for public exhibition, education, and research purposes in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors.

Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The value of the collection is indeterminable as of June 30, 2014 and 2013.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note H - Financing Arrangements**

KSC has a line of credit agreement with PNC Bank for \$250,000 with an interest rate of prime (3.25% at June 30, 2014), which expires in May 2015. The line is secured by all business assets. The outstanding balance on this line of credit was \$114,000 and \$75,000 at June 30, 2014 and 2013, respectively.

KSC has a note payable to a bank due in February 2016 that bears interest at a fixed rate of 4.52%. The note is payable in monthly installments of principal and interest of \$1,488. The outstanding balance on the note is \$28,616 and \$44,767 at June 30, 2014 and 2013, respectively. KSC has a second note payable to the same bank due in November 2018 that bears interest at a fixed rate of 3.95%. The note is payable in monthly installments of principal and interest of \$4,052. The outstanding balance on the note is \$196,439 and \$-0- at June 30, 2014 and 2013, respectively. The notes payable are secured by investments held at the same financial institution. At June 30, 2014, funds in that account total \$530,294, all of which are endowment fund investments.

Future maturities of the notes payable as of June 30, 2014 are as follows:

Year Ending June 30,	Amount
2015	\$ 58,520
2016	54,983
2017	45,027
2018	46,838
2019	19,687
	225,055
Less current portion	58,520
	<u>\$ 166,535</u>

**Note I - Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	2014	2013
Exhibit production	\$ 1,545,965	\$ 1,061,737
Exhibit maintenance and replacement	93,959	16,780
Educational programs	61,809	101,449
Operations	28,828	26,489
Future year fundraising event	5,000	-
	<u>\$ 1,735,561</u>	<u>\$ 1,206,455</u>

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note J - Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2014 and 2013 are required to be invested in perpetuity, the income from which is expendable for the following purposes:

	<u>2014</u>	<u>2013</u>
Exhibit maintenance and replacement	\$ 385,220	\$ 385,220
Operations	<u>22,287</u>	<u>22,287</u>
	<u>\$ 407,507</u>	<u>\$ 407,507</u>

**Note K - Local Government Support**

KSC was a joint operation of the City and County government until October 1984 when it reorganized into its present form as a private nonprofit corporation.

KSC continues to receive support from Metro Government each year under a formula based on the level of support provided for the year ended June 30, 2007. The calculation is adjusted for inflation and may be adjusted for Metro Government budgetary reasons.

KSC receives additional support from Metro Government under operating and lease agreements, which expire in the year 2083. KSC occupies the historic buildings and operates the adjacent parking lot, all owned by the City, for an annual rent of one dollar. Responsibility for internal nonstructural improvements and maintenance belongs to KSC. Beginning in the year ended June 30, 2012, an additional general annual appropriation of \$50,000 is to be provided to KSC to cover preventative and ongoing general systems maintenance, subject to the availability of revenues to be appropriated. The estimated fair rental value of the premises is not reported in the financial statements because such values are not readily determinable.

In addition, KSC receives contributed services for technical support, certain capital improvements, and other administrative services for which values are not readily determinable and thus not recorded in the accompanying financial statements.

During the year ended June 30, 2014, KSC recognized \$125,000 of support revenue for the early childhood gallery from Metro Government which is included in pledges receivable at June 30, 2014.

**Note L - Contributions Other Than Cash**

Contributions of property and equipment, advertising, and gifts for fundraisers are recorded in the accompanying financial statements. Donated advertising and other gifts are recorded at their estimated fair value and donated property and equipment at their appraised or estimated fair value. Contributed property and equipment and services in the amount of \$44,584 and \$30,045 during the years ended June 30, 2014 and 2013 respectively, were recorded as contributions, and program and supporting services expenses or capitalized.

During the year ended June 30, 2014, approximately 681 volunteers donated over 10,775 hours of time to KSC. During the year ended June 30, 2013, approximately 505 volunteers donated over 13,000 hours of time to KSC. This time represents non-professional services and is, therefore, not recorded in the accompanying financial statements.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note M - Rental Income**

KSC leases certain facilities under a noncancelable operating lease. The lease expires October 2014. The approximate minimum future building rentals due to KSC under this lease during the year ending June 30, 2015 are \$8,800. Rental income from the building lease was \$34,540 and \$35,710 for the years ended June 30, 2014 and 2013, respectively.

**Note N - Fundraising Events**

Gross unrestricted revenues and direct event expenses related to fundraising events during the years ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Science with a Twist		
Revenues	\$ 134,769	\$ 157,415
Expenses	<u>(67,356)</u>	<u>(65,737)</u>
	<u>\$ 67,413</u>	<u>\$ 91,678</u>

**Note O - Employee Benefit Plans**

During 2013, KSC created a plan that is qualified under Internal Revenue Code Section 403(b). Employees of KSC who meet certain requirements can participate in a matched savings plan. The plan matches, within IRS limitations, 50% of an employee's contributions up to 6% of the participating employee's compensation. The employer match was \$24,122 and \$13,776 for the years ended June 30, 2014 and 2013, respectively.

**Note P - Lease Commitments**

During the year ended June 30, 2014, KSC entered into a non-cancelable lease agreement for use of two copiers. Rent expense of \$5,465 was recorded under this lease during the year ended June 30, 2014.

Future minimum lease payments under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 11,377
2016	11,377
2017	11,377
2018	11,377
2019	<u>7,584</u>
	<u>\$ 53,092</u>

**Note Q - Commitments**

KSC has made commitments relating to various educational programs, exhibits and advertising. The total outstanding commitments under these contracts are approximately \$350,000 at June 30, 2014.

## **Supplementary Information**

## **Independent Auditor's Report on Supplementary Information**

To the Board of Directors of  
**The Kentucky Science Center, Inc.**

We have audited the financial statements of The Kentucky Science Center, Inc. as of and for the year ended June 30, 2014, and our report thereon dated September 23, 2014, which contained an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The statement of financial position by fund and the statement of activities and changes in net assets by fund are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Louisville, Kentucky  
September 23, 2014

**The Kentucky Science Center, Inc.**  
**Statement of Financial Position by Fund**  
**June 30, 2014**

	Operating	Capital Projects	Exhibit Maintenance and Replacement Fund	Eliminations	Totals
<b>Assets</b>					
Current Assets					
Cash and cash equivalents	\$ 140,799	\$ -	\$ -	\$ -	\$ 140,799
Accounts receivable	116,219	-	-	-	116,219
Pledges receivable, net	68,530	228,800	-	-	297,330
Due from other funds	-	37,000	-	(37,000)	-
Inventory	30,604	-	-	-	30,604
Prepaid expenses	23,065	-	-	-	23,065
Total Current Assets	379,217	265,800	-	(37,000)	608,017
Pledges Receivable, net of current portion	-	140,288	-	-	140,288
Cash Designated for Capital Projects	-	1,226,307	-	-	1,226,307
Property and Equipment, net	4,055,790	-	-	-	4,055,790
Other Assets					
Other investments	51,115	-	479,179	-	530,294
Collections					
Total Assets	<u>\$ 4,486,122</u>	<u>\$ 1,632,395</u>	<u>\$ 479,179</u>	<u>\$ (37,000)</u>	<u>\$ 6,560,696</u>

**The Kentucky Science Center, Inc.**  
**Statement of Financial Position by Fund (Continued)**  
**June 30, 2014**

	Operating	Capital Projects	Exhibit Maintenance and Replacement Fund	Eliminations	Totals
<b>Liabilities and Net Assets</b>					
Current Liabilities					
Accounts payable and accrued expenses	\$ 183,308	\$ -	\$ -	\$ -	\$ 183,308
Accrued payroll and withholdings	197,346	-	-	-	197,346
Line of credit	114,000	-	-	-	114,000
Current portion of note payable	58,520	-	-	-	58,520
Due to other funds	37,000	-	-	(37,000)	-
Unearned revenue	229,801	-	-	-	229,801
Total Current Liabilities	819,975	-	-	(37,000)	782,975
Note Payable, net of current portion	166,535	-	-	-	166,535
Total Liabilities	986,510	-	-	(37,000)	949,510
Commitments and Contingencies					
Net Assets					
Unrestricted	3,317,832	150,286	-	-	3,468,118
Temporarily restricted	159,493	1,482,109	93,959	-	1,735,561
Permanently restricted	22,287	-	385,220	-	407,507
Total Net Assets	3,499,612	1,632,395	479,179	-	5,611,186
Total Liabilities and Net Assets	\$ 4,486,122	\$ 1,632,395	\$ 479,179	\$ (37,000)	\$ 6,560,696

See independent auditor's report on supplementary information.



**The Kentucky Science Center, Inc.**  
**Statement of Activities and Changes in Net Assets by Fund**  
**Year Ended June 30, 2014**

	Operating	Capital Projects	Exhibit Maintenance and Replacement Fund	Totals
Changes in Unrestricted Net Assets				
Earned Revenues				
Admissions	\$ 807,902	\$ -	\$ -	\$ 807,902
Gift shop	182,830	-	-	182,830
School groups/programs	765,557	-	-	765,557
Memberships	463,235	-	-	463,235
ThunderBlast	90,936	-	-	90,936
Rentals	105,684	-	-	105,684
Parking	191,354	-	-	191,354
Concessions	24,914	-	-	24,914
Interest and investment income	194	-	441	635
Other income	7,483	-	-	7,483
Total Earned Revenues	2,640,089	-	441	2,640,530
Support				
Corporate and other private	163,853	-	-	163,853
Fundraising events - net	67,413	-	-	67,413
State and federal grants	36,240	-	-	36,240
City government	812,500	-	-	812,500
Total Support	1,080,006	-	-	1,080,006
Transfers Between Funds	136,839	80,082	(216,921)	-
Net Assets Released from Restrictions				
Satisfaction of Program Restrictions	177,134	70,204	-	247,338
Total Earned Revenues, Support and Releases from Restrictions	4,034,068	150,286	(216,480)	3,967,874

**The Kentucky Science Center, Inc.**  
**Statement of Activities and Changes in Net Assets by Fund (Continued)**  
**Year Ended June 30, 2014**

	Operating	Capital Projects	Exhibit Maintenance and Replacement Fund	Totals
Expenses				
Program Services				
Theater	173,325	-	-	173,325
Educational programs	832,391	-	-	832,391
Exhibits	10,957	-	-	10,957
Visitor services	328,424	-	-	328,424
Marketing	558,196	-	-	558,196
Facilities	738,602	-	-	738,602
Membership	45,106	-	-	45,106
ThunderBlast	30,203	-	-	30,203
Gift shop	86,368	-	-	86,368
Rentals	3,202	-	-	3,202
Depreciation - theater, exhibits and science education wing	689,970	-	-	689,970
Total Program Services	3,496,744	-	-	3,496,744
Supporting Services				
Finance and administration	742,929	-	-	742,929
Development	81,400	-	-	81,400
Facilities	79,043	-	-	79,043
Depreciation	238,738	-	-	238,738
Total Supporting Services	1,142,110	-	-	1,142,110
Loss on Disposal of Property and Equipment	480,191	-	-	480,191
<b>Total Expenses and Losses</b>	<b>5,119,045</b>	<b>-</b>	<b>-</b>	<b>5,119,045</b>
Changes in Unrestricted Net Assets	(1,084,977)	150,286	(216,480)	(1,151,171)
Changes in Temporarily Restricted Net Assets				
Support				
Corporate and other private	166,112	400,814	-	566,926
Future year fundraising event	5,000	-	-	5,000
City government	-	125,000	-	125,000
Interest and investment income	140	-	1,443	1,583
Net unrealized and realized gain on investments	2,199	-	75,736	77,935
Net assets released from restriction	(177,134)	(70,204)	-	(247,338)
Changes in Temporarily Restricted Net Assets	(3,683)	455,610	77,179	529,106
Changes in Net Assets	(1,088,660)	605,896	(139,301)	(622,065)
Net Assets at Beginning of Year	4,588,272	1,026,499	618,480	6,233,251
Net Assets at End of Year	<u>\$ 3,499,612</u>	<u>\$ 1,632,395</u>	<u>\$ 479,179</u>	<u>\$ 5,611,186</u>

See independent auditor's report on supplementary information.

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Directors  
**The Kentucky Science Center, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Kentucky Science Center, Inc. ("KSC"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KSC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KSC's internal control. Accordingly we do not express an opinion on the effectiveness of KSC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of KSC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards* (Continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether KSC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KSC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KSC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Louisville, Kentucky  
September 23, 2014