

The Kentucky Science Center, Inc.

Financial Statements

Years Ended June 30, 2019 and 2018

The Kentucky Science Center, Inc.

Table of Contents
Years Ended June 30, 2019 and 2018

	<u>Page</u>
Independent Auditor's Report.....	1 - 2
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets.....	4
Statements of Functional Expenses.....	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 22
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 <i>Government Auditing Standards</i>	23 - 24



Independent Auditor's Report

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

Report on the Financial Statements

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, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. 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.

MCM CPAs & Advisors LLP

P 502.749.1900
F 502.749.1930
2600 Meidinger Tower
462 South Fourth Street
Louisville, KY 40202
www.mcmcpa.com
888.587.1719

A Member of PrimeGlobal - An Association
of Independent Accounting Firms

Kentucky
Indiana
Ohio

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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note B1, the organization has adopted Financial Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2019, 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 18, 2019

The Kentucky Science Center, Inc.
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 587,521	\$ 602,763
Accounts receivable	143,475	122,977
Pledges receivable	139,369	148,203
Inventory	28,479	20,362
Prepaid expenses	123,383	123,455
	<u>1,022,227</u>	<u>1,017,760</u>
Total Current Assets	1,022,227	1,017,760
Pledges Receivable, net	19,147	101,205
Designated Cash	408,517	357,566
Property and Equipment, net	3,173,542	3,655,734
Other Assets		
Investments	630,556	587,493
	<u>630,556</u>	<u>587,493</u>
Total Assets	<u>\$ 5,253,989</u>	<u>\$ 5,719,758</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 154,504	\$ 164,501
Accrued payroll and withholdings	215,923	239,515
Current portion of notes payable	-	120,059
Unearned revenue	259,944	235,383
	<u>630,371</u>	<u>759,458</u>
Total Current Liabilities	630,371	759,458
Notes Payable, net of current portion	-	125,000
	<u>-</u>	<u>125,000</u>
Total Liabilities	630,371	884,458
Commitments and Contingencies		
Net Assets		
Without donor restrictions		
Invested in property and equipment	3,173,542	3,410,675
Undesignated	(54,621)	28,902
Board designated	127,377	136,459
	<u>3,246,298</u>	<u>3,576,036</u>
Total Without Donor Restrictions	3,246,298	3,576,036
With donor restrictions	1,377,320	1,259,264
	<u>1,377,320</u>	<u>1,259,264</u>
Total Net Assets	4,623,618	4,835,300
	<u>4,623,618</u>	<u>4,835,300</u>
Total Liabilities and Net Assets	<u>\$ 5,253,989</u>	<u>\$ 5,719,758</u>

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Earned Revenues						
Admissions	\$ 1,040,334	\$ -	\$ 1,040,334	\$ 999,888	\$ -	\$ 999,888
Memberships	677,929	-	677,929	659,622	-	659,622
Onsite camps	327,844	-	327,844	304,035	-	304,035
School field trips	255,907	-	255,907	249,040	-	249,040
Education programs	415,558	-	415,558	392,280	-	392,280
ThunderBlast	137,492	-	137,492	121,847	-	121,847
Gift shop	204,068	-	204,068	230,699	-	230,699
Rentals	181,346	-	181,346	194,215	-	194,215
Parking	489,925	-	489,925	467,944	-	467,944
Interest and investment income	8,375	4,264	12,639	3,057	4,724	7,781
Other income	24,230	-	24,230	2,103	-	2,103
Net unrealized and realized gain on investments	825	34,880	35,705	1,037	46,978	48,015
Total Earned Revenues	3,763,833	39,144	3,802,977	3,625,767	51,702	3,677,469
Support						
Contributions	196,709	569,332	766,041	167,990	627,013	795,003
Fundraising event - net	73,162	-	73,162	87,115	-	87,115
City government	812,500	-	812,500	812,500	-	812,500
Total Support	1,082,371	569,332	1,651,703	1,067,605	627,013	1,694,618
Net Assets Released from Restrictions						
Satisfaction of program restrictions	372,494	(372,494)	-	306,977	(306,977)	-
Satisfaction of property restrictions	117,926	(117,926)	-	-	-	-
Total Earned Revenues, Support and Releases from Restrictions	5,336,624	118,056	5,454,680	5,000,349	371,738	5,372,087
Expenses and Losses						
Program services	4,681,844	-	4,681,844	4,538,228	-	4,538,228
Management general and administrative	676,793	-	676,793	775,974	-	775,974
Fundraising	296,670	-	296,670	405,567	-	405,567
Total Expenses	5,655,307	-	5,655,307	5,719,769	-	5,719,769
Loss on the disposal of property and equipment	11,055	-	11,055	-	-	-
Total Expenses and Losses	5,666,362	-	5,666,362	5,719,769	-	5,719,769
Changes in Net Assets	(329,738)	118,056	(211,682)	(719,420)	371,738	(347,682)
Net Assets at Beginning of Year	3,576,036	1,259,264	4,835,300	4,295,456	887,526	5,182,982
Net Assets at End of Year	\$ 3,246,298	\$ 1,377,320	\$ 4,623,618	\$ 3,576,036	\$ 1,259,264	\$ 4,835,300

See accompanying notes.

The Kentucky Science Center, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019

	<u>Programs</u>	<u>Management General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Expenses				
Advertising	\$ 297,056	\$ -	\$ -	\$ 297,056
Conferences and meetings	-	15,836	-	15,836
Depreciation	607,359	93,452	-	700,811
Educational supplies	108,412	-	-	108,412
Employee benefits and taxes	368,040	43,112	35,305	446,457
Event	-	-	65,169	65,169
Gift shop	90,795	-	-	90,795
Insurance	9,151	25,476	-	34,627
Interest expense	5,759	-	-	5,759
Miscellaneous	38,318	22,597	5,571	66,486
Office and technology expenses	78,650	80,538	22,513	181,701
Professional service and other fees	509,847	76,702	-	586,549
Repairs and maintenance	217,403	-	-	217,403
Salaries and wages	2,082,013	286,725	232,491	2,601,229
Theater film fees	86,204	-	-	86,204
Travel	31,426	96	790	32,312
Utilities	151,411	32,259	-	183,670
	<u>4,681,844</u>	<u>676,793</u>	<u>361,839</u>	<u>5,720,476</u>
Less: fundraising event expense included in revenue	<u>-</u>	<u>-</u>	<u>(65,169)</u>	<u>(65,169)</u>
Total Expenses	<u>\$ 4,681,844</u>	<u>\$ 676,793</u>	<u>\$ 296,670</u>	<u>\$ 5,655,307</u>

See accompanying notes.

The Kentucky Science Center, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

	Programs	Management General and Administrative	Fundraising	Total Expenses
Expenses				
Advertising	\$ 399,352	\$ -	\$ -	\$ 399,352
Conferences and meetings	-	17,609	-	17,609
Depreciation	593,005	106,275	-	699,280
Educational supplies	115,492	-	-	115,492
Employee benefits and taxes	346,498	61,454	52,142	460,094
Event	-	-	66,705	66,705
Gift shop	101,705	-	-	101,705
Insurance	5,614	25,204	-	30,818
Interest expense	12,470	-	-	12,470
Miscellaneous	24,665	20,131	3,928	48,724
Office and technology expenses	80,318	67,573	27,002	174,893
Professional service and other fees	449,033	44,407	-	493,440
Repairs and maintenance	202,611	-	-	202,611
Salaries and wages	1,975,971	333,810	321,244	2,631,025
Theater film fees	102,708	-	-	102,708
Travel	28,053	4,706	1,251	34,010
Utilities	100,733	94,805	-	195,538
	<u>4,538,228</u>	<u>775,974</u>	<u>472,272</u>	<u>5,786,474</u>
Less: fundraising event expense included in revenue	<u>-</u>	<u>-</u>	<u>(66,705)</u>	<u>(66,705)</u>
Total Expenses	<u><u>\$ 4,538,228</u></u>	<u><u>\$ 775,974</u></u>	<u><u>\$ 405,567</u></u>	<u><u>\$ 5,719,769</u></u>

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (211,682)	\$ (347,682)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	700,811	699,280
Loss on disposal of property and equipment	11,055	-
Net realized and unrealized gain on investments	(35,705)	(48,015)
Contributions restricted for investment in property and equipment	(268,231)	(85,361)
Contributed exhibit	(90,000)	-
Changes in		
Accounts receivable	(20,498)	(22,797)
Pledges receivable, net	(20,146)	43,334
Inventory	(8,117)	7,739
Prepaid expenses	72	(22,502)
Accounts payable and accrued expenses	(34,222)	60,030
Accrued payroll and withholdings	(23,592)	42,044
Unearned revenue	24,561	3,999
	<u>24,306</u>	<u>330,069</u>
Net Cash Provided by Operating Activities	24,306	330,069
Cash Flows from Investing Activities		
Increase in designated cash	(50,951)	(58,331)
Purchases of property and equipment	(115,449)	(47,666)
Purchases of investments	(150,861)	(260,276)
Sales of investments	143,503	300,456
	<u>(173,758)</u>	<u>(65,817)</u>
Net Cash Used by Investing Activities	(173,758)	(65,817)
Cash Flows from Financing Activities		
Payments on note payable	(245,059)	(146,798)
Proceeds from contributions restricted for investment in property and equipment	379,269	217,389
	<u>134,210</u>	<u>70,591</u>
Net Cash Provided by Financing Activities	134,210	70,591
(Decrease) Increase in Cash and Cash Equivalents	(15,242)	334,843
Cash and Cash Equivalents at Beginning of Year	<u>602,763</u>	<u>267,920</u>
Cash and Cash Equivalents at End of Year	<u>\$ 587,521</u>	<u>\$ 602,763</u>
Supplemental Disclosures		
Cash paid for interest	\$ 5,759	\$ 12,470
Fixed assets in accounts payable	25,175	950

See accompanying notes.

The Kentucky Science Center, Inc.
Notes to Financial Statements
Years Ended June 30, 2019 and 2018

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 ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board is the sole source of authoritative GAAP.

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. KSC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

2. Use of Estimates: The preparation of financial statements in accordance with 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. 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.
4. 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 information regarding its financial position and activities according to the following net asset classifications:
 - *Net Assets Without Donor Restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of KSC's management and the board of directors.
 - *Net Assets with Donor Restrictions*: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of KSC or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note B - Summary of Significant Accounting Policies (Continued)

5. 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.
6. 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, 2019 and 2018 as management considers all amounts collectible.
7. Pledges Receivable: KSC receives contributions primarily from individuals, grantors, or corporations in the community. 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. No allowance for uncollectible pledges has been included as of June 30, 2019 and 2018 as management considers all amounts collectible. Conditional promises to give are not included as support until the conditions are substantially met.
8. Inventories: Inventories consist of items for sale through the gift shop and are stated at the lower of cost (first-in, first-out basis) or net realizable value.
9. Designated Cash: Designated cash consists of amounts restricted or designated for expenditures related to future capital projects and professional development activities.
10. 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, 3 to 10 years for exhibits, and 5 to 40 years for theater assets.
11. 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 and changes in net assets.
12. Board Designated Net Assets without Donor Restrictions: Board designated net assets without donor restrictions represent amounts designated for infrastructure improvements and professional development activities as determined by the Board.
13. Functional Allocation of Expenses: The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. The statements of functional expenses present expenses by function and natural classification. Accordingly, certain costs have been allocated among program and supporting services benefited.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note B - Summary of Significant Accounting Policies (Continued)

13. Functional Allocation of Expenses (Continued): The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited based on management's time and service estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide overall support and direction of KSC.
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.
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.

16. Advertising Costs: Advertising costs are expensed as incurred. Advertising costs amounted to \$297,056 and \$399,352 for the years ended June 30, 2019 and 2018, respectively.
17. Reclassifications: Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation, with no effect on net assets or the changes in net assets.
18. Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective for KSC's year ending June 30, 2020. KSC evaluated the impact of the adoption of ASU 2014-09 on the financial statements and expects to record a decrease of approximately \$350,000 to opening undesignated net assets without donor restrictions as a result of recognizing membership revenue over the membership period as compared to the previous policy of recognizing the revenue when payments are received which has resulted in a deceleration in revenue recognition under the provisions of ASU 2014-09.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. This standard will be effective for contributions received for KSC's year ending June 30, 2020.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note B - Summary of Significant Accounting Policies (Continued)

18. Recent Accounting Pronouncements (Continued): In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Consequently, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. This standard will be effective for KSC's year ending June 30, 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to improve financial reporting with respect to leasing transactions. ASU No. 2016-02 will require lessees to recognize a lease liability and a right-of-use asset with respect to all leases with terms of greater than twelve months. The lease liability recognized in the statement of financial position will represent the lessee's obligation to make lease payments measured on a discounted basis, while the right-of-use asset will represent the lessee's right to use, or control use of, the underlying asset for the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The standard will be effective for KSC's year ending June 30, 2021.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for KSC's year ending June 30, 2022.

KSC is currently in the process of evaluating the impact of ASU 2018-08, ASU 2016-18, ASU 2016-02 and ASU 2016-13 on the financial statements.

Note C - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
Total Assets at Year-end	\$ 5,253,989	\$ 5,719,758
<i>Less:</i>		
Non-endowment contributions with donor restrictions	(760,302)	(684,390)
Donor-restricted endowment funds not appropriated for expenditure within one year	(582,018)	(539,874)
Board-designated endowment funds	(13,538)	(12,619)
Other board-designated net assets	(113,839)	(123,840)
Inventories and prepaid expenses	(151,862)	(143,817)
Property and equipment	<u>(3,173,542)</u>	<u>(3,655,734)</u>
Financial Assets Available at Year-end for Current Use	<u>\$ 458,888</u>	<u>\$ 559,484</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note C - Liquidity and Availability of Resources (Continued)

KSC endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for operations. Donor-restricted endowment funds are not available for general expenditure. KSC exhibit maintenance and replacement endowment of \$558,980 is subject to an annual spending rate of up to 5 percent as described in Note G.

Board designated financial assets represent amounts designated for infrastructure improvements and professional development activities as determined by the Board. Although KSC does not intend to spend these board-designated funds for other than their intended purposes, these amounts could be made available if necessary.

As part of KSC's liquidity management plan, KSC structures financial assets to be available as its general expenditures, liabilities, and other obligations become due. KSC invests cash in excess of daily requirements in money market funds.

In an event of an unanticipated liquidity need, KSC also could draw upon \$250,000 of an available line of credit as described in Note I.

Note D - Deposits and Investments

At June 30, 2019, KSC's carrying amount of deposits is \$996,038 and the bank balances are \$1,070,972. Of this amount, \$250,000 is covered by federal depository insurance and \$820,972 is insured with securities held by the pledging financial institution. At June 30, 2018, KSC's carrying amount of deposits is \$960,329 and the bank balances are \$997,671. Of this amount, \$255,001 is covered by federal depository insurance and \$742,670 is insured with securities held by the pledging financial institution.

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. At June 30, 2019, KSC has collateral through its depository, in addition to federal depository insurance, 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.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note D - Deposits and Investments (Continued)

At June 30, 2019, KSC's carrying amount of investments is:

	<u>Credit Quality Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Funds	Aaa-mf	\$ 7,153	0.0700
Bond Mutual Funds	Not rated *	143,772	7.8398
Equity Mutual Funds			
Emerging market value		10,513	
International large cap growth		39,233	
International large cap value		28,884	
Large cap core		53,545	
Large cap growth		112,042	
Large cap value		105,406	
Mid cap core		57,832	
Mid cap growth		22,823	
Small cap growth		27,951	
Small cap value		<u>21,402</u>	
Total Equity Mutual Funds	Not rated	<u>479,631</u>	N/A
		<u>\$ 630,556</u>	
Portfolio Weighted Average Maturity			7.47

At June 30, 2018, KSC's carrying amount of investments is:

	<u>Credit Quality Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Funds	Aaa-mf	\$ 5,664	0.0800
Bond Mutual Funds	Not rated *	135,796	7.7630
Equity Mutual Funds			
International large cap core		26,842	
International large cap growth		27,342	
International large cap value		26,994	
Large cap core		49,398	
Large cap growth		108,761	
Large cap value		93,688	
Mid cap core		48,991	
Mid cap growth		19,713	
Small cap growth		23,684	
Small cap value		<u>20,620</u>	
Total Equity Mutual Funds	Not rated	<u>446,033</u>	N/A
		<u>\$ 587,493</u>	
Portfolio Weighted Average Maturity			7.45

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note D - Deposits and Investments (Continued)

* 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, 2019, over 99% of the bonds are investment grade rated. As of June 30, 2018, over 97% of the bonds are investment grade rated. All investments fall within the Board approved investment policy guidelines.

Fair value measurements at June 30, 2019 and 2018 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.

Note E - 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, 2019 and 2018 consist of the following unconditional promises to give:

	<u>2019</u>	<u>2018</u>
Gross Pledges Receivable	\$ 159,369	\$ 252,703
Less Discount to Present Value	<u>(853)</u>	<u>(3,295)</u>
	<u>\$ 158,516</u>	<u>\$ 249,408</u>

Amounts due in:

	<u>Amount</u>
Less than One Year	\$ 139,369
One to Five Years	<u>20,000</u>
	<u>\$ 159,369</u>

Pledges receivable in future periods are discounted at rates ranging from 1.0% to 2.7%.

KSC has one donor that represents 63% and 79% of the gross pledges receivable at June 30, 2019 and 2018, respectively.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note F - Property and Equipment

Property and equipment activity for the year ended June 30, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Property and Equipment not Being Depreciated				
Exhibits in progress	\$ 20,000	\$ 83,660	\$ -	\$ 103,660
Total Property and Equipment not Being Depreciated	20,000	83,660	-	103,660
Other Property and Equipment				
Leasehold improvements	6,422,376	31,779	(428,247)	6,025,908
Furniture, fixtures and equipment	748,966	5,023	(19,691)	734,298
Museum exhibits	15,793,584	109,212	(2,059,643)	13,843,153
Total Other Property and Equipment at Historical Costs	22,964,926	146,014	(2,507,581)	20,603,359
Less accumulated depreciation	<u>(19,329,192)</u>	<u>(700,811)</u>	<u>2,496,526</u>	<u>(17,533,477)</u>
Other Property and Equipment, net	<u>3,635,734</u>	<u>(554,797)</u>	<u>(11,055)</u>	<u>3,069,882</u>
Property and Equipment, net	<u>\$ 3,655,734</u>	<u>\$ (471,137)</u>	<u>\$ (11,055)</u>	<u>\$ 3,173,542</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note F - Property and Equipment (Continued)

Property and equipment activity for the year ended June 30, 2018 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Property and Equipment not Being Depreciated				
Exhibits in progress	\$ -	\$ 20,000	\$ -	\$ 20,000
Total Property and Equipment not Being Depreciated	-	20,000	-	20,000
Other Property and Equipment				
Leasehold improvements	6,422,376	-	-	6,422,376
Furniture, fixtures and equipment	730,868	18,098	-	748,966
Museum exhibits	15,793,584	-	-	15,793,584
Total Other Property and Equipment at Historical Costs	22,946,828	18,098	-	22,964,926
Less accumulated depreciation	<u>(18,629,912)</u>	<u>(699,280)</u>	<u>-</u>	<u>(19,329,192)</u>
Other Property and Equipment, net	<u>4,316,916</u>	<u>(681,182)</u>	<u>-</u>	<u>3,635,734</u>
Property and Equipment, net	<u>\$ 4,316,916</u>	<u>\$ (661,182)</u>	<u>\$ -</u>	<u>\$ 3,655,734</u>

Note G - Endowments

KSC's endowment consists of two donor-restricted endowment funds and one board designated endowment fund. The funds were established to fund exhibit repairs and operations. As required by 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.

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 net assets with donor restrictions in perpetuity 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 Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note G - Endowments (Continued)

The endowment fund assets at June 30, 2019 and 2018 are included in the following categories on the statements of financial position:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 617,018	\$ 617,018
Board Designated	13,538	-	13,538
	<u>\$ 13,538</u>	<u>\$ 617,018</u>	<u>\$ 630,556</u>
	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 574,874	\$ 574,874
Board Designated	12,619	-	12,619
	<u>\$ 12,619</u>	<u>\$ 574,874</u>	<u>\$ 587,493</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, beginning of the year	\$ 12,619	\$ 574,874	\$ 587,493
Investment Return			
Investment income	94	4,264	4,358
Net appreciation	825	34,880	35,705
Total Investment Return	919	39,144	40,063
Contributions	-	3,000	3,000
Appropriation for Expenditure	-	-	-
Endowment Net Assets, end of year	<u>\$ 13,538</u>	<u>\$ 617,018</u>	<u>\$ 630,556</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note G - Endowments (Continued)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, beginning of the year	\$ 11,486	\$ 568,172	\$ 579,658
Investment Return			
Investment income	96	4,724	4,820
Net appreciation	1,037	46,978	48,015
Total Investment Return	1,133	51,702	52,835
Contributions	-	5,000	5,000
Appropriation for Expenditure	-	50,000	50,000
Endowment Net Assets, end of year	\$ 12,619	\$ 574,874	\$ 587,493

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.

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. 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 a diversified asset 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. The Board of Directors may also authorize prior years' unexpended annual spending policy amounts to be used for future expenditures as part of the annual budget. 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.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note H - 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 or for collection maintenance. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions 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, 2019 and 2018.

Note I - Financing Arrangements

KSC has a line of credit agreement with PNC Bank for \$250,000 with an interest rate of prime (5.5% at June 30, 2019), which expires in May 2020. The line is secured by all business assets. There is no balance outstanding on this line of credit at June 30, 2019 or 2018.

KSC had a note payable to PNC Bank that matured in November 2018 with interest at a fixed rate of 3.95%. The note was payable in monthly installments of principal and interest of \$4,052. The outstanding balance on the note is \$-0- and \$20,059 at June 30, 2019 and 2018, respectively. The outstanding note payable was secured by investments held at the same financial institution.

During 2015 KSC entered into a promissory note with PNC Bank bearing interest at 3.95%. The note is for \$500,000 and is collateralized by substantially all of KSC's assets. The note requires quarterly principal payments of \$25,000 plus interest, through July 2020. The note was paid in full in April 2019. The outstanding balance on the note is \$-0- and \$225,000 at June 30, 2019 and 2018, respectively.

Note J - Net Assets

Board designated net assets consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specific Purpose		
Professional development	\$ 59,072	\$ 69,073
Science in Play	50,000	50,000
Exhibit maintenance and replacement endowment	13,538	12,619
Theater upgrades	<u>4,767</u>	<u>4,767</u>
Total Board Designated Net Assets	<u>\$ 127,377</u>	<u>\$ 136,459</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note J - Net Assets (Continued)

Net assets with donor restrictions at June 30, 2019 and 2018 are available for the following:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specific Purpose		
Science in Play 2 Go	\$ 386,910	\$ 34,362
My Big Little Adventure	127,879	293,107
Other exhibit production	148,103	258,866
Other educational programs	<u>97,410</u>	<u>98,055</u>
	760,302	684,390
Subject to Organization Spending Policy and Appropriation		
Investment in perpetuity, the income which is available to support		
Exhibit maintenance and replacement	558,980	518,479
Operations	<u>58,038</u>	<u>56,395</u>
	<u>617,018</u>	<u>574,874</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 1,377,320</u></u>	<u><u>\$ 1,259,264</u></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 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.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

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 \$143,272 and \$88,717 during the years ended June 30, 2019 and 2018 respectively, were recorded as contributions, and program and supporting services expenses or capitalized.

During the year ended June 30, 2019, approximately 813 volunteers donated approximately 11,692 hours of time to KSC. During the year ended June 30, 2018, approximately 768 volunteers donated approximately 11,951 hours of time to KSC. This time represents non-professional services and is, therefore, not recorded in the accompanying financial statements.

Note M - Rental Income

KSC leases certain facilities under a noncancelable operating lease that was renewed through October 2024. The approximate minimum future building rentals due to KSC under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 32,800
2021	33,600
2022	33,600
2023	35,200
2024	36,000
Thereafter	<u>12,000</u>
	<u>\$ 183,200</u>

Rental income from the building lease was \$43,984 and \$37,305 for the years ended June 30, 2019 and 2018, respectively.

Note N - Fundraising Events

Gross revenues and direct event expenses related to fundraising events during the years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Science with a Twist		
Revenues	\$ 138,331	\$ 153,820
Expenses	<u>(65,169)</u>	<u>(66,705)</u>
	<u>\$ 73,162</u>	<u>\$ 87,115</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note O - Employee Benefit Plans

KSC sponsors 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 \$41,066 and \$47,258 for the years ended June 30, 2019 and 2018, 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 through June 2019. Rent expense of \$12,497 and \$12,722 was recorded under this lease during the years ended June 30, 2019 and 2018, respectively. Subsequent to the year ended June 30, 2019, KSC entered into a non-cancelable lease agreement for use of three copiers.

Future minimum lease payments under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 6,936
2021	6,936
2022	6,936
2023	6,936
2024	<u>6,936</u>
Total	<u>\$ 34,680</u>

**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, 2019 and 2018, 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 18, 2019.

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.

MCM CPAs & Advisors LLP

Louisville, Kentucky
September 18, 2019