

The Kentucky Science Center, Inc.

Financial Statements

Years Ended June 30, 2020 and 2019

The Kentucky Science Center, Inc.
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Years Ended June 30, 2020 and 2019

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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, 2020 and 2019, 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.

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Kentucky Science Center, Inc. as of June 30, 2020 and 2019, 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 B5, the organization has adopted Financial Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230)*. 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 October 14, 2020, 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
October 14, 2020

The Kentucky Science Center, Inc.
Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 609,912	\$ 587,521
Accounts receivable	178,697	143,475
Pledges receivable	337,926	139,369
Inventory	33,931	28,479
Prepaid expenses	<u>79,256</u>	<u>123,383</u>
Total current assets	1,239,722	1,022,227
Pledges receivable, net	59,368	19,147
Designated cash	338,412	408,517
Property and equipment, net	2,916,341	3,173,542
Investments	<u>670,059</u>	<u>630,556</u>
Total assets	<u>\$ 5,223,902</u>	<u>\$ 5,253,989</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 209,409	\$ 154,504
Accrued payroll and withholdings	240,977	215,923
Unearned revenue	<u>211,937</u>	<u>259,944</u>
Total current liabilities	662,323	630,371
Non current liabilities		
Note payable	150,000	-
Refundable advance	<u>570,500</u>	<u>-</u>
Total liabilities	1,382,823	630,371
Net assets		
Without donor restrictions		
Invested in property and equipment	2,916,341	3,173,542
Undesignated	(712,001)	(54,621)
Board designated	<u>113,450</u>	<u>127,377</u>
Total without donor restrictions	2,317,790	3,246,298
With donor restrictions	<u>1,523,289</u>	<u>1,377,320</u>
Total net assets	<u>3,841,079</u>	<u>4,623,618</u>
Total liabilities and net assets	<u>\$ 5,223,902</u>	<u>\$ 5,253,989</u>

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Earned revenues						
Admissions	\$ 664,280	\$ -	\$ 664,280	\$ 1,040,334	\$ -	\$ 1,040,334
Memberships	517,229	-	517,229	677,929	-	677,929
Onsite camps	249,260	-	249,260	327,844	-	327,844
School field trips	132,685	-	132,685	255,907	-	255,907
Education programs	278,784	-	278,784	415,558	-	415,558
ThunderBlast	-	-	-	137,492	-	137,492
Gift shop	114,622	-	114,622	204,068	-	204,068
Rentals	118,349	-	118,349	181,346	-	181,346
Parking	357,104	-	357,104	489,925	-	489,925
Interest and investment income	5,887	5,202	11,089	8,375	4,264	12,639
Other income	201,938	-	201,938	24,230	-	24,230
Net unrealized and realized gain on investments	725	30,462	31,187	825	34,880	35,705
Total earned revenues	2,640,863	35,664	2,676,527	3,763,833	39,144	3,802,977
Support						
Contributions	126,167	400,125	526,292	196,709	569,332	766,041
Fundraising event - net	92,080	-	92,080	73,162	-	73,162
City government	712,500	250,000	962,500	812,500	-	812,500
Total support	930,747	650,125	1,580,872	1,082,371	569,332	1,651,703
Net assets released from restrictions						
Satisfaction of program restrictions	317,632	(317,632)	-	372,494	(372,494)	-
Satisfaction of property restrictions	222,188	(222,188)	-	117,926	(117,926)	-
Total earned revenues, support and releases from restrictions	4,111,430	145,969	4,257,399	5,336,624	118,056	5,454,680
Expenses and losses						
Program services	4,045,388	-	4,045,388	4,681,844	-	4,681,844
Management general and administrative	623,557	-	623,557	676,793	-	676,793
Fundraising	368,543	-	368,543	296,670	-	296,670
Total expenses	5,037,488	-	5,037,488	5,655,307	-	5,655,307
Loss on the disposal of property and equipment	2,450	-	2,450	11,055	-	11,055
Total expenses and losses	5,039,938	-	5,039,938	5,666,362	-	5,666,362
Changes in net assets	(928,508)	145,969	(782,539)	(329,738)	118,056	(211,682)
Net assets at beginning of year	3,246,298	1,377,320	4,623,618	3,576,036	1,259,264	4,835,300
Net assets at end of year	\$ 2,317,790	\$ 1,523,289	\$ 3,841,079	\$ 3,246,298	\$ 1,377,320	\$ 4,623,618

See accompanying notes.

The Kentucky Science Center, Inc.
Statement of Functional Expenses
Year Ended June 30, 2020

	<u>Programs</u>	<u>Management general and administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Expenses				
Advertising	\$ 168,414	\$ -	\$ -	\$ 168,414
Conferences and meetings	-	15,300	-	15,300
Depreciation	573,273	80,001	-	653,274
Educational supplies	70,720	-	-	70,720
Employee benefits and taxes	384,993	35,307	46,560	466,860
Event	-	-	83,477	83,477
Gift shop	51,623	-	-	51,623
Insurance	11,098	27,092	-	38,190
Interest expense	1,310	-	-	1,310
Miscellaneous	8,953	14,548	5,186	28,687
Office and technology expenses	58,366	62,382	11,829	132,577
Professional service and other fees	309,637	70,770	650	381,057
Repairs and maintenance	257,779	-	-	257,779
Salaries and wages	1,905,856	285,493	303,875	2,495,224
Theater film fees	49,036	-	-	49,036
Travel	32,380	-	443	32,823
Utilities	161,950	32,664	-	194,614
	<u>4,045,388</u>	<u>623,557</u>	<u>452,020</u>	<u>5,120,965</u>
Less: fundraising event expense included in revenue	<u>-</u>	<u>-</u>	<u>(83,477)</u>	<u>(83,477)</u>
Total expenses	<u>\$ 4,045,388</u>	<u>\$ 623,557</u>	<u>\$ 368,543</u>	<u>\$ 5,037,488</u>

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.
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Changes in net assets	\$ (782,539)	\$ (211,682)
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities		
Depreciation	653,274	700,811
Loss on disposal of property and equipment	2,450	11,055
Net realized and unrealized gain on investments	(31,187)	(35,705)
Contributions restricted for investment in property and equipment	(399,711)	(268,231)
Contributed exhibit	(7,800)	(90,000)
Changes in		
Accounts receivable	(35,222)	(20,498)
Pledges receivable, net	8,433	(20,146)
Inventory	(5,452)	(8,117)
Prepaid expenses	44,127	72
Accounts payable and accrued expenses	(37,508)	(34,222)
Accrued payroll and withholdings	25,054	(23,592)
Refundable advance	570,500	-
Unearned revenue	(48,007)	24,561
	<u>(43,588)</u>	<u>24,306</u>
Net cash (used) provided by operating activities	(43,588)	24,306
Cash flows from investing activities		
Purchases of property and equipment	(298,310)	(115,449)
Purchases of investments	(209,071)	(150,861)
Sales of investments	200,755	143,503
	<u>(306,626)</u>	<u>(122,807)</u>
Net cash used by investing activities	(306,626)	(122,807)
Cash flows from financing activities		
Proceeds from note payable	150,000	-
Payments on note payable	-	(245,059)
Proceeds from contributions restricted for investment in property and equipment	152,500	379,269
	<u>302,500</u>	<u>134,210</u>
Net cash provided by financing activities	302,500	134,210
(Decrease) increase in cash and cash equivalents	(47,714)	35,709
Cash and cash equivalents at beginning of year	<u>996,038</u>	<u>960,329</u>
Cash, cash equivalents, and designated cash end of year	<u>\$ 948,324</u>	<u>\$ 996,038</u>

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Supplemental disclosures		
Cash paid for interest	\$ -	\$ 5,759
Fixed assets in accounts payable	117,588	25,175
Statements of financial position and statements of cash flow		
Cash and cash equivalent, and designated cash reconciliation		
Cash and cash equivalents	\$ 609,912	\$ 587,521
Designated cash	<u>338,412</u>	<u>408,517</u>
Total cash and cash equivalents, and designated cash	<u>\$ 948,324</u>	<u>\$ 996,038</u>

See accompanying notes.

The Kentucky Science Center, Inc.
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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 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, whereby 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.

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.

In November 2016, the FASB issued Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230)*. This standard requires that a 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 is effective for the year ended June 30, 2020, and KSC has adjusted the presentation of the financial statements accordingly. The ASU has been applied retrospectively to the June 30, 2019 year presented.

The beginning of year balance in the accompanying statement of cash flows has thus been restated to include restricted cash with cash when reconciling the beginning and end of year amounts reflected on the statement of cash flows

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

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, 2020 and 2019 as management considers all amounts collectible.
7. Pledges Receivable: KSC receives contributions primarily from individuals, grantors, city government 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, 2020 and 2019 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 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. The expenses that are allocated include salaries and wages, depreciation, facilities and technology expense, which are allocated on the basis of estimates of time and effort.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note B - Summary of Significant Accounting Policies (Continued)

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 \$168,414 and \$297,056 for the years ended June 30, 2020 and 2019, respectively.
17. Reclassifications: Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation, with no effect on net assets or the changes in net assets.
18. Recent Accounting Pronouncements: 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 was adopted, with no material impact, as it relates to contributions received for the year ending June 30, 2020 and will apply to contributions made for the year ending June 30, 2021.

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, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of operations. This standard will be effective for KSC's year ending June 30, 2023.

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, 2024.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note B - Summary of Significant Accounting Policies (Continued)

18. Recent Accounting Pronouncements (Continued): KSC evaluated the impact of the adoption of ASU 2014-09 on the financial statements and expects to record a material impact 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.

KSC is currently in the process of evaluating the impact of the *Contributions Made* portion of ASU 2018-08, 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, 2020</u>	<u>Year ended June 30, 2019</u>
Total assets at year-end	\$ 5,223,902	\$ 5,253,989
Less		
Non-endowment contributions with donor restrictions	(867,607)	(760,302)
Donor-restricted endowment funds not appropriated for expenditure within one year	(585,682)	(582,018)
Board-designated endowment funds	(14,377)	(13,538)
Other board-designated net assets	(99,073)	(113,839)
Inventories and prepaid expenses	(113,187)	(151,862)
Property and equipment	<u>(2,916,341)</u>	<u>(3,173,542)</u>
Financial assets available at year-end for current use	<u>\$ 627,635</u>	<u>\$ 458,888</u>

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 \$596,092 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 \$750,000 of an available line of credit as described in Note I.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note D - Deposits and Investments

At June 30, 2020, KSC's carrying amount of deposits is \$948,324 and the bank balances are \$985,301. Of this amount, \$250,000 is covered by federal depository insurance and \$735,301 is insured with securities held by the pledging financial institution. 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.

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, 2020, 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.

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

	2020			2019		
	Credit quality rating	Fair value	Weighted average maturity (years)	Credit quality rating	Fair value	Weighted average maturity (years)
Money market funds	Aaa-mf	\$ 7,657	0.1100	Aaa-mf	\$ 7,153	0.0700
Bond mutual funds	Not rated *	153,411	5.2682	Not rated *	143,772	7.8398
Equity mutual funds						
Emerging market value		9,797			10,513	
Global equity		12,324			-	
International large cap growth		38,039			39,233	
International large cap value		24,339			28,884	
Large cap core		50,374			53,545	
Large cap growth		134,125			112,042	
Large cap value		109,294			105,406	
Mid cap core		-			57,832	
Mid cap growth		74,586			22,823	
Small cap growth		35,020			27,951	
Small cap value		21,093			21,402	
		<u>508,991</u>			<u>479,631</u>	
Total equity mutual funds	Not rated	<u>508,991</u>	N/A	Not rated	<u>479,631</u>	N/A
		<u>\$ 670,059</u>			<u>\$ 630,556</u>	
Portfolio weighted average maturity			5.02			7.47

* 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, 2020 and 2019, over 99% of the bonds are investment grade rated. All investments fall within the Board approved investment policy guidelines.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note D - Deposits and Investments (Continued)

Fair value measurements at June 30, 2020 and 2019 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, 2020 and 2019 consist of the following unconditional promises to give:

	<u>2020</u>	<u>2019</u>
Gross pledges receivable	\$ 397,926	\$ 159,369
Less discount to present value	<u>(632)</u>	<u>(853)</u>
	<u>\$ 397,294</u>	<u>\$ 158,516</u>

Amounts due in:

	<u>Amount</u>
Less than one year	\$ 337,926
One to five years	<u>60,000</u>
	<u>\$ 397,926</u>

Pledges receivable in future periods are discounted at rates ranging from 0.3% to 1.8%.

KSC has two donors that represents 88% of the gross pledges at June 30, 2020. KSC has one donor that represents 63% of the gross pledges receivable at June 30, 2019.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note F - Property and Equipment

Property and equipment activity for the year ended June 30, 2020 is as follows:

	Beginning balance	Increases	Decreases	Ending balance
Property and equipment not being depreciated				
Exhibits in progress	\$ 103,660	\$ 168,108	\$ (43,660)	\$ 228,108
Total property and equipment not being depreciated	103,660	168,108	(43,660)	228,108
Other property and equipment				
Leasehold improvements	6,025,908	-	-	6,025,908
Furniture, fixtures and equipment	734,298	8,786	(8,073)	735,011
Museum exhibits	13,843,153	265,289	(24,758)	14,083,684
Total other property and equipment at historical costs	20,603,359	274,075	(32,831)	20,844,603
Less accumulated depreciation	(17,533,477)	(653,274)	30,381	(18,156,370)
Other property and equipment, net	3,069,882	(379,199)	(2,450)	2,688,233
Property and equipment, net	<u>\$ 3,173,542</u>	<u>\$ (211,091)</u>	<u>\$ (46,110)</u>	<u>\$ 2,916,341</u>

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

	Beginning balance	Increases	Decreases	Ending balance
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	(19,329,192)	(700,811)	2,496,526	(17,533,477)
Other property and equipment, net	3,635,734	(554,797)	(11,055)	3,069,882
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, 2020 and 2019

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 endowment fund assets at June 30, 2020 and 2019 are included in the following categories on the statements of financial position:

	June 30, 2020		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ -	\$ 655,682	\$ 655,682
Board designated	14,377	-	14,377
	<u>\$ 14,377</u>	<u>\$ 655,682</u>	<u>\$ 670,059</u>
	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>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note G - Endowments (Continued)

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	June 30, 2020		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of the year	\$ 13,538	\$ 617,018	\$ 630,556
Investment return			
Investment income	114	5,202	5,316
Net appreciation	725	30,462	31,187
Total investment return	839	35,664	36,503
Contributions	-	3,000	3,000
Appropriation for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ 14,377</u>	<u>\$ 655,682</u>	<u>\$ 670,059</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, 2020 and 2019

Note G - 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. At June 30, 2020 and 2019, none of the endowments are underwater.

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.

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, 2020 and 2019.

Note I - Financing Arrangements

KSC has a line of credit agreement with PNC Bank for \$750,000 with an interest rate of prime (3.25% at June 30, 2020), which expires in May 2021. The line is secured by all business assets. There is no balance outstanding on this line of credit at June 30, 2020 or 2019.

In 2020, KSC applied for and received an Economic Injury Disaster Loan with U.S. Small Business Administration in the amount of \$150,000. This loan bears interest at 2.75% and is collateralized by substantially all of KSC's assets. The note requires monthly payment of \$641, to be applied first to outstanding interest and then to principal beginning twelve months from the date of the note. The note matures in May 2050. The outstanding balance on the note is \$150,000 at June 30, 2020.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note I - Financing Arrangements (Continued)

Future maturities of the note payable as of June 30, 2020 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ -
2022	275
2023	3,620
2024	3,721
2025	3,824
Thereafter	<u>138,560</u>
	<u><u>\$ 150,000</u></u>

Note J - Refundable Advance

In April 2020, KSC applied for and received approval for a Paycheck Protection Program loan under the ("CARES Act") in the amount of \$570,500. This loan bears interest at approximately 1%, is due in 2 years and is unsecured. Under the CARES Act, subject to limitations, as defined, this loan may be partially or fully forgiven depending on specific actual payroll and other qualified costs for the covered period following receipt of loan proceeds. KSC is accounting for the loan proceeds as a conditional contribution in accordance with ASC 958-605. As such, KSC maintains the conditions will be substantially met when forgiveness is received from the Small Business Administration.

Note K - Net Assets

Board designated net assets consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specific purpose		
Science in Play	\$ 50,000	\$ 50,000
Professional development	49,073	59,072
Exhibit maintenance and replacement endowment	14,377	13,538
Theater upgrades	<u>-</u>	<u>4,767</u>
Total board designated net assets	<u><u>\$ 113,450</u></u>	<u><u>\$ 127,377</u></u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note K - Net Assets (Continued)

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specific purpose		
Third floor gallery	\$ 399,711	\$ 20,000
Science in Play 2 Go	148,034	386,910
My Big Little Adventure	128,664	127,879
Other exhibit production	114,509	128,103
Other educational programs	<u>76,689</u>	<u>97,410</u>
	867,607	760,302
Subject to organization spending policy and appropriation investment in perpetuity, the income which is available to support		
Exhibit maintenance and replacement	596,092	558,980
Operations	<u>59,590</u>	<u>58,038</u>
	<u>655,682</u>	<u>617,018</u>
Total net assets with donor restrictions	<u><u>\$ 1,523,289</u></u>	<u><u>\$ 1,377,320</u></u>

Note L - 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.

In 2020, KSC received a \$250,000 pledge from Metro Government for the third floor gallery. The outstanding balance of the pledge at June 30, 2020 is \$250,000. Subsequent to year end, KSC received payment in full for the pledge from Metro Government.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note M - 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 \$56,792 and \$143,272 during the years ended June 30, 2020 and 2019 respectively, were recorded as contributions, and program and supporting services expenses or capitalized.

During the year ended June 30, 2020, approximately 391 volunteers donated approximately 6,221 hours of time to KSC. During the year ended June 30, 2019, approximately 813 volunteers donated approximately 11,692 hours of time to KSC. This time represents non-professional services and is, therefore, not recorded in the accompanying financial statements.

Note N - 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>
2021	\$ 33,600
2022	33,600
2023	35,200
2024	36,000
2025	<u>12,000</u>
	<u>\$ 150,400</u>

Rental income from the building lease was \$37,271 and \$43,984 for the years ended June 30, 2020 and 2019, respectively.

Note O - Fundraising Events

Gross revenues and direct event expenses related to fundraising events during the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Science with a twist		
Revenues	\$ 175,557	\$ 138,331
Expenses	<u>(83,477)</u>	<u>(65,169)</u>
	<u>\$ 92,080</u>	<u>\$ 73,162</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note P - 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 \$37,548 and \$41,066 for the years ended June 30, 2020 and 2019, respectively.

Note Q - 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 was recorded under this lease during the year ended June 30, 2019. During the year ended June 30, 2020, KSC entered into a non-cancelable lease agreement for use of three copiers through June 2024. Rent expense of \$7,799 was recorded under this lease during the year ended June 30, 2020.

Future minimum lease payments under this lease are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 6,936
2022	6,936
2023	6,936
2024	<u>6,936</u>
Total	<u>\$ 27,744</u>

Note R - Commitments

KSC has outstanding commitments under various contracts of approximately \$177,000 and \$15,000 at June 30, 2020 and 2019, respectively.

Note S - Global Novel Coronavirus Disease 2019

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 ("COVID-19") outbreak a pandemic. Further, the United States Centers for Disease Control and prevention confirmed the spread of the disease throughout the United States. As of the date the financial statements were available to be issued, KSC's operations have been adversely impacted by the COVID-19 outbreak. KSC's operations are expected to continue to experience this adverse impact as a result of COVID-19. Based on current circumstances, management believes it has the financial strength and liquidity to sustain operations for at least one year beyond the date the financial statements are available to be issued. However, the ultimate impact is not known at this point as the scale and severity of the outbreak, and resulting economic impact, is still largely unknown.

**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, 2020 and 2019, 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 October 14, 2020.

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.

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**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
October 14, 2020