

The Kentucky Science Center, Inc.
Financial Statements
and
Supplementary Information
Years Ended June 30, 2015 and 2014

The Kentucky Science Center, Inc.

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June 30, 2015 and 2014

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Independent Auditor's Report

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

We have audited the accompanying financial statements of The Kentucky Science Center, Inc. ("KSC"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2015 and 2014, 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 16, 2015, 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 16, 2015

The Kentucky Science Center, Inc.
Statements of Financial Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 231,272	\$ 140,799
Accounts receivable	104,255	116,219
Pledges receivable, net	298,301	297,330
Inventory	28,931	30,604
Prepaid expenses	<u>30,012</u>	<u>23,065</u>
Total Current Assets	692,771	608,017
Pledges Receivable, net of current portion	574,753	140,288
Cash Designated for Capital Projects	32,889	1,226,307
Property and Equipment, net	5,300,118	4,055,790
Other Assets		
Investments	549,613	530,294
Collections		
Total Assets	<u>\$ 7,150,144</u>	<u>\$ 6,560,696</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 340,405	\$ 192,864
Accrued payroll and withholdings	236,231	187,790
Line of credit	-	114,000
Current portion of notes payable	129,983	58,520
Unearned revenue	<u>203,925</u>	<u>229,801</u>
Total Current Liabilities	910,544	782,975
Notes Payable, net of current portion	<u>422,735</u>	<u>166,535</u>
Total Liabilities	1,333,279	949,510
Commitments and Contingencies		
Net Assets		
Unrestricted		
Undesignated	4,781,592	3,317,832
Board designated	<u>66,335</u>	<u>150,286</u>
Total Unrestricted	4,847,927	3,468,118
Temporarily restricted	561,431	1,735,561
Permanently restricted	<u>407,507</u>	<u>407,507</u>
Total Net Assets	<u>5,816,865</u>	<u>5,611,186</u>
Total Liabilities and Net Assets	<u>\$ 7,150,144</u>	<u>\$ 6,560,696</u>

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Earned Revenues								
Admissions	\$ 850,049	\$ -	\$ -	\$ 850,049	\$ 831,449	\$ -	\$ -	\$ 831,449
Gift shop	206,084	-	-	206,084	182,013	-	-	182,013
School groups/programs	829,109	-	-	829,109	742,010	-	-	742,010
Memberships	573,830	-	-	573,830	463,235	-	-	463,235
ThunderBlast	94,365	-	-	94,365	90,936	-	-	90,936
Rentals	147,906	-	-	147,906	105,684	-	-	105,684
Parking	275,623	-	-	275,623	191,354	-	-	191,354
Concessions	25,145	-	-	25,145	24,914	-	-	24,914
Interest and investment income	860	4,475	-	5,335	635	1,583	-	2,218
Other income	6,156	-	-	6,156	7,483	-	-	7,483
Net unrealized and realized gain on investments	-	14,844	-	14,844	-	77,935	-	77,935
Total Earned Revenues	3,009,127	19,319	-	3,028,446	2,639,713	79,518	-	2,719,231
Support								
Corporate and other private	145,874	860,617	-	1,006,491	163,853	566,926	-	730,779
Fundraising event - net	62,023	4,000	-	66,023	67,413	5,000	-	72,413
State and federal grants	8,628	-	-	8,628	36,240	-	-	36,240
City government	812,500	125,000	-	937,500	812,500	125,000	-	937,500
Total Support	1,029,025	989,617	-	2,018,642	1,080,006	696,926	-	1,776,932
Net Assets Released from Restrictions								
Satisfaction of Program Restrictions	147,052	(147,052)	-	-	177,134	(177,134)	-	-
Satisfaction of Property Restrictions	2,036,014	(2,036,014)	-	-	70,204	(70,204)	-	-
Total Earned Revenues, Support and Releases from Restrictions	6,221,218	(1,174,130)	-	5,047,088	3,967,057	529,106	-	4,496,163

The Kentucky Science Center, Inc.
Statements of Activities and Changes in Net Assets (Continued)
Years Ended June 30, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses and Losses								
Program Services								
Theater	183,688	-	-	183,688	173,325	-	-	173,325
Educational programs	931,299	-	-	931,299	924,478	-	-	924,478
Exhibits	-	-	-	-	10,957	-	-	10,957
Visitor services	358,764	-	-	358,764	363,591	-	-	363,591
Marketing	559,146	-	-	559,146	524,138	-	-	524,138
Facilities	795,968	-	-	795,968	773,769	-	-	773,769
Membership	58,123	-	-	58,123	45,106	-	-	45,106
ThunderBlast	34,779	-	-	34,779	30,203	-	-	30,203
Gift shop	95,162	-	-	95,162	85,551	-	-	85,551
Rentals	41,657	-	-	41,657	37,260	-	-	37,260
Depreciation - theater, exhibits and science education wing	724,686	-	-	724,686	689,970	-	-	689,970
Total Program Services	3,783,272	-	-	3,783,272	3,658,348	-	-	3,658,348
Supporting Services								
Finance and administration	507,548	-	-	507,548	488,421	-	-	488,421
Development	208,428	-	-	208,428	173,487	-	-	173,487
Facilities	82,168	-	-	82,168	79,043	-	-	79,043
Depreciation	253,451	-	-	253,451	238,738	-	-	238,738
Total Supporting Services	1,051,595	-	-	1,051,595	979,689	-	-	979,689
Total Expenses	4,834,867	-	-	4,834,867	4,638,037	-	-	4,638,037
Loss on Disposal of Property and Equipment	-	-	-	-	480,191	-	-	480,191
Loss on Uncollectible Pledges	6,542	-	-	6,542	-	-	-	-
Total Expenses and Losses	4,841,409	-	-	4,841,409	5,118,228	-	-	5,118,228
Changes in Net Assets	1,379,809	(1,174,130)	-	205,679	(1,151,171)	529,106	-	(622,065)
Net Assets at Beginning of Year	3,468,118	1,735,561	407,507	5,611,186	4,619,289	1,206,455	407,507	6,233,251
Net Assets at End of Year	\$ 4,847,927	\$ 561,431	\$ 407,507	\$ 5,816,865	\$ 3,468,118	\$ 1,735,561	\$ 407,507	\$ 5,611,186

See accompanying notes.

The Kentucky Science Center, Inc.
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 205,679	\$ (622,065)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	978,137	928,708
Loss on uncollectible pledges	6,542	-
Loss on disposal of property and equipment	-	480,191
Net realized and unrealized gain on investments	(14,844)	(77,935)
Contributions restricted for investment in property and equipment	(864,769)	(525,814)
Changes in:		
Accounts receivable	11,964	3,950
Pledges receivable, net	12,546	(20,057)
Inventory	1,673	(6,280)
Prepaid expenses	(6,947)	31,910
Accounts payable and accrued expenses	3,974	35,086
Accrued payroll and withholdings	48,441	(2,380)
Unearned revenue	(25,876)	(5,768)
Net Cash Provided by Operating Activities	<u>356,520</u>	<u>219,546</u>
Cash Flows from Investing Activities		
Decrease (Increase) in cash designated for capital projects	1,193,418	(930,352)
Purchases of property and equipment	(2,078,898)	(559,433)
Purchases of other investments	(121,606)	(370,881)
Sales of other investments	117,131	495,809
Net Cash Used by Investing Activities	<u>(889,955)</u>	<u>(1,364,857)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	386,000	220,000
Proceeds from line of credit	180,000	219,441
Payments on note payable	(58,337)	(39,712)
Payments on line of credit	(294,000)	(180,441)
Proceeds from contributions restricted for investment in property and equipment	410,245	906,726
Net Cash Provided by Financing Activities	<u>623,908</u>	<u>1,126,014</u>
Increase (Decrease) in Cash and Cash Equivalents	90,473	(19,297)
Cash and Cash Equivalents at Beginning of Year	<u>140,799</u>	<u>160,096</u>
Cash and Cash Equivalents at End of Year	<u>\$ 231,272</u>	<u>\$ 140,799</u>
Supplemental Disclosures:		
Cash paid for interest	\$ 11,168	\$ 8,330
Schedule of Non-cash Transactions:		
Fixed assets in accounts payable	143,567	-

See accompanying notes.

The Kentucky Science Center, Inc.
Notes to Financial Statements
June 30, 2015 and 2014

Note A - Nature of Organization and Operations

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

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

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting: The financial statements of KSC are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board is the sole source of authoritative U.S. GAAP for non-governmental entities.
2. Use of Estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
3. Reclassifications: Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation, with no effect on net assets or the changes in net assets.
4. Subsequent Events: Subsequent events for KSC have been considered through the date of the Independent Auditor's Report, which represents the date that the financial statements were available to be issued.
5. Donor-imposed Restrictions: KSC records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions.

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

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

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

6. Cash and Cash Equivalents: KSC considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents except such instruments purchased with long-term investment assets which are reported as investments. KSC typically maintains balances with its banks in excess of federally insured limits.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note B - Summary of Significant Accounting Policies (Continued)

7. Accounts Receivable: Accounts receivable primarily consists of amounts due from schools and other organizations for admissions, memberships, or venue rentals. Credit is based on creditworthiness and amounts are not secured. KSC provides an allowance for doubtful accounts which is based on a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables are written off when, in management's estimation, it is probable that the receivable is worthless. No allowance for uncollectible accounts has been included as of June 30, 2015 and 2014 as management considers all amounts collectible.
8. 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, 2015 and 2014 as management considers all amounts collectible. Conditional promises to give are not included as support until the conditions are substantially met.
9. Inventories: Inventories consist of items for sale through the gift shop. They are stated at the lower of cost (first-in, first-out basis) or market.
10. Cash Designated for Capital Projects: Cash designated for capital projects consists of amounts restricted or designated for expenditures related to future capital projects.
11. Property and Equipment: Property and equipment are recorded at cost at date of acquisition or fair value at date of donation. It is KSC's policy to capitalize purchases of property and equipment over \$5,000. Lesser amounts are expensed. Depreciation expense is provided using the straight-line method over the assets estimated useful lives of 5 to 20 years for leasehold improvements, 3 to 10 years for furniture and equipment, 5 to 10 years for exhibits, and 5 to 40 years for theater assets. Depreciation expense for the years ended June 30, 2015 and 2014 was \$978,137 and \$928,708 respectively.
12. Investments: Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Net unrealized and realized gains or losses are reflected in the statements of activities.
13. Board Designated Unrestricted Net Assets: Board designated unrestricted net assets represent amounts designated for infrastructure improvements as determined by the Board.
14. Revenue Recognition: Admissions and other service revenues are recognized at the time the services are provided and the revenues are earned. All revenues associated with advance ticket sales and other advance revenues received for future fiscal years are reported as deferred revenues until earned. Membership payments received from KSC members are considered equivalent to unrestricted contributions and are recognized as revenue when received.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note B - Summary of Significant Accounting Policies (Continued)

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

KSC recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements. KSC's 2011-2014 tax years remain open and subject to examination.

16. Advertising Costs: Advertising costs are expensed as incurred. Advertising costs amounted to \$353,473 and \$345,396 for the years ended June 30, 2015 and 2014, respectively.

Note C - Deposits and Investments

At June 30, 2015, KSC's carrying amount of deposits is \$259,499 and the bank balances are \$273,269. Of this amount, \$272,999 is covered by federal depository insurance and \$270 is insured with securities held by the pledging financial institution. At June 30, 2014, KSC's carrying amount of deposits is \$1,362,511 and the bank balances are \$1,363,928. Of this amount, \$258,827 is covered by federal depository insurance and \$1,105,101 is uninsured and uncollateralized. 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, 2015, 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, 2015, KSC's carrying amount of investments is:

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
Money market funds	Aaa-mf	\$ 49,583	0.0861
Bond mutual funds	Not rated *	97,440	4.5501
Equity mutual funds			
International large cap growth		21,822	
International large cap value		16,180	
Large cap core		174,430	
Large cap growth		44,187	
Large cap value		40,940	
Mid cap growth		33,005	
Mid cap core		27,164	
Emerging Markets Value		7,436	
Real estate investment trust		7,330	
Small cap growth		15,565	
Small cap value		14,531	
Total Equity Mutual Funds	Not rated	<u>402,590</u>	N/A
		<u>\$ 549,613</u>	
Portfolio weighted average maturity			3.04

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note C - Deposits and Investments (Continued)

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

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

* 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, 2015, 98% of the bonds are investment grade rated. As of June 30, 2014, over 89% of the bonds are investment grade rated. All investments fall within the Board approved investment policy guidelines.

Fair value measurements at June 30, 2015 and 2014 are quoted prices in active markets for identical assets (Level 1). Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of KSC. KSC's investment policy minimizes interest rate risk by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to seek securities on the open market prior to maturity, and investing operating funds primarily in short-term securities or similar investments. KSC minimizes credit risk by limiting investments to the safest types of securities, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which KSC does business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized. KSC places no limit on the amount KSC may invest in any one issuer.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

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, 2015 and 2014 consist of the following unconditional promises to give:

	<u>2015</u>	<u>2014</u>
Gross pledges receivable	\$ 906,301	\$ 450,830
Less discount to present value	<u>(33,247)</u>	<u>(13,212)</u>
	<u>\$ 873,054</u>	<u>\$ 437,618</u>

Amounts due in:

	<u>Amount</u>
Less than one year	\$ 298,301
One to five years	<u>608,000</u>
	<u>\$ 906,301</u>

Pledges receivable in future periods are discounted at rates ranging from 2% to 3%.

At June 30, 2015, KSC has four donors that represent 86% of the gross pledges receivable. At June 30, 2014, KSC had two donors that represent 83% of the gross pledges receivable.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note E - Property and Equipment

Property and equipment activity for the year ended June 30, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Property and Equipment not Being Depreciated:				
Exhibits in progress	\$ 114,724	\$ -	\$ (114,724)	\$ -
Equipment not installed	42,884	-	(42,884)	-
Total Property and Equipment not Being Depreciated:	157,608	-	(157,608)	-
Other Property and Equipment:				
Leasehold improvements	6,100,515	265,435	-	6,365,950
Furniture, fixtures and equipment	1,141,080	80,330	-	1,221,410
Museum exhibits	17,712,866	2,034,308	-	19,747,174
Total Other Property and Equipment at Historical Costs	24,954,461	2,380,073	-	27,334,534
Less Accumulated Depreciation	(21,056,279)	(978,137)	-	(22,034,416)
Other Property and Equipment, net	3,898,182	1,401,936	-	5,300,118
Property and Equipment, net	<u>\$ 4,055,790</u>	<u>\$ 1,401,936</u>	<u>\$ (157,608)</u>	<u>\$ 5,300,118</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note E - Property and Equipment (Continued)

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

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

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

Note F - Endowments

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

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

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note F - Endowments (Continued)

KSC has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. KSC classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified as permanently restricted net assets is classified as temporarily restricted until appropriated for expenditure by KSC.

Changes in donor-restricted endowment net assets for the year ended June 30, 2015 are as follows:

	June 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of the Year	\$ -	\$ 122,787	\$ 407,507	\$ 530,294
Investment Return:				
Investment income	-	4,475	-	4,475
Net appreciation	-	14,844	-	14,844
Total Investment Return	-	19,319	-	19,319
Contributions	-	-	-	-
Appropriation for Expenditure	-	-	-	-
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 142,106</u>	<u>\$ 407,507</u>	<u>\$ 549,613</u>

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

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

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

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. 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, 2015 and 2014.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note H - Financing Arrangements

KSC has a line of credit agreement with PNC Bank for \$250,000 with an interest rate of prime (3.25% at June 30, 2015), which expires in May 2016. The line is secured by all business assets. The outstanding balance on this line of credit was \$-0- and \$114,000 at June 30, 2015 and 2014, respectively.

KSC has a note payable to a bank due in February 2016 that bears interest at a fixed rate of 4.52%. The note is payable in monthly installments of principal and interest of \$1,488. The outstanding balance on the note is \$11,708 and \$28,616 at June 30, 2015 and 2014, respectively. KSC has a second note payable to the same bank due in November 2018 that bears interest at a fixed rate of 3.95%. The note is payable in monthly installments of principal and interest of \$4,052. The outstanding balance on the note is \$155,010 and \$196,439 at June 30, 2015 and 2014, respectively. The notes payable are secured by investments held at the same financial institution. At June 30, 2015, funds in that account total \$549,613, 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. There was \$386,000 outstanding on the note as of June 30, 2015. The remaining \$114,000 was drawn in July 2015. The note requires KSC to make 6 monthly consecutive interest only payments beginning February 2015. Thereafter the note requires quarterly principal payments of \$25,000 plus interest through July 2020. The note matures on July 16, 2020.

Future maturities of the notes payable as of June 30, 2015 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2016	\$ 129,983
2017	145,187
2018	146,838
2019	119,710
2020	<u>11,000</u>
	552,718
Less current portion	<u>129,983</u>
	<u>\$ 422,735</u>

Note I - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Exhibit production	\$ 322,539	\$ 1,545,965
Exhibit maintenance and replacement	112,886	93,959
Educational programs	92,786	61,809
Operations	29,220	28,828
Future year fundraising event	<u>4,000</u>	<u>5,000</u>
	<u>\$ 561,431</u>	<u>\$ 1,735,561</u>

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note J - Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2015 and 2014 are required to be invested in perpetuity, the income from which is expendable for the following purposes:

	<u>2015</u>	<u>2014</u>
Exhibit maintenance and replacement	\$ 385,220	\$ 385,220
Operations	<u>22,287</u>	<u>22,287</u>
	<u>\$ 407,507</u>	<u>\$ 407,507</u>

Note K - Local Government Support

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

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

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

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

During the years ended June 30, 2015 and 2014 KSC recognized \$125,000 of support revenue each year for the early childhood gallery from Metro Government which is included in pledges receivable at June 30, 2015 and June 30, 2014, respectively.

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 \$67,187 and \$44,584 during the years ended June 30, 2015 and 2014 respectively, were recorded as contributions, and program and supporting services expenses or capitalized.

During the year ended June 30, 2015, approximately 702 volunteers donated over 11,388 hours of time to KSC. During the year ended June 30, 2014, approximately 681 volunteers donated over 10,775 hours of time to KSC. This time represents non-professional services and is, therefore, not recorded in the accompanying financial statements.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note M - Rental Income

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 28,800
2017	30,400
2018	31,200
2019	31,200
2020	10,400
	<u>\$ 132,000</u>

Rental income from the building lease was \$37,328 and \$34,540 for the years ended June 30, 2015 and 2014, respectively.

Note N - Fundraising Events

Gross revenues and direct event expenses related to fundraising events during the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Science with a Twist		
Revenues	\$ 135,125	\$ 139,769
Expenses	<u>(69,102)</u>	<u>(67,356)</u>
	<u>\$ 66,023</u>	<u>\$ 72,413</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 \$25,599 and \$24,122 for the years ended June 30, 2015 and 2014, respectively.

The Kentucky Science Center, Inc.
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

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 \$15,873 and \$5,465 was recorded under this lease during the years ended June 30, 2015 and 2014, respectively.

Future minimum lease payments under this lease are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2016	\$ 11,377
2017	11,377
2018	11,377
2019	7,584
	<u>\$ 41,715</u>

Note Q - Commitments

KSC has made various advertising commitments. The total outstanding commitments under these contracts are approximately \$270,000 at June 30, 2015.

Supplementary Information

Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of The Kentucky Science Center, Inc. as of and for the year ended June 30, 2015, and our report thereon dated September 16, 2015, which contained an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses for the years ended June 30, 2015 and 2014 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Louisville, Kentucky
September 16, 2015

Kentucky Science Center, Inc.
Schedule of Functional Expenses
Year Ended June 30, 2015

	Programs	Management General and Administrative	Fundraising	Total Expenses
Expenses				
Salaries and wages	\$ 1,437,673	\$ 291,464	\$ 165,307	\$ 1,894,444
Employee benefits and taxes	242,713	44,969	19,943	307,625
Professional service and other fees	357,248	40,727	-	397,975
Gift shop	95,162	-	-	95,162
Advertising	381,342	-	-	381,342
Office and technology expenses	99,254	64,356	19,487	183,097
Utilities	120,509	82,168	-	202,677
Travel	13,399	-	524	13,923
Conferences and meetings	-	13,850	-	13,850
Interest expense	7,451	2,843	-	10,294
Depreciation	724,686	253,451	-	978,137
Repairs and maintenance	108,913	-	-	108,913
Educational supplies	75,467	-	-	75,467
Theater film fees	90,343	-	-	90,343
Insurance	2,411	27,372	-	29,783
Miscellaneous	26,701	21,967	3,167	51,835
	<u>\$ 3,783,272</u>	<u>\$ 843,167</u>	<u>\$ 208,428</u>	<u>\$ 4,834,867</u>
Total Expenses				

See independent auditor's report on supplementary information.

Kentucky Science Center, Inc.
Schedule of Functional Expenses
Year Ended June 30, 2014

	Programs	Management General and Administrative	Fundraising	Total Expenses
Expenses				
Salaries and wages	\$ 1,397,986	\$ 262,944	\$ 124,608	\$ 1,785,538
Employee benefits and taxes	260,540	41,267	17,698	319,505
Professional service and other fees	314,279	38,166	-	352,445
Gift shop	85,551	-	-	85,551
Advertising	346,881	-	-	346,881
Office and technology expenses	104,154	80,275	6,000	190,429
Utilities	133,598	79,043	-	212,641
Travel	10,259	579	385	11,223
Conferences and meetings	-	13,748	-	13,748
Interest expense	5,304	1,310	-	6,614
Depreciation	689,970	238,738	-	928,708
Repairs and maintenance	97,837	-	-	97,837
Educational supplies	91,316	-	-	91,316
Theater film fees	90,857	-	-	90,857
Insurance	5,934	29,091	-	35,025
Miscellaneous	23,882	21,041	24,796	69,719
	<u>\$ 3,658,348</u>	<u>\$ 806,202</u>	<u>\$ 173,487</u>	<u>\$ 4,638,037</u>
Total Expenses				

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, 2015 and 2014, 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 16, 2015.

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 16, 2015