

**The Kentucky Science Center, Inc.**

**Financial Statements  
and  
Supplementary Information**

**Years Ended June 30, 2016 and 2015**

**The Kentucky Science Center, Inc.**

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June 30, 2016 and 2015

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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, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

**Kentucky**  
**Indiana**  
**Ohio**

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Kentucky Science Center, Inc. as of June 30, 2016 and 2015, 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 19, 2016, 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 19, 2016

**The Kentucky Science Center, Inc.**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 266,262	\$ 231,272
Accounts receivable	89,830	104,255
Pledges receivable	413,653	298,301
Inventory	27,317	28,931
Prepaid expenses	<u>101,019</u>	<u>30,012</u>
Total Current Assets	898,081	692,771
Pledges Receivable, net of current portion	370,076	574,753
Cash Designated for Capital Projects	290,412	32,889
Property and Equipment, net	4,765,356	5,300,118
Other Assets		
Investments	566,566	549,613
Collections		
Total Assets	<u><u>\$ 6,890,491</u></u>	<u><u>\$ 7,150,144</u></u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 252,133	\$ 340,405
Accrued payroll and withholdings	163,627	236,231
Current portion of notes payable	145,027	129,983
Unearned revenue	<u>221,590</u>	<u>203,925</u>
Total Current Liabilities	782,377	910,544
Notes Payable, net of current portion	<u>391,794</u>	<u>422,735</u>
Total Liabilities	1,174,171	1,333,279
Commitments and Contingencies		
Net Assets		
Unrestricted		
Invested in Property and Equipment	4,228,535	4,747,400
Undesignated	262,250	34,192
Board designated	<u>63,199</u>	<u>66,335</u>
Total Unrestricted	4,553,984	4,847,927
Temporarily restricted	744,751	561,431
Permanently restricted	<u>417,585</u>	<u>407,507</u>
Total Net Assets	<u>5,716,320</u>	<u>5,816,865</u>
Total Liabilities and Net Assets	<u><u>\$ 6,890,491</u></u>	<u><u>\$ 7,150,144</u></u>

See accompanying notes.

**The Kentucky Science Center, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2016 and 2015**

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Earned Revenues</b>								
Admissions	\$ 940,264	\$ -	\$ -	\$ 940,264	\$ 850,049	\$ -	\$ -	\$ 850,049
Gift shop	208,645	-	-	208,645	206,084	-	-	206,084
School groups/programs	972,722	-	-	972,722	829,109	-	-	829,109
Memberships	584,874	-	-	584,874	573,830	-	-	573,830
ThunderBlast	83,522	-	-	83,522	94,365	-	-	94,365
Rentals	153,945	-	-	153,945	147,906	-	-	147,906
Parking	404,112	-	-	404,112	275,623	-	-	275,623
Concessions	23,001	-	-	23,001	25,145	-	-	25,145
Interest and investment income	351	4,587	-	4,938	860	4,475	-	5,335
Other income	9,226	-	-	9,226	6,156	-	-	6,156
Net unrealized and realized (loss) gain on investments	37	(7,777)	-	(7,740)	-	14,844	-	14,844
<b>Total Earned Revenues</b>	<b>3,380,699</b>	<b>(3,190)</b>	<b>-</b>	<b>3,377,509</b>	<b>3,009,127</b>	<b>19,319</b>	<b>-</b>	<b>3,028,446</b>
<b>Support</b>								
Corporate and other private	127,832	663,552	10,078	801,462	145,874	860,617	-	1,006,491
Fundraising event - net	93,292	-	-	93,292	62,023	4,000	-	66,023
State and federal grants	-	-	-	-	8,628	-	-	8,628
City government	812,500	-	-	812,500	812,500	125,000	-	937,500
<b>Total Support</b>	<b>1,033,624</b>	<b>663,552</b>	<b>10,078</b>	<b>1,707,254</b>	<b>1,029,025</b>	<b>989,617</b>	<b>-</b>	<b>2,018,642</b>
<b>Net Assets Released from Restrictions</b>								
Satisfaction of Program Restrictions	141,001	(141,001)	-	-	147,052	(147,052)	-	-
Satisfaction of Property Restrictions	336,041	(336,041)	-	-	2,036,014	(2,036,014)	-	-
<b>Total Earned Revenues, Support and Releases from Restrictions</b>	<b>4,891,365</b>	<b>183,320</b>	<b>10,078</b>	<b>5,084,763</b>	<b>6,221,218</b>	<b>(1,174,130)</b>	<b>-</b>	<b>5,047,088</b>

**The Kentucky Science Center, Inc.**  
**Statements of Activities and Changes in Net Assets (Continued)**  
**Years Ended June 30, 2016 and 2015**

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses and Losses								
Program Services								
Theater	193,993	-	-	193,993	183,688	-	-	183,688
Educational programs	1,108,145	-	-	1,108,145	931,299	-	-	931,299
Visitor services	398,679	-	-	398,679	358,764	-	-	358,764
Marketing	514,812	-	-	514,812	559,146	-	-	559,146
Facilities	887,584	-	-	887,584	795,968	-	-	795,968
Membership	89,093	-	-	89,093	58,123	-	-	58,123
ThunderBlast	33,162	-	-	33,162	34,779	-	-	34,779
Gift shop	100,854	-	-	100,854	95,162	-	-	95,162
Rentals	78,687	-	-	78,687	41,657	-	-	41,657
Depreciation - theater, exhibits and science education wing	766,241	-	-	766,241	724,686	-	-	724,686
Total Program Services	4,171,250	-	-	4,171,250	3,783,272	-	-	3,783,272
Supporting Services								
Finance and administration	574,533	-	-	574,533	507,548	-	-	507,548
Development	211,523	-	-	211,523	208,428	-	-	208,428
Facilities	88,161	-	-	88,161	82,168	-	-	82,168
Depreciation	138,207	-	-	138,207	253,451	-	-	253,451
Total Supporting Services	1,012,424	-	-	1,012,424	1,051,595	-	-	1,051,595
Total Expenses	5,183,674	-	-	5,183,674	4,834,867	-	-	4,834,867
Loss on Uncollectible Pledges	1,634	-	-	1,634	6,542	-	-	6,542
Total Expenses and Losses	5,185,308	-	-	5,185,308	4,841,409	-	-	4,841,409
Changes in Net Assets	(293,943)	183,320	10,078	(100,545)	1,379,809	(1,174,130)	-	205,679
Net Assets at Beginning of Year	4,847,927	561,431	407,507	5,816,865	3,468,118	1,735,561	407,507	5,611,186
Net Assets at End of Year	\$ 4,553,984	\$ 744,751	\$ 417,585	\$ 5,716,320	\$ 4,847,927	\$ 561,431	\$ 407,507	\$ 5,816,865

See accompanying notes.

**The Kentucky Science Center, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (100,545)	\$ 205,679
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	904,448	978,137
Loss on uncollectible pledges	1,634	6,542
Gain on disposal of property and equipment	(635)	-
Net realized and unrealized loss (gain) on investments	7,740	(14,844)
Contributions restricted for investment in property and equipment	(444,893)	(864,769)
Changes in:		
Accounts receivable	14,425	11,964
Pledges receivable, net	(41,861)	12,546
Inventory	1,614	1,673
Prepaid expenses	(71,007)	(6,947)
Accounts payable and accrued expenses	(61,950)	3,974
Accrued payroll and withholdings	(72,604)	48,441
Unearned revenue	17,665	(25,876)
Net Cash Provided by Operating Activities	<u>154,031</u>	<u>356,520</u>
Cash Flows from Investing Activities		
(Increase) Decrease in cash designated for capital projects	(257,523)	1,193,418
Purchases of property and equipment	(396,008)	(2,078,898)
Proceeds from disposal of property and equipment	635	-
Purchases of other investments	(252,783)	(121,606)
Sales of other investments	<u>228,090</u>	<u>117,131</u>
Net Cash Used by Investing Activities	(677,589)	(889,955)
Cash Flows from Financing Activities		
Proceeds from note payable	114,000	386,000
Proceeds from line of credit	-	180,000
Payments on note payable	(129,897)	(58,337)
Payments on line of credit	-	(294,000)
Proceeds from contributions restricted for investment in property and equipment	<u>574,445</u>	<u>410,245</u>
Net Cash Provided by Financing Activities	<u>558,548</u>	<u>623,908</u>
Increase in Cash and Cash Equivalents	34,990	90,473
Cash and Cash Equivalents at Beginning of Year	<u>231,272</u>	<u>140,799</u>
Cash and Cash Equivalents at End of Year	<u>\$ 266,262</u>	<u>\$ 231,272</u>
Supplemental Disclosures:		
Cash paid for interest	\$ 24,088	\$ 11,168
Fixed assets in accounts payable	117,245	143,567

See accompanying notes.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

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

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

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

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

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

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

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

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

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**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, 2016 and 2015 as management considers all amounts collectible.
7. Pledges Receivable: KSC receives contributions primarily from individuals, grantors, or corporations in the community. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. No allowance for uncollectible pledges has been included as of June 30, 2016 and 2015 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 market.
9. Cash Designated for Capital Projects: Cash designated for capital projects consists of amounts restricted or designated for expenditures related to future capital projects.
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, 5 to 10 years for exhibits, and 5 to 40 years for theater assets. Depreciation expense for the years ended June 30, 2016 and 2015 was \$904,448 and \$978,137 respectively.
11. Investments: Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Net unrealized and realized gains or losses are reflected in the statements of activities.
12. Board Designated Unrestricted Net Assets: Board designated unrestricted net assets represent amounts designated for infrastructure improvements as determined by the Board.
13. Revenue Recognition: Admissions and other service revenues are recognized at the time the services are provided and the revenues are earned. All revenues associated with advance ticket sales and other advance revenues received for future fiscal years are reported as deferred revenues until earned. Membership payments received from KSC members are considered equivalent to unrestricted contributions and are recognized as revenue when received.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

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

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

KSC recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

15. Advertising Costs: Advertising costs are expensed as incurred. Advertising costs amounted to \$384,938 and \$381,342 for the years ended June 30, 2016 and 2015, respectively.
16. Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In 2015, the FASB issued ASU 2015-14 which delayed the adoption by one year for all companies. The amendments in this update are effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. KSC has the option of using either a full retrospective or modified approach to adopt this guidance. KSC is assessing the method of adoption and the impact this new accounting guidance will have on its financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, to improve financial reporting with respect to leasing transactions. ASU No. 2016-02 will require lessees to recognize a lease liability and a right-of-use asset with respect to all leases with terms of greater than twelve months. The lease liability recognized in the statement of financial position will represent the lessee's obligation to make lease payments measured on a discounted basis, while the right-of-use asset will represent the lessee's right to use, or control use of, the underlying asset for the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The provisions of ASU No. 2016-02 are effective for annual reporting periods beginning after December 19, 2019. Early adoption is permitted. KSC is currently evaluating ASU No. 2016-02, including the related impact thereof.

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958)*, which amends the guidance related to financial statement presentation for not-for-profit entities. The requirements of ASU No. 2016-14, provide changes in the net asset classification requirements and improvements in the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The provisions of ASU No. 2016-14 are effective for the annual reporting periods beginning after December 15, 2017. KSC is currently evaluating ASU No. 2016-14, including the related impact thereof.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**Note C - Deposits and Investments**

At June 30, 2016, KSC's carrying amount of deposits is \$552,370 and the bank balances are \$649,992. Of this amount, \$356,316 is covered by federal depository insurance and \$293,676 is insured with securities held by the pledging financial institution. 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.

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, 2016, 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, 2016, KSC's carrying amount of investments is:

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
Money market funds	Aaa-mf	\$ 48,843	0.1189
Bond mutual funds	Not rated *	119,693	4.7858
Equity mutual funds			
International large cap growth		16,213	
International large cap value		12,827	
Large cap core		124,077	
Large cap growth		74,210	
Large cap value		74,148	
Mid cap growth		23,367	
Mid cap core		28,893	
Emerging markets value		6,933	
Real estate investment trust		8,605	
Small cap growth		15,220	
Small cap value		13,537	
Total Equity Mutual Funds	Not rated	<u>398,030</u>	N/A
		<u>\$ 566,566</u>	
Portfolio weighted average maturity			3.43

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

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

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 value		27,164	
Emerging markets value		7,436	
Real estate investment trust		7,330	
Small cap growth		15,565	
Small cap value		<u>14,531</u>	
Total Equity Mutual Funds	Not rated	<u>402,590</u>	N/A
		<u>\$ 549,613</u>	
Portfolio weighted average maturity			3.04

\* 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, 2016, over 99% of the bonds are investment grade rated. As of June 30, 2015, over 98% of the bonds are investment grade rated. All investments fall within the Board approved investment policy guidelines.

Fair value measurements at June 30, 2016 and 2015 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, 2016 and 2015**

**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, 2016 and 2015 consist of the following unconditional promises to give:

	<u>2016</u>	<u>2015</u>
Gross pledges receivable	\$ 802,153	\$ 906,301
Less discount to present value	<u>(18,424)</u>	<u>(33,247)</u>
	<u>\$ 783,729</u>	<u>\$ 873,054</u>

Amounts due in:

	<u>Amount</u>
Less than one year	\$ 413,653
One to five years	<u>388,500</u>
	<u>\$ 802,153</u>

Pledges receivable in future periods are discounted at rates ranging from 1% to 3%.

At June 30, 2016, KSC has two donors that represent 69% of the gross pledges receivable. At June 30, 2015, KSC has four donors that represent 86% of the gross pledges receivable.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**Note E - Property and Equipment**

Property and equipment activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Property and Equipment not Being Depreciated:				
Exhibits in progress	\$ -	\$ 24,500	\$ -	\$ 24,500
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Property and Equipment not Being Depreciated:	-	24,500	-	24,500
Other Property and Equipment:				
Leasehold improvements	6,365,950	13,201	-	6,379,151
Furniture, fixtures and equipment	1,221,410	43,418	(544,703)	720,125
Museum exhibits	19,747,174	288,567	-	20,035,741
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Other Property and Equipment at Historical Costs	27,334,534	345,186	(544,703)	27,135,017
Less Accumulated Depreciation	<u>(22,034,416)</u>	<u>(904,448)</u>	<u>544,703</u>	<u>(22,394,161)</u>
Other Property and Equipment, net	<u>5,300,118</u>	<u>(559,262)</u>	<u>-</u>	<u>4,740,856</u>
Property and Equipment, net	<u>\$ 5,300,118</u>	<u>\$ (534,762)</u>	<u>\$ -</u>	<u>\$ 4,765,356</u>

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

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

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>

**Note F - Endowments**

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

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

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**Note F - Endowments (Continued)**

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

The endowment fund assets at June 30, 2016 and 2015 are included in the following categories on the statements of financial position:

		June 30, 2016			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted		\$ -	\$ 138,916	\$ 417,585	\$ 556,501
Board Designated		10,065	-	-	10,065
		<u>\$ 10,065</u>	<u>\$ 138,916</u>	<u>\$ 417,585</u>	<u>\$ 566,566</u>
		June 30, 2015			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted		\$ -	\$ 142,106	\$ 407,507	\$ 549,613
Board Designated		-	-	-	-
		<u>\$ -</u>	<u>\$ 142,106</u>	<u>\$ 407,507</u>	<u>\$ 549,613</u>

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**Note F - Endowments (Continued)**

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of the Year	\$ -	\$ 142,106	\$ 407,507	\$ 549,613
Investment Return:				
Investment income	28	4,587	-	4,615
Net appreciation (depreciation)	37	(7,777)	-	(7,740)
Total Investment Return	65	(3,190)	-	(3,125)
Contributions	10,000	-	10,078	20,078
Appropriation for Expenditure	-	-	-	-
Endowment Net Assets, End of Year	<u>\$ 10,065</u>	<u>\$ 138,916</u>	<u>\$ 417,585</u>	<u>\$ 566,566</u>

Changes in 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>

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**Note F - Endowments (Continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires KSC to retain as a fund of perpetual duration.

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

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

**Note G - Collections**

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

Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The value of the collection is indeterminable as of June 30, 2016 and 2015.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**Note H - Financing Arrangements**

KSC has a line of credit agreement with PNC Bank for \$250,000 with an interest rate of prime (3.50% at June 30, 2016), which expires in May 2017. The line is secured by all business assets. There is no balance outstanding on this line of credit at June 30, 2016 or 2015.

KSC had a note payable to PNC Bank which matured in 2016 that bore interest at a fixed rate of 4.52%. The note was payable in monthly installments of principal and interest of \$1,488. The outstanding balance on the note was \$11,708 at June 30, 2015. 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 \$111,821 and \$155,010 at June 30, 2016 and 2015, respectively. The outstanding note payable is secured by investments held at the same financial institution. At June 30, 2016, funds in that account total \$566,566, 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. The outstanding balance on the note is \$425,000 and \$386,000 at June 30, 2016 and 2015, respectively.

Future maturities of the notes payable as of June 30, 2016 are as follows:

Year Ending June 30,	Amount
2017	\$ 145,027
2018	146,902
2019	119,892
2020	100,000
2021	25,000
	<u>536,821</u>
Less current portion	<u>145,027</u>
	<u>\$ 391,794</u>

**Note I - Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Exhibit production	\$ 431,391	\$ 322,539
Exhibit maintenance and replacement	109,263	112,886
Operations	102,418	29,220
Educational programs	101,679	92,786
Future year fundraising event	-	4,000
	<u>\$ 744,751</u>	<u>\$ 561,431</u>

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**Note J - Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2016 and 2015 are required to be invested in perpetuity, the income from which is expendable for the following purposes:

	<u>2016</u>	<u>2015</u>
Exhibit maintenance and replacement	\$ 395,298	\$ 385,220
Operations	<u>22,287</u>	<u>22,287</u>
	<u>\$ 417,585</u>	<u>\$ 407,507</u>

**Note K - Local Government Support**

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

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

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

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

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

**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 \$133,348 and \$67,187 during the years ended June 30, 2016 and 2015 respectively, were recorded as contributions, and program and supporting services expenses or capitalized.

During the year ended June 30, 2016, approximately 986 volunteers donated over 14,890 hours of time to KSC. During the year ended June 30, 2015, approximately 702 volunteers donated over 11,388 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, 2016 and 2015**

**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>
2017	\$ 30,400
2018	31,200
2019	31,200
2020	10,400
	<u>\$ 103,200</u>

Rental income from the building lease was \$37,980 and \$37,328 for the years ended June 30, 2016 and 2015, respectively.

**Note N - Fundraising Events**

Gross revenues and direct event expenses related to fundraising events during the years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Science with a Twist		
Revenues	\$ 151,969	\$ 135,125
Expenses	<u>(58,677)</u>	<u>(69,102)</u>
	<u>\$ 93,292</u>	<u>\$ 66,023</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 \$30,506 and \$25,599 for the years ended June 30, 2016 and 2015, respectively.

**The Kentucky Science Center, Inc.**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016 and 2015**

**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 \$15,202 and \$15,873 was recorded under this lease during the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments under this lease are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2017	\$ 11,377
2018	11,377
2019	<u>7,584</u>
	<u>\$ 30,338</u>

**Note Q - Commitments**

KSC has made various advertising commitments. The total outstanding commitments under these contracts are approximately \$70,000 at June 30, 2016.

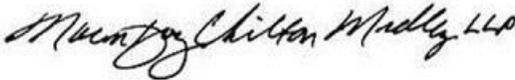
## **Supplementary Information**

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

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

We have audited the financial statements of The Kentucky Science Center, Inc. as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon dated September 19, 2016, which contains an unmodified opinion on those financial statements and appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The schedules of functional expenses for the years ended June 30, 2016 and 2015 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 19, 2016

**Kentucky Science Center, Inc.**  
**Schedule of Functional Expenses**  
**Year Ended June 30, 2016**

	Management General and			Total
	Administrative	Fundraising	Programs	Expenses
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Expenses				
Salaries and wages	\$ 340,128	\$ 170,878	\$ 1,602,095	\$ 2,113,101
Employee benefits and taxes	57,521	29,551	278,253	365,325
Professional service and other fees	45,659	-	356,076	401,735
Gift shop	-	-	100,794	100,794
Advertising	-	-	384,938	384,938
Office and technology expenses	71,756	9,230	78,066	159,052
Utilities	88,161	-	113,206	201,367
Travel	-	121	17,796	17,917
Conferences and meetings	15,456	-	-	15,456
Interest expense	-	-	23,902	23,902
Depreciation	138,207	-	766,241	904,448
Repairs and maintenance	-	-	190,251	190,251
Educational supplies	-	-	106,936	106,936
Theater film fees	-	-	110,673	110,673
Insurance	26,133	-	6,365	32,498
Miscellaneous	17,880	1,743	35,658	55,281
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Expenses	<u>\$ 800,901</u>	<u>\$ 211,523</u>	<u>\$ 4,171,250</u>	<u>\$ 5,183,674</u>

See independent auditor's report on supplementary information.

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

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

See independent auditor's report on supplementary information.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Kentucky Science Center, Inc. ("KSC"), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 19, 2016.

**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 19, 2016