

**THE DA VINCI DISCOVERY CENTER OF
SCIENCE AND TECHNOLOGY, INC**

FINANCIAL REPORT

June 30, 2018

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& COMPANY

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A Professional Corporation

Certified Public Accountants | Business Consultants

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

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Certified Public Accountants | Business Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of The Da Vinci Discovery Center of Science and Technology, Inc.

We have audited the accompanying consolidated financial statements of The Da Vinci Discovery Center of Science and Technology, Inc. (a nonprofit organization) and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Da Vinci Discovery Center of Science and Technology, Inc. and subsidiaries as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Buckno Lisicky + Company

Allentown, Pennsylvania
November 16, 2018

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.**Consolidated Statements of Financial Position**

June 30, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 530,954	\$ 683,772
Certificates of deposit	-	100,155
Accounts receivable	57,442	56,016
Grants receivable	228,246	356,086
Unconditional promises to give	273,334	386,898
Inventory	13,240	16,525
Prepaid expenses	60,249	72,865
TOTAL CURRENT ASSETS	1,163,465	1,672,317
NONCURRENT ASSETS		
Unconditional promises to give	374,017	16,100
Property and equipment, net	6,140,630	6,236,366
TOTAL NONCURRENT ASSETS	6,514,647	6,252,466
TOTAL ASSETS	\$ 7,678,112	\$ 7,924,783
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 65,194	\$ 58,833
Accounts payable and other liabilities	65,794	56,441
Accrued expenses	94,421	97,117
Deferred revenue	297,984	268,715
TOTAL CURRENT LIABILITIES	523,393	481,106
NONCURRENT LIABILITIES		
Long-term debt, less current maturities and unamortized debt issuance costs	539,525	738,461
TOTAL LIABILITIES	1,062,918	1,219,567
NET ASSETS		
Unrestricted		
Available for operations	(343,250)	(525,372)
Board designated	50,000	50,000
Investment in property and equipment	6,140,630	6,236,366
	5,847,380	5,760,994
Temporarily restricted	767,814	944,222
TOTAL NET ASSETS	6,615,194	6,705,216
TOTAL LIABILITIES AND NET ASSETS	\$ 7,678,112	\$ 7,924,783

See Notes to Financial Statements.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Consolidated Statement of Activities

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUES AND SUPPORT			
REVENUES			
Admissions, workshops, and programs	\$ 999,688	\$ -	\$ 999,688
Membership	249,426	-	249,426
Gift shop	165,806	-	165,806
Guest experience	52,750	-	52,750
Special event revenue of \$205,720, net of direct expenses of \$164,618	41,102	-	41,102
Other	12,886	-	12,886
Investment return	266	-	266
TOTAL REVENUES	<u>1,521,924</u>	<u>-</u>	<u>1,521,924</u>
SUPPORT			
Contributions	412,474	823,393	1,235,867
Grants, government	154,745	277,086	431,831
Grants, private	145,500	117,000	262,500
Donated materials and services	101,261	-	101,261
TOTAL SUPPORT	<u>813,980</u>	<u>1,217,479</u>	<u>2,031,459</u>
Net assets released from restrictions	1,393,887	(1,393,887)	-
TOTAL REVENUE AND SUPPORT	<u>3,729,791</u>	<u>(176,408)</u>	<u>3,553,383</u>
EXPENSES			
Program services	2,119,297	-	2,119,297
Supporting services:			
Management and general	461,226	-	461,226
Expansion activities	872,025	-	872,025
Fund raising	190,857	-	190,857
TOTAL EXPENSES	<u>3,643,405</u>	<u>-</u>	<u>3,643,405</u>
CHANGE IN NET ASSETS	86,386	(176,408)	(90,022)
NET ASSETS, beginning	<u>5,760,994</u>	<u>944,222</u>	<u>6,705,216</u>
NET ASSETS, ending	<u>\$ 5,847,380</u>	<u>\$ 767,814</u>	<u>\$ 6,615,194</u>

See Notes to Financial Statements.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Consolidated Statement of Activities

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUES AND SUPPORT			
REVENUES			
Admissions, workshops, and programs	\$ 942,546	\$ -	\$ 942,546
Membership	252,358	-	252,358
Gift shop	168,599	-	168,599
Guest experience	52,941	-	52,941
Special event revenue of \$236,796, net of direct expenses of \$197,268	39,028	-	39,028
Other	10,142	-	10,142
Investment return	860	-	860
TOTAL REVENUES	<u>1,466,474</u>	<u>-</u>	<u>1,466,474</u>
SUPPORT			
Contributions	255,115	647,558	902,673
Grants, government	161,029	290,758	451,787
Grants, private	40,500	214,414	254,914
Donated materials and services	109,461	-	109,461
TOTAL SUPPORT	<u>566,105</u>	<u>1,152,730</u>	<u>1,718,835</u>
Net assets released from restrictions	1,016,909	(1,016,909)	-
TOTAL REVENUE AND SUPPORT	<u>3,049,488</u>	<u>135,821</u>	<u>3,185,309</u>
EXPENSES			
Program services	2,020,885	-	2,020,885
Supporting services:			
Management and general	420,909	-	420,909
Expansion activities	326,018	-	326,018
Fund raising	188,791	-	188,791
TOTAL EXPENSES	<u>2,956,603</u>	<u>-</u>	<u>2,956,603</u>
CHANGE IN NET ASSETS	92,885	135,821	228,706
NET ASSETS, beginning	<u>5,668,109</u>	<u>808,401</u>	<u>6,476,510</u>
NET ASSETS, ending	<u>\$ 5,760,994</u>	<u>\$ 944,222</u>	<u>\$ 6,705,216</u>

See Notes to Financial Statements.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services	Supporting Services			Total	Total Less
		Management and General	Fund Raising	Expansion Activities		Expansion Activities
Personnel:						
Salaries	\$ 869,666	\$ 201,181	\$ 138,425	\$ 228,105	\$ 1,437,377	\$ 1,209,272
Payroll taxes	77,890	15,194	9,396	17,212	119,692	102,480
Employee benefits	100,791	19,641	17,475	26,250	164,157	137,907
Total personnel	<u>1,048,347</u>	<u>236,016</u>	<u>165,296</u>	<u>271,567</u>	<u>1,721,226</u>	<u>1,449,659</u>
Advertising	79,960	-	1,075	58	81,093	81,035
Auto expense	13,488	32	-	-	13,520	13,520
Bank charges	61	1,193	-	128	1,382	1,254
Credit card fees	18,430	26,009	297	-	44,736	44,736
Communications	1,320	7,521	-	756	9,597	8,841
Computer costs	-	955	3,722	-	4,677	4,677
Cost of goods sold, gift shop	81,284	-	-	-	81,284	81,284
Depreciation	288,888	52,593	2,000	-	343,481	343,481
Dues and subscriptions	675	1,935	485	-	3,095	3,095
Equipment rental	-	11,321	-	-	11,321	11,321
Exhibit rental	57,851	-	-	-	57,851	57,851
Insurance	18,280	10,226	-	-	28,506	28,506
Interest expense	23,237	5,883	294	-	29,414	29,414
Miscellaneous	3,807	1,210	-	550	5,567	5,017
Occupancy	162,548	41,151	2,058	-	205,757	205,757
Payroll services	-	8,690	-	-	8,690	8,690
Postage	10,043	1,276	1,435	15	12,769	12,754
Printing	23,400	1,071	9,345	2,872	36,688	33,816
Professional services	136,734	32,268	50	586,496	755,548	169,052
Program refreshments	20,221	2,054	2,129	2,112	26,516	24,404
Recruiting	45	3,078	597	-	3,720	3,720
Repairs and maintenance	10,384	-	-	-	10,384	10,384
Staff development & travel	4,338	7,743	1,061	7,055	20,197	13,142
Supplies	115,956	9,001	1,013	416	126,386	125,970
	<u>1,070,950</u>	<u>225,210</u>	<u>25,561</u>	<u>600,458</u>	<u>1,922,179</u>	<u>1,321,721</u>
	\$ 2,119,297	\$ 461,226	\$ 190,857	\$ 872,025	\$ 3,643,405	\$ 2,771,380

See Notes to Financial Statements.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services	Supporting Services			Total	Total Less
		Management and General	Fund Raising	Expansion Activities		Expansion Activities
Personnel:						
Salaries	\$ 802,776	\$ 185,029	\$ 143,233	\$ 167,582	\$ 1,298,620	\$ 1,131,038
Payroll taxes	74,114	16,703	12,007	12,350	115,174	102,824
Employee benefits	99,452	7,630	15,871	15,266	138,219	122,953
Total personnel	<u>976,342</u>	<u>209,362</u>	<u>171,111</u>	<u>195,198</u>	<u>1,552,013</u>	<u>1,356,815</u>
Advertising	82,511	-	100	-	82,611	82,611
Auto expense	7,257	507	-	108	7,872	7,764
Bank charges	3	985	-	41	1,029	988
Credit card fees	19,988	20,896	219	-	41,103	41,103
Communications	2,199	7,356	-	552	10,107	9,555
Computer costs	37	560	3,511	-	4,108	4,108
Cost of goods sold, gift shop	75,676	-	-	-	75,676	75,676
Depreciation	240,124	48,995	2,000	-	291,119	291,119
Dues and subscriptions	351	1,803	885	-	3,039	3,039
Equipment rental	2,000	13,624	-	-	15,624	15,624
Exhibit rental	154,999	-	-	-	154,999	154,999
Insurance	25,494	3,958	-	-	29,452	29,452
Interest expense	28,414	7,193	360	-	35,967	35,967
Miscellaneous	3,398	2,562	-	-	5,960	5,960
Occupancy	157,219	39,802	1,990	-	199,011	199,011
Payroll services	-	6,463	-	-	6,463	6,463
Postage	7,226	1,788	642	237	9,893	9,656
Printing	16,659	1,061	5,953	547	24,220	23,673
Professional services	96,295	26,214	-	123,547	246,056	122,509
Program refreshments	14,933	1,955	1,109	301	18,298	17,997
Recruiting	15	3,758	-	-	3,773	3,773
Repairs and maintenance	7,284	-	-	-	7,284	7,284
Staff development & travel	10,195	14,163	795	5,371	30,524	25,153
Supplies	92,266	7,904	116	116	100,402	100,286
	<u>1,044,543</u>	<u>211,547</u>	<u>17,680</u>	<u>130,820</u>	<u>1,404,590</u>	<u>1,273,770</u>
	<u>\$ 2,020,885</u>	<u>\$ 420,909</u>	<u>\$ 188,791</u>	<u>\$ 326,018</u>	<u>\$ 2,956,603</u>	<u>\$ 2,630,585</u>

See Notes to Financial Statements.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.**Consolidated Statements of Cash Flows**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (90,022)	\$ 228,706
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of investment securities	(45,418)	(60,550)
Depreciation expense	343,481	291,119
Amortization of debt issuance costs	6,463	6,539
Loss on sale of investment securities	59	214
(Increase) decrease in assets:		
Accounts receivable	(1,426)	(27,000)
Grants receivable	127,840	(167,158)
Unconditional promises to give	(244,353)	(221,769)
Inventory	3,285	2,179
Prepaid expenses	12,616	81,002
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	9,353	22,582
Accrued compensation	(2,696)	(3,138)
Deferred revenue	29,269	5,479
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>148,451</u>	<u>158,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(247,745)	(411,201)
Purchase of certificates of deposit	-	(300,982)
Proceeds from sale of investment securities	45,359	60,336
Maturities of certificates of deposits	<u>100,155</u>	<u>951,451</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(102,231)</u>	<u>299,604</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	<u>(199,038)</u>	<u>(204,035)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(199,038)</u>	<u>(204,035)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(152,818)	253,774
CASH AND CASH EQUIVALENTS, beginning	<u>683,772</u>	<u>429,997</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 530,954</u>	<u>\$ 683,771</u>

See Notes to Financial Statements.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Consolidated Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	<u>\$ 23,472</u>	<u>\$ 36,504</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY		
Contribution of materials, marketing, supplies and services	<u>\$ 101,261</u>	<u>\$ 109,461</u>

See Notes to Financial Statements.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of The Da Vinci Discovery Center of Science and Technology, Inc. (the Center) and its wholly-owned subsidiaries, Da Vinci Children's Discovery Center, LLC and Da Vinci Science City, LLC. All significant inter-organization balances and transactions were eliminated in consolidation. To support its expansion efforts, The Da Vinci Discovery Center of Science and Technology, Inc. ("Parent") established the two subsidiaries in December 2017. Each subsidiary is a Pennsylvania non-profit limited liability company. The Parent is the sole member of each. The governance of each subsidiary is set forth in an operating agreement between the Parent and the subsidiary. The operating agreements provide that the day-to-day operation of each subsidiary is under the control of its member (the Parent). At the time of the audit, neither subsidiary had a governing board, committees, or officers.

Description of Entity

Mission: The Da Vinci Discovery Center of Science and Technology, Inc. is a Pennsylvania nonprofit corporation whose mission is to bring science to life and lives to science.

Service Area: The Center is located in Pennsylvania's Lehigh Valley, approximately 65 miles north of Philadelphia, Pa., and 90 miles west of New York, N.Y. Its primary service area is eastern Pennsylvania and western New Jersey—home to 3.8 million people.

Need: According to the 2015 National Assessment of Educational Progress, 24% of 4th graders, 32% of 8th graders, and 40% of high school seniors did not meet the basic standards of science knowledge. Only 2% of 12th graders scored at the "proficient" level and 2% achieved the highest level of "advanced". Male and female students scored at similar levels at grade 4 but females lagged males at grades 8 and 12. In 2017-18, 75.5% of grade 4 students in Pennsylvania and 53.9% of grade 8 students were proficient in science as measured by the Pennsylvania System of School Assessment (PSSA) tests. In the Da Vinci Science Center's service region, results from PSSA test scores were mixed with proficiency scores as low as 18% in urban schools. The region's powerful and innovative industries – including healthcare, energy, and manufacturing – report that there is a growing demand for workers with a high level of knowledge in science, technology, engineering, and math (STEM). With baby boomers skilled in STEM fields soon to retire, the need will be even greater over the next decade.

Response to Need: The Da Vinci Science Center is dedicated to meeting the demand for a STEM workforce by stimulating interest and appreciation for science and technology in young people and the adults who influence them. The Center provides inquiry-based science learning experiences for individuals of all ages, connects people with the wonders of science in all aspects of their lives, and highlights innovative science and technology careers. The Center encourages active learning, curiosity, creativity, and imagination – traits inspired by Leonardo da Vinci and the transformative figures that have succeeded him into the 21st century.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

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Programs and Services: To strengthen interest and achievement in science, the Da Vinci Science Center offers the following:

- a dynamic two-story exhibit floor that facilitates inquiry-based learning through hands-on exhibits and programs;
- inquiry-based science outreach programs delivered in schools and at community sites; with a priority on serving underrepresented youth in urban communities;
- professional development programs that train teachers in inquiry, engineering design, STEM literacy, and the integration of arts and technology; and
- workforce initiatives that connect students with practicing STEM professionals, including the Women in Science and Engineering (WISE) Initiative which connects practicing female STEM professionals with one another and aspiring future scientists to help build and sustain a female STEM workforce

A wide variety of programs are offered at the Center including school workshops; summer camps; scout badge days and overnights; and lectures, demonstrations, and hands-on activities for the general public. Programs offered in the community range from small-scale after school programs to larger-scale community science celebrations. The Center's six-week summer STEM literacy program, offered in conjunction with area school districts, combines science, literacy, and positive youth development to prevent summer learning loss and motivate interest in STEM and STEM careers. Professional development programs include the nationally-recognized Math Science Partnership Program serving the Allentown School District and a federally-funded program in collaboration with the Carbon-Lehigh Intermediate Unit to help Art Teachers integrate design thinking and the use of digital design, coding, and fabrication tools into their curriculum. In late 2017, the Center was awarded a two-year national grant to expand its WISE Initiative to help build a STEM learning and support ecosystem for women and girls in the greater Lehigh Valley and surrounding communities in eastern Pennsylvania. Also, through collaboration with community organizations such as the Allentown Library, The Baum School of Art, the Civic Theatre of Allentown, Communities In Schools, the Girl Scouts of Eastern PA, and the United Way, the Center is able to offer experiences integrating the sciences with the arts, and to expand the programs available for youth from lower socioeconomic backgrounds where the need is the greatest.

Honors and Awards: The Da Vinci Science Center has achieved national and regional recognition, including the following:

- Recognition of the Center's math science partnership as one of the nation's 20 best professional development programs by the U.S. Department of Education.
- Community Services for Children's 2016 Inez and Edward Donley Award for Children's Advocacy in recognition of public service that improves quality of life significantly for children.
- The United Way of the Lehigh Valley's 2014 Innovator's Award for collaborating with schools in the community to inspire students to explore science, technology, engineering, and mathematics (STEM).

Impact: The Center's impact can be measured by the number of individuals served and the impact of science learning experiences on student learning and career plans. In FY2018, over 149,000 people participated in Da Vinci Science Center experiences. Over

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Notes to the Consolidated Financial Statements

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the last three years, regional workforce initiatives developed in partnership with industry leaders have exposed thousands of participants in Center experiences to STEM careers. More important than the numbers served, Center experiences have resulted in substantial and independently measurable increases in student learning and interest in science by students in urban schools.

To help students and the region thrive, students need the opportunity to deeply explore the STEM disciplines. True STEM education transforms the teaching and learning experience, connects learning to relevant regional career opportunities and economic growth clusters, gives students a leg up in college, and—ultimately—builds the next generation of problem solvers, innovators, inventors, collaborators and leaders. Da Vinci Science Center programs are changing the trajectory of students' lives and the development of the region.

Future Plans: The Da Vinci Science Center continued work on expansion plans in order to broaden its impact on the community. In November 2016, The Da Vinci Science Center entered into a Memorandum of Understanding agreement with the City of Easton, PA to explore the feasibility of building a 21st century science center in the city's waterfront area. To date, the Commonwealth of Pennsylvania has committed \$20 million to support the project, and the City of Easton has pledged 25 percent of the project cost up to \$30 million, including the cost to purchase property for the new complex. In January 2018, the City acquired the site, and in October 2018 the Science Center completed a comprehensive master plan for the project. The proposed \$120-\$150 million complex – tentatively called Da Vinci Science City - will be a major driver of economic activity for Easton and the entire Lehigh Valley region. Da Vinci Science City is projected to attract 600,000 or more visitors annually; create 200 permanent full time equivalent jobs, and produce \$40 million in direct economic activity annually. The new 130,000-square-foot venue will complement the Da Vinci Science Center's facility in Allentown, PA. The Allentown site will be re-focused as a Da Vinci Children's Discovery Center, serving children ages eight and under. Over the next five years, the Science Center plans to invest \$5 million in new exhibits and programs at the Allentown site with the intent to create a world class resource in early childhood education.

Financial Statement Presentation

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted Net Assets - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the actions of the Board of Trustees.

Temporarily Restricted Net Assets - subject to donor-imposed stipulations that may be fulfilled by the actions of the Board of Trustees or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets - subject to donor-imposed stipulations that are to be maintained permanently. Generally, donors permit the income earned on the related

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Notes to the Consolidated Financial Statements

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investments to be used for general or specific purposes. As of June 30, 2018 and 2017, the Center has no permanently restricted net assets.

Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis and reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

Cash and cash equivalents includes, when purchased, short-term highly liquid investments, which are readily convertible into cash within 90 days.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on prior collection experience, analysis of customer's ability to pay, economic conditions and other circumstances, which may affect the ability of customers to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. As of June 30, 2018 and 2017, management has determined that no allowance is required.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Promises to Give

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 estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Inventory

Inventory consists of educational products and souvenir items held for resale. These items are stated at the lower of cost or market valued on a first-in, first-out basis.

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Notes to the Consolidated Financial Statements

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Property and Equipment

Property and equipment of \$1,000 or more are recorded at cost, if purchased, or at fair market value at date of donation if received by gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. All expenditures for maintenance and repairs are expensed in the period incurred.

Collections

The Leonardo da Vinci Horse, Inc. collections of the Center are not recognized as assets on the statements of financial position. Contributed collection items are not reflected in the financial statements. Proceeds from the sales of these items are reflected as increases in the appropriate net assets classes. The Center's collections, acquired with the Leonardo da Vinci Horse, Inc. merger in July 2003, are made up of art objects held for educational and curatorial purposes.

Copyrights and Trademarks

The Center owns copyrights and trademarks for Da Vinci horse sculptures. Royalties from related items are reflected as increases in the appropriate net assets classes.

Debt Issuance Costs

Debt issuance costs are reported as a reduction of the carrying amount of long-term debt and are amortized to interest expense over the life of the related debt.

Income taxes

The Internal Revenue Service recognizes the Center as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Center's tax-exempt purpose is subject to taxation as unrelated business income.

The Center continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings in determining any uncertain tax positions.

The Center files a Return of Organization Exempt from Income Tax annually. The Center's returns for 2014, 2015, 2016 and 2017 are subject to examination by the IRS, generally for three years after they were filed.

Advertising

The Center expenses advertising costs as they are incurred. Total advertising costs for the years ended June 30, 2018 and 2017 were \$81,093 and \$82,611.

THE DA VINCI DISCOVERY CENTER OF SCIENCE AND TECHNOLOGY, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimations and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expense Allocations

The costs of providing the various programs, fund raising and other activities have been summarized on a functional basis in statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited.

The Center's percentage of program service expense to total expense was 59% and 68% for the years ended June 30, 2018 and 2017, respectively. The decrease in the percentage between 2018 and 2017 was primarily due to the increase in expansion activities expense as shown in the statement of functional expenses. Excluding expansion activity, the Center spent 76% of expenses on program services in 2018 compared to 77% in 2017.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to correspond to the current year's presentation.

Date of Management's Review

The Center has evaluated subsequent events through November 16, 2018, the date which the financial statements were available to be issued.

NOTE 2. PROMISES TO GIVE

Unconditional Promises to Give

Contributions arising from unconditional promises to give for the years ended June 30, 2018 and 2017 were \$695,584 and \$402,998, respectively.

Unconditional promises to give are expected to be realized as follows:

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	<u>2018</u>	<u>2017</u>
Unconditional promises to give	\$ 695,584	\$ 402,998
Less: Unamortized discount	<u>(48,233)</u>	<u>-</u>
	<u>\$ 647,351</u>	<u>\$ 402,998</u>
Amounts due in:		
Less than one year	\$ 273,334	\$ 386,898
One to five years	297,250	16,100
More than five years	<u>125,000</u>	<u>-</u>
	<u>\$ 695,584</u>	<u>\$ 402,998</u>

Long-term pledges have been discounted at a 4.10% annual rate of discount. Amortization of the discount is reported in the statement of activities as contribution revenue.

Conditional Promises to Give

During the year ended June 30, 2018, the Organization received a conditional promise of \$300,000, with annual payments of \$100,000 due in December, beginning in 2021. The promise is contingent upon the Organization's commitment to continue the development of the Da Vinci Science City Expansion project at the time the payment is due.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Autos, equipment and exhibitry	\$ 1,730,480	1,472,021
Building and building improvements	7,998,431	7,998,431
Construction in progress	6,145	40,916
Gift store	<u>32,499</u>	<u>32,499</u>
	9,767,555	9,543,867
Less accumulated depreciation	<u>3,626,925</u>	<u>3,307,501</u>
	<u>\$ 6,140,630</u>	<u>\$ 6,236,366</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$343,481 and \$291,119, respectively.

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NOTE 4. LINE OF CREDIT

\$200,000 Line of Credit

On February 1, 2018, the Center renewed a \$200,000 line of credit for operations. The line was secured by substantially all of the assets of the Center. Variable interest on the line of credit was payable monthly based on changes in an independent index which is the U.S. Prime Rate as published in the Wall Street Journal. The line of credit expired on February 28, 2018.

\$500,000 Line of Credit

On April 3, 2018, the Center obtained a \$500,000 line of credit for operations. The line is secured by substantially all of the assets of the Center. Variable interest on the line of credit is payable monthly based on changes in an independent index which is the U.S. Prime Rate as published in the Wall Street Journal. The line of credit is subject to several financial covenants. As of June 30, 2018, the Center was in compliance with the financial covenants.

There were no outstanding balances as of June 30, 2018 and 2017.

NOTE 5. LONG-TERM DEBT

Long-term debt as of June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Note payable, bank		
Payable in monthly payments of \$7,003 (\$84,036 annually) including interest at 3.15%. All principal and interest is due on March 1, 2022. The note is secured by substantially all the assets of the Center	\$ 627,905	\$ 826,943
Less unamortized debt issuance costs	<u>23,186</u>	<u>29,649</u>
	604,719	797,294
Less current maturities	<u>65,194</u>	<u>58,833</u>
	<u>\$ 539,525</u>	<u>\$ 738,461</u>

The note payable is subject to several financial covenants. As of June 30, 2018 and 2017, the Center was in compliance with the financial covenants.

Scheduled maturities of long-term debt are as follows:

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Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

Year ending <u>June 30,</u>	
2019	\$ 65,194
2020	67,278
2021	69,428
2022	<u>426,005</u>
	<u>\$ 627,905</u>

The Center made principal payments on the building loan in excess of the amount required by the loan agreement for years ending June 30, 2018 and 2017 in the amount of \$140,204 and \$149,962, respectively.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Expansion project	\$ 379,889	\$ 464,915
Capital/exhibits	36,381	141,681
Science inquiry fund	65,279	61,672
Outreach	104,623	97,125
STEM summer learning	41,700	61,675
Museum education	36,200	1,500
Other	<u>103,742</u>	<u>115,654</u>
	<u>\$ 767,814</u>	<u>\$ 944,222</u>

NOTE 7. OPERATING LEASES

The Center leases various copiers under non-cancellable operating leases. Rent expense under these leases was \$11,321 and \$13,039 for the years ended June 30, 2018 and 2017 respectively.

Future minimum lease payments under the above operating leases as of June 30, 2018 are as follows:

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June 30, 2018 and 2017

Year ending	
June 30,	
2019	\$ 8,980
2020	8,372
2021	8,372
2022	8,662
2023	9,038
	<u>\$ 43,424</u>

NOTE 8. GROUND LEASE

The Center has a ground lease with Cedar Crest College upon which its facility is located. The lease calls for the Center to pay \$1 per year for the use of the land. The initial term of the lease continues through September 2033. The Center has the option to extend the lease an additional twenty years from the initial lease termination date. Upon the termination of the lease, the building is required to be transferred to Cedar Crest College.

Based on an estimate of the fair value of the lease, the Center recorded \$58,000 of contribution income for both the years ended June 30, 2018 and 2017 related to this lease.

NOTE 9. CONCENTRATIONS

Credit Risk

The Center maintains its cash balances in limited financial institutions. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, bank balances are in excess of FDIC limits. The Center has not experienced any losses as a result of these uninsured cash balances. As of June 30, 2018 and 2017 the Center had cash and certificate balances in excess of FDIC insurance limits in the amount of \$348,569 and \$421,409 respectively.

Revenue Sources

During the year ended June 30, 2018, the Organization received approximately 11.0% of its total revenue from contributions from one board member. In addition, the Organization received approximately 13.5% of its total revenue from contributions from its board of directors, including the one board member listed above. It is always considered reasonably possible that benefactors, grantors or contributors might be lost in the near term.

NOTE 10. DONATED MATERIALS AND SERVICES

Contributions of services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically

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need to be purchased if not provided by donation, are recorded at their fair values in the period received. Donated materials and services are recorded as revenue and expense in the accompanying statements of activities at fair market value on the date of receipt. Donated materials and services from special events and promotions are included in special events revenue, and netted against promotions and awards expense. All donated materials and services (from special events as well as those for educational programs and services) totaled \$101,261 and \$109,461 during the years ended June 30, 2018 and 2017, respectively.

NOTE 11. RETIREMENT PLAN

Defined Contribution Plan

The Center has established The Da Vinci Discovery Center of Science and Technology, Inc. 403(b) Plan. Full time employees and employees who work at least 1,000 hours during a 12 month consecutive period are eligible to contribute to the retirement plan. Upon reaching the age of 21 and completion of one full year of service, participating employees become eligible to receive matching contributions as defined by the plan documents.

There was no pension expense for the years ended June 30, 2018 and 2017, as the Center made no matching contributions to the plan.