

The Kentucky Science Center, Inc.

**Financial Statements
and
Supplementary Information**

Years Ended June 30, 2018 and 2017

The Kentucky Science Center, Inc.

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Years Ended June 30, 2018 and 2017

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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, 2018 and 2017, 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 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.

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, 2018 and 2017, 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 12, 2018, 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 12, 2018

The Kentucky Science Center, Inc.
Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 602,763	\$ 267,920
Accounts receivable	122,977	100,180
Pledges receivable	148,203	209,520
Inventory	20,362	28,101
Prepaid expenses	<u>123,455</u>	<u>100,953</u>
Total Current Assets	1,017,760	706,674
Pledges Receivable, net	101,205	215,250
Designated Cash	357,566	299,235
Property and Equipment, net	3,655,734	4,316,916
Other Assets		
Investments	587,493	579,658
Collections	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 5,719,758</u>	<u>\$ 6,117,733</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 164,501	\$ 114,039
Accrued payroll and withholdings	239,515	197,471
Current portion of notes payable	120,059	146,838
Unearned revenue	<u>235,383</u>	<u>231,384</u>
Total Current Liabilities	759,458	689,732
Notes Payable, net of current portion	<u>125,000</u>	<u>245,019</u>
Total Liabilities	884,458	934,751
Commitments and Contingencies		
Net Assets		
Unrestricted		
Invested in Property and Equipment	3,410,675	3,925,059
Undesignated	28,902	219,838
Board designated	<u>136,459</u>	<u>150,559</u>
Total Unrestricted	3,576,036	4,295,456
Temporarily restricted	836,679	469,941
Permanently restricted	<u>422,585</u>	<u>417,585</u>
Total Net Assets	<u>4,835,300</u>	<u>5,182,982</u>
Total Liabilities and Net Assets	<u>\$ 5,719,758</u>	<u>\$ 6,117,733</u>

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Earned Revenues								
Admissions	\$ 999,888	\$ -	\$ -	\$ 999,888	\$ 955,758	\$ -	\$ -	\$ 955,758
Gift shop and concessions	230,699	-	-	230,699	230,277	-	-	230,277
School groups/programs	945,355	-	-	945,355	984,906	-	-	984,906
Memberships	659,622	-	-	659,622	646,301	-	-	646,301
ThunderBlast	121,847	-	-	121,847	92,292	-	-	92,292
Rentals	194,215	-	-	194,215	165,653	-	-	165,653
Parking	467,944	-	-	467,944	453,874	-	-	453,874
Interest and investment income	3,057	4,724	-	7,781	445	4,691	-	5,136
Other income	2,103	-	-	2,103	16,725	-	-	16,725
Net unrealized and realized gain on investments	1,037	46,978	-	48,015	1,328	61,980	-	63,308
Total Earned Revenues	3,625,767	51,702	-	3,677,469	3,547,559	66,671	-	3,614,230
Support								
Corporate and other private	167,990	622,013	5,000	795,003	189,163	202,479	-	391,642
Fundraising event - net	87,115	-	-	87,115	83,901	-	-	83,901
City government	812,500	-	-	812,500	812,500	-	-	812,500
Total Support	1,067,605	622,013	5,000	1,694,618	1,085,564	202,479	-	1,288,043
Net Assets Released from Restrictions								
Satisfaction of Program Restrictions	306,977	(306,977)	-	-	273,264	(273,264)	-	-
Satisfaction of Property Restrictions	-	-	-	-	270,696	(270,696)	-	-
Total Earned Revenues, Support and Releases from Restrictions	5,000,349	366,738	5,000	5,372,087	5,177,083	(274,810)	-	4,902,273

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Activities and Changes in Net Assets (Continued)
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses and Losses								
Program Services								
Theater	\$ 179,195	\$ -	\$ -	\$ 179,195	\$ 188,993	\$ -	\$ -	\$ 188,993
Educational programs	1,392,851	-	-	1,392,851	1,224,316	-	-	1,224,316
Visitor services	496,638	-	-	496,638	429,146	-	-	429,146
Marketing	613,487	-	-	613,487	647,748	-	-	647,748
Facilities	937,524	-	-	937,524	894,010	-	-	894,010
Membership	96,458	-	-	96,458	77,604	-	-	77,604
ThunderBlast	44,191	-	-	44,191	41,728	-	-	41,728
Gift shop	101,788	-	-	101,788	98,878	-	-	98,878
Rentals	83,091	-	-	83,091	84,257	-	-	84,257
Depreciation - theater, exhibits and science education wing	593,005	-	-	593,005	622,003	-	-	622,003
Total Program Services	4,538,228	-	-	4,538,228	4,308,683	-	-	4,308,683
Supporting Services								
Finance and administration	574,894	-	-	574,894	562,521	-	-	562,521
Development	405,567	-	-	405,567	320,149	-	-	320,149
Facilities	94,805	-	-	94,805	91,019	-	-	91,019
Depreciation	106,275	-	-	106,275	126,437	-	-	126,437
Total Supporting Services	1,181,541	-	-	1,181,541	1,100,126	-	-	1,100,126
Total Expenses	5,719,769	-	-	5,719,769	5,408,809	-	-	5,408,809
Loss on the disposal of property and equipment	-	-	-	-	26,802	-	-	26,802
Total Expenses and Losses	5,719,769	-	-	5,719,769	5,435,611	-	-	5,435,611
Changes in Net Assets	(719,420)	366,738	5,000	(347,682)	(258,528)	(274,810)	-	(533,338)
Net Assets at Beginning of Year	4,295,456	469,941	417,585	5,182,982	4,553,984	744,751	417,585	5,716,320
Net Assets at End of Year	\$ 3,576,036	\$ 836,679	\$ 422,585	\$ 4,835,300	\$ 4,295,456	\$ 469,941	\$ 417,585	\$ 5,182,982

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (347,682)	\$ (533,338)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	699,280	748,440
Loss on disposal of property and equipment	-	26,802
Net realized and unrealized gain on investments	(48,015)	(63,308)
Contributions restricted for investment in property and equipment	85,361	(59,548)
Changes in		
Accounts receivable	(22,797)	(10,350)
Pledges receivable, net	(127,388)	29,855
Inventory	7,739	(784)
Prepaid expenses	(22,502)	66
Accounts payable and accrued expenses	60,030	(28,117)
Accrued payroll and withholdings	42,044	33,844
Unearned revenue	3,999	9,794
Net Cash Provided by Operating Activities	<u>330,069</u>	<u>153,356</u>
Cash Flows from Investing Activities		
Increase in designated cash	(58,331)	(8,823)
Purchases of property and equipment	(47,666)	(437,604)
Proceeds from disposal of property and equipment	-	825
Purchases of investments	(260,276)	(357,057)
Sales of investments	300,456	407,273
Net Cash Used by Investing Activities	<u>(65,817)</u>	<u>(395,386)</u>
Cash Flows from Financing Activities		
Payments on note payable	(146,798)	(144,964)
Proceeds from contributions restricted for investment in property and equipment	217,389	388,652
Net Cash Provided by Financing Activities	<u>70,591</u>	<u>243,688</u>
Increase in Cash and Cash Equivalents	334,843	1,658
Cash and Cash Equivalents at Beginning of Year	<u>267,920</u>	<u>266,262</u>
Cash and Cash Equivalents at End of Year	<u>\$ 602,763</u>	<u>\$ 267,920</u>
Supplemental Disclosures		
Cash paid for interest	\$ 12,470	\$ 18,311
Fixed assets in accounts payable	950	10,518

See accompanying notes.

The Kentucky Science Center, Inc.
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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.
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 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.
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.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

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, 2018 and 2017 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, 2018 and 2017 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. Depreciation expense for the years ended June 30, 2018 and 2017 was \$699,280 and \$748,440 respectively.
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 Unrestricted Net Assets: Board designated unrestricted net assets represent amounts designated for infrastructure improvements and professional development activities as determined by the Board.
13. 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)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

14. 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.

15. Advertising Costs: Advertising costs are expensed as incurred. Advertising costs amounted to \$399,352 and \$432,222 for the years ended June 30, 2018 and 2017, respectively.
16. Reclassifications: Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation, with no effect on net assets or the changes in net assets.
17. Recent Accounting Pronouncements: In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This updated guidance changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users. This guidance included qualitative and quantitative requirements in the following areas: 1) net asset classes; 2) investment return; 3) expenses; 4) liquidity and availability of resources; and 5) presentation of operating cash flows. This standard is effective for the fiscal year ending June 30, 2019.

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 the fiscal year ending June 30, 2020.

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 the fiscal year ending June 30, 2020.

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 the fiscal 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 the fiscal year ending June 30, 2021.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

17. Recent Accounting Pronouncements (Continued):

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 the fiscal year ending June 30, 2022.

KSC is currently evaluating these ASUs and their impact on KSC's financial statements.

Note C - Deposits and Investments

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. At June 30, 2017, KSC's carrying amount of deposits is \$567,155 and the bank balances are \$666,129. Of this amount, \$290,153 is covered by federal depository insurance and \$375,976 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, 2018, 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

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

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
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		20,620	
		<u>446,033</u>	
Total Equity Mutual Funds	Not rated	\$ 587,493	N/A
		<u><u>587,493</u></u>	
Portfolio weighted average maturity			7.45

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note C - Deposits and Investments (Continued)

At June 30, 2017, KSC's carrying amount of investments is:

	<u>Credit Quality</u>	<u>Fair Value</u>	<u>Weighted Average</u>
Money market funds	Aaa-mf	\$ 15,580	0.0800
Bond mutual funds	Not rated *	134,329	7.7671
Equity mutual funds			
International large cap core		13,074	
International large cap growth		21,047	
International large cap value		21,369	
Large cap core		151,096	
Large cap growth		64,801	
Large cap value		61,739	
Mid cap core		34,356	
Mid cap growth		17,236	
Real estate investment trust		14,588	
Small cap growth		15,538	
Small cap value		<u>14,905</u>	
Total Equity Mutual Funds	Not rated	<u>429,749</u>	N/A
		<u>\$ 579,658</u>	
Portfolio weighted average maturity			6.97

* 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, 2018, over 97% of the bonds are investment grade rated. As of June 30, 2017, 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, 2018 and 2017 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)
Years Ended June 30, 2018 and 2017

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, 2018 and 2017 consist of the following unconditional promises to give:

	<u>2018</u>	<u>2017</u>
Gross pledges receivable	\$ 252,703	\$ 433,520
Less discount to present value	<u>(3,295)</u>	<u>(8,750)</u>
	<u>\$ 249,408</u>	<u>\$ 424,770</u>

Amounts due in:

	<u>Amount</u>
Less than one year	\$ 148,203
One to five years	<u>104,500</u>
	<u>\$ 252,703</u>

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

KSC has one donor that represents 79% and 69% of the gross pledges receivable at June 30, 2018 and 2017, respectively.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note E - Property and Equipment

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	<u>15,793,584</u>	<u>-</u>	<u>-</u>	<u>15,793,584</u>
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>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note E - Property and Equipment (Continued)

Property and equipment activity for the year ended June 30, 2017 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	\$ 24,500	\$ -	\$ (24,500)	\$ -
Total Property and Equipment not Being Depreciated	24,500	-	(24,500)	-
Other Property and Equipment				
Leasehold improvements	6,379,151	43,225	-	6,422,376
Furniture, fixtures and equipment	720,125	11,568	(825)	730,868
Museum exhibits	<u>20,035,741</u>	<u>276,084</u>	<u>(4,518,241)</u>	<u>15,793,584</u>
Total Other Property and Equipment at Historical Costs	27,135,017	330,877	(4,519,066)	22,946,828
Less Accumulated Depreciation	<u>(22,394,161)</u>	<u>(748,440)</u>	<u>4,512,689</u>	<u>(18,629,912)</u>
Other Property and Equipment, net	<u>4,740,856</u>	<u>(417,563)</u>	<u>(6,377)</u>	<u>4,316,916</u>
Property and Equipment, net	<u>\$ 4,765,356</u>	<u>\$ (417,563)</u>	<u>\$ (30,877)</u>	<u>\$ 4,316,916</u>

Note F - 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.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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.

The endowment fund assets at June 30, 2018 and 2017 are included in the following categories on the statements of financial position:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	\$ -	\$ 152,289	\$ 422,585	\$ 574,874
Board Designated	12,619	-	-	12,619
	<u>\$ 12,619</u>	<u>\$ 152,289</u>	<u>\$ 422,585</u>	<u>\$ 587,493</u>
	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	\$ -	\$ 150,587	\$ 417,585	\$ 568,172
Board Designated	11,486	-	-	11,486
	<u>\$ 11,486</u>	<u>\$ 150,587</u>	<u>\$ 417,585</u>	<u>\$ 579,658</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note F - Endowments (Continued)

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

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of the Year	\$ 11,486	\$ 150,587	\$ 417,585	\$ 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	<u>\$ 12,619</u>	<u>\$ 152,289</u>	<u>\$ 422,585</u>	<u>\$ 587,493</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of the Year	\$ 10,065	\$ 138,916	\$ 417,585	\$ 566,566
Investment Return				
Investment income	93	4,691	-	4,784
Net appreciation	1,328	61,980	-	63,308
Total Investment Return	1,421	66,671	-	68,092
Contributions	-	-	-	-
Appropriation for Expenditure	-	55,000	-	55,000
Endowment Net Assets, End of Year	<u>\$ 11,486</u>	<u>\$ 150,587</u>	<u>\$ 417,585</u>	<u>\$ 579,658</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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.

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 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. 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.

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, 2018 and 2017.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note H - Financing Arrangements

KSC has a line of credit agreement with PNC Bank for \$250,000 with an interest rate of prime (5% at June 30, 2018), which expires in May 2019. The line is secured by all business assets. There is no balance outstanding on this line of credit at June 30, 2018 or 2017.

KSC has a note payable to PNC 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 \$20,059 and \$66,857 at June 30, 2018 and 2017, respectively. The outstanding note payable is secured by investments held at the same financial institution. At June 30, 2018 and 2017, funds in that account total \$587,493 and \$579,658, respectively, all of which are endowment fund investments.

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 matures on July 16, 2020. The outstanding balance on the note is \$225,000 and \$325,000 at June 30, 2018 and 2017, respectively.

Future maturities of the notes payable as of June 30, 2018 are as follows:

Year Ending June 30,	Amount
2019	\$ 120,059
2020	100,000
2021	25,000
	<u>245,059</u>
Less current portion	<u>120,059</u>
	<u><u>\$ 125,000</u></u>

Note I - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
Educational programs	\$ 425,524	\$ 116,150
Exhibit production	258,866	203,204
Exhibit maintenance and replacement	118,181	118,395
Operations	34,108	32,192
	<u>\$ 836,679</u>	<u>\$ 469,941</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note J - Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018 and 2017 are required to be invested in perpetuity, the income from which is expendable for the following purposes:

	<u>2018</u>	<u>2017</u>
Exhibit maintenance and replacement	\$ 400,298	\$ 395,298
Operations	<u>22,287</u>	<u>22,287</u>
	<u>\$ 422,585</u>	<u>\$ 417,585</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.

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 \$88,717 and \$121,566 during the years ended June 30, 2018 and 2017 respectively, were recorded as contributions, and program and supporting services expenses or capitalized.

During the year ended June 30, 2018, approximately 768 volunteers donated approximately 11,951 hours of time to KSC. During the year ended June 30, 2017, approximately 914 volunteers donated approximately 15,338 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)
Years Ended June 30, 2018 and 2017

Note M - Rental Income

KSC leases certain facilities under a noncancelable operating lease which expires October 2019. The approximate minimum future building rentals due to KSC under this lease are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2019	\$ 31,200
2020	<u>10,400</u>
	<u><u>\$ 41,600</u></u>

Rental income from the building lease was \$37,305 and \$37,161 for the years ended June 30, 2018 and 2017, respectively.

Note N - Fundraising Events

Gross revenues and direct event expenses related to fundraising events during the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Science with a Twist		
Revenues	\$ 153,820	\$ 146,730
Expenses	<u>(66,705)</u>	<u>(62,829)</u>
	<u><u>\$ 87,115</u></u>	<u><u>\$ 83,901</u></u>

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 \$47,258 and \$35,902 for the years ended June 30, 2018 and 2017, 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 \$12,722 and \$13,358 was recorded under this lease during the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under this lease are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2019	<u><u>\$ 7,584</u></u>

Note Q - Commitments

KSC has outstanding commitments under various contracts of approximately \$155,000 at June 30, 2018.

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 years ended June 30, 2018 and 2017, and have issued our report thereon dated September 12, 2017, which contains an unmodified opinion on those financial statements and appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The schedules of functional expenses for the years ended June 30, 2018 and 2017 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.

MCM CPAs & Advisors LLP

Louisville, Kentucky
September 12, 2018

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

	<u>Programs</u>	<u>Management General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Expenses				
Salaries and wages	\$ 1,975,971	\$ 333,810	\$ 321,244	\$ 2,631,025
Employee benefits and taxes	346,498	61,454	52,142	460,094
Professional service and other fees	448,801	44,407	-	493,208
Gift shop	101,705	-	-	101,705
Advertising	399,352	-	-	399,352
Office and technology expenses	80,550	67,573	27,002	175,125
Utilities	100,733	94,805	-	195,538
Travel	28,053	4,706	1,251	34,010
Conferences and meetings	-	17,609	-	17,609
Interest expense	12,470	-	-	12,470
Depreciation	593,005	106,275	-	699,280
Repairs and maintenance	202,611	-	-	202,611
Educational supplies	115,492	-	-	115,492
Theater film fees	102,708	-	-	102,708
Insurance	5,614	25,204	-	30,818
Miscellaneous	24,665	20,131	3,928	48,724
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 4,538,228</u>	<u>\$ 775,974</u>	<u>\$ 405,567</u>	<u>\$ 5,719,769</u>

See independent auditor's report on supplementary information.

The Kentucky Science Center, Inc.
Schedule of Function Expenses (Continued)
Year Ended June 30, 2017

	<u>Programs</u>	<u>Management General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Expenses				
Salaries and wages	\$ 1,804,686	\$ 319,292	\$ 258,082	\$ 2,382,060
Employee benefits and taxes	313,074	62,360	44,808	420,242
Professional service and other fees	394,217	37,573	-	431,790
Gift shop	98,812	-	-	98,812
Advertising	432,222	-	-	432,222
Office and technology expenses	90,427	72,705	11,429	174,561
Utilities	108,902	91,019	-	199,921
Travel	20,409	114	702	21,225
Conferences and meetings	-	21,762	-	21,762
Interest expense	18,311	-	-	18,311
Depreciation	622,003	126,437	-	748,440
Repairs and maintenance	159,421	-	-	159,421
Educational supplies	113,193	-	-	113,193
Theater film fees	107,428	-	-	107,428
Insurance	6,518	27,164	-	33,682
Miscellaneous	19,060	21,551	5,128	45,739
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 4,308,683</u>	<u>\$ 779,977</u>	<u>\$ 320,149</u>	<u>\$ 5,408,809</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, 2018 and 2017, 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 12, 2017.

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 12, 2018