

**THE LIVING ARTS AND
SCIENCE CENTER, INC.**

LEXINGTON, KENTUCKY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2009 and 2008

THE LIVING ARTS AND SCIENCE CENTER, INC.
LEXINGTON, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Living Arts and Science Center, Inc.
Lexington, Kentucky

We have audited the accompanying statements of financial position of The Living Arts and Science Center, Inc. (the Center) as of June 30, 2009 and 2008, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements as of June 30, 2008, were audited by Potter & Company, LLP, who merged with Blue & Co., LLC as of January 1, 2010, and whose report dated December 19, 2008, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2009 and 2008, the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

January 13, 2010

THE LIVING ARTS AND SCIENCE CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

June 30 2009 and 2008

A S S E T S

| | <u>2009</u> | <u>2008</u> |
|-----------------------------------|-------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 127,463 | \$ 88,951 |
| Pledge receivable, net | 191,446 | 0 |
| Prepaid expenses and other assets | <u>1,056</u> | <u>680</u> |
| Total current assets | <u>319,965</u> | <u>89,631</u> |
| Investments held by others | <u>65,725</u> | <u>81,770</u> |
| Property and equipment: | | |
| Land | 145,000 | 145,000 |
| Construction in progress | 1,650 | 0 |
| Office equipment | 65,629 | 63,305 |
| Program equipment | 69,190 | 69,190 |
| Buildings | <u>763,278</u> | <u>752,646</u> |
| | 1,044,747 | 1,030,141 |
| Accumulated depreciation | <u>(541,253)</u> | <u>(515,203)</u> |
| Net property and equipment | <u>503,494</u> | <u>514,938</u> |
| Total assets | \$ <u>889,184</u> | \$ <u>686,339</u> |

L I A B I L I T I E S A N D N E T A S S E T S

| | | |
|----------------------------------|-------------------|-------------------|
| Current liabilities: | | |
| Accounts payable | \$ 3,147 | \$ 4,818 |
| Accrued expenses | 23,209 | 17,681 |
| Deferred revenue | 4,615 | 3,755 |
| Other current liabilities | <u>1,593</u> | <u>1,778</u> |
| Total current liabilities | <u>32,564</u> | <u>28,032</u> |
| Net assets: | | |
| Unrestricted | 542,058 | 572,716 |
| Temporarily restricted | 248,837 | 3,821 |
| Permanently restricted | <u>65,725</u> | <u>81,770</u> |
| Total net assets | <u>856,620</u> | <u>658,307</u> |
| Total liabilities and net assets | \$ <u>889,184</u> | \$ <u>686,339</u> |

THE LIVING ARTS AND SCIENCE CENTER, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2009

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Total</u> |
|---|---------------------|----------------------------------|----------------------------------|-------------------|
| Revenues and support: | | | | |
| Art exhibit sales | \$ 2,077 | \$ | \$ | \$ 2,077 |
| Contributions | 102,804 | 241,446 | | 344,250 |
| Fund for the Arts | 102,188 | | | 102,188 |
| Grants | | 100,742 | | 100,742 |
| Contributed services | 15,697 | | | 15,697 |
| In-kind contributions | 62,719 | | | 62,719 |
| Interest income | 883 | | | 883 |
| Membership fees | 11,880 | | | 11,880 |
| Miscellaneous | 1,845 | | | 1,845 |
| Science tours | 19,618 | | | 19,618 |
| Tuition | 87,331 | | | 87,331 |
| Change in present value of beneficial interest in perpetual trust | | | (16,045) | (16,045) |
| Net assets released from restriction: | | | | |
| Satisfaction of program restrictions | <u>97,172</u> | <u>(97,172)</u> | | <u>0</u> |
| Total revenues | <u>504,214</u> | <u>245,016</u> | <u>(16,045)</u> | <u>733,185</u> |
| Expenses: | | | | |
| Program expenses | 236,826 | | | 236,826 |
| General and administration | 216,418 | | | 216,418 |
| Fundraising | 81,628 | | | 81,628 |
| Total expenses | <u>534,872</u> | <u>0</u> | <u>0</u> | <u>534,872</u> |
| Change in net assets | (30,658) | 245,016 | (16,045) | 198,313 |
| Net assets, beginning of year | <u>572,716</u> | <u>3,821</u> | <u>81,770</u> | <u>658,307</u> |
| Net assets, end of year | <u>\$ 542,058</u> | <u>\$ 248,837</u> | <u>\$ 65,725</u> | <u>\$ 856,620</u> |

THE LIVING ARTS AND SCIENCE CENTER, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Total</u> |
|---|---------------------|----------------------------------|----------------------------------|-------------------|
| Revenues and support: | | | | |
| Art exhibit sales | \$ 933 | \$ | \$ | \$ 933 |
| Contributions | 104,840 | | | 104,840 |
| Fund for the Arts | 119,235 | | | 119,235 |
| Grants | | 81,921 | | 81,921 |
| Contributed services | 17,461 | | | 17,461 |
| In-kind contributions | 79,153 | | | 79,153 |
| Interest income | 813 | | | 813 |
| Membership fees | 10,490 | | | 10,490 |
| Miscellaneous | 831 | | | 831 |
| Science tours | 18,673 | | | 18,673 |
| Tuition | 99,388 | | | 99,388 |
| Change in present value of beneficial interest in perpetual trust | (6,679) | | | (6,679) |
| Net assets released from restriction: | | | | |
| Satisfaction of program restrictions | <u>85,928</u> | <u>(85,928)</u> | <u>0</u> | <u>0</u> |
| Total revenues | <u>531,066</u> | <u>(4,007)</u> | <u>0</u> | <u>527,059</u> |
| Expenses: | | | | |
| Program expenses | 237,537 | | | 237,537 |
| General and administration | 200,491 | | | 200,491 |
| Fundraising | 83,567 | | | 83,567 |
| Total expenses | <u>521,595</u> | <u>0</u> | <u>0</u> | <u>521,595</u> |
| Change in net assets | <u>9,471</u> | <u>(4,007)</u> | <u>0</u> | <u>5,464</u> |
| Net assets, beginning of year, as previously stated | 595,437 | 7,828 | 49,578 | 652,843 |
| Prior period adjustment, reclassification of net assets | <u>(32,192)</u> | <u>0</u> | <u>32,192</u> | <u>0</u> |
| Net assets, beginning of year, as restated | <u>563,245</u> | <u>7,828</u> | <u>81,770</u> | <u>652,843</u> |
| Net assets, end of year | <u>\$ 572,716</u> | <u>\$ 3,821</u> | <u>\$ 81,770</u> | <u>\$ 658,307</u> |

THE LIVING ARTS AND SCIENCE CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009

| | Program Services | | | General and admin | Fundraising | Total |
|-----------------------------------|-------------------|-------------------------------|-------------------|-------------------------|------------------|-------------------|
| | Art exhibition | Science and art classes | Total | | | |
| Art exhibit | \$ 642 | | \$ 642 | | | \$ 642 |
| Bank and investment fees | | | 0 | 282 | | 282 |
| Benefits | | 12,130 | 12,130 | 10,236 | | 22,366 |
| Commissions | 1,299 | | 1,299 | | | 1,299 |
| Conferences and travel | | | 0 | 145 | | 145 |
| Contractual labor and services | | | 0 | 1,300 | | 1,300 |
| Credit card fees | | | 0 | 2,945 | | 2,945 |
| Depreciation | | 13,025 | 13,025 | 13,025 | | 26,050 |
| Dues and subscriptions | | | 0 | 1,433 | | 1,433 |
| Equipment rent | | 465 | 465 | 3,178 | | 3,643 |
| H'Artful of Fun | | | 0 | | 23,834 | 23,834 |
| Hospitality | | | 0 | 2,628 | | 2,628 |
| Insurance | | 4,423 | 4,423 | 4,422 | | 8,845 |
| Miscellaneous | | | 0 | 1,416 | 590 | 2,006 |
| Payroll taxes | | 10,491 | 10,491 | 8,853 | | 19,344 |
| Postage | | 2,894 | 2,894 | 2,894 | | 5,788 |
| Printing | | 7,114 | 7,114 | 7,113 | | 14,227 |
| Professional services | | | 0 | 5,686 | | 5,686 |
| Promotional | | | 0 | | 4,922 | 4,922 |
| Repairs and maintenance | | 5,727 | 5,727 | 5,727 | | 11,454 |
| Salaries and wages | | 129,082 | 129,082 | 108,918 | | 238,000 |
| Science explorers | | 13,117 | 13,117 | | | 13,117 |
| Security | | | 0 | 1,640 | | 1,640 |
| Supplies | | 13,509 | 13,509 | 13,509 | | 27,018 |
| Telephone | | 1,870 | 1,870 | 1,870 | | 3,740 |
| Utilities | | 6,669 | 6,669 | 6,669 | | 13,338 |
| Website | | | 0 | 764 | | 764 |
| In-kind donations, services: | | | | | | |
| Guest speakers | | 1,200 | 1,200 | | | 1,200 |
| H'Artful of Fun | | | 0 | | 2,000 | 2,000 |
| Professional services | | | 0 | 9,977 | | 9,977 |
| Teaching assistants | | 2,520 | 2,520 | | | 2,520 |
| In-kind donations, other: | | | | | | |
| H'Artful of Fun | | | 0 | | 50,282 | 50,282 |
| Landscaping | | 1,789 | 1,789 | 1,788 | | 3,577 |
| Supplies | | 8,860 | 8,860 | | | 8,860 |
| Total expenses | <u>\$ 1,941</u> | <u>\$ 234,885</u> | <u>\$ 236,826</u> | <u>\$ 216,418</u> | <u>\$ 81,628</u> | <u>\$ 534,872</u> |

THE LIVING ARTS AND SCIENCE CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

| | Program Services | | | General and admin | Fundraising | Total |
|-----------------------------------|-------------------|-------------------------------|-------------------|-------------------------|------------------|-------------------|
| | Art exhibition | Science and art classes | Total | | | |
| Art exhibit | \$ 5,066 | | \$ 5,066 | | | \$ 5,066 |
| Bank and investment fees | | | 0 | 565 | | 565 |
| Benefits | | 11,953 | 11,953 | 8,543 | | 20,496 |
| Commissions | 665 | | 665 | | | 665 |
| Conferences and travel | | | | 240 | | 240 |
| Contractual labor and services | | | | 3,300 | | 3,300 |
| Credit card fees | | | 0 | 2,900 | | 2,900 |
| Depreciation | | 12,315 | 12,315 | 12,315 | | 24,630 |
| Dues and subscriptions | | | 0 | 1,386 | | 1,386 |
| Equipment rent | | 933 | 933 | 3,553 | | 4,486 |
| H'Artful of Fun | | | 0 | | 21,137 | 21,137 |
| Hospitality | | | 0 | 1,752 | | 1,752 |
| Insurance | | 5,333 | 5,333 | 5,333 | | 10,666 |
| Miscellaneous | | | 0 | 5,176 | 2,066 | 7,242 |
| Payroll taxes | | 10,308 | 10,308 | 7,367 | | 17,675 |
| Postage | | 2,894 | 2,894 | 2,894 | | 5,788 |
| Printing | | 5,665 | 5,665 | 5,665 | | 11,330 |
| Professional services | | | 0 | 5,714 | | 5,714 |
| Promotional | | | 0 | | 3,264 | 3,264 |
| Repairs and maintenance | | 5,455 | 5,455 | 5,455 | | 10,910 |
| Salaries and wages | | 134,297 | 134,297 | 95,975 | | 230,272 |
| Science explorers | | 6,192 | 6,192 | | | 6,192 |
| Security | | | 0 | 1,876 | | 1,876 |
| Supplies | | 11,398 | 11,398 | 7,765 | | 19,163 |
| Telephone | | 2,088 | 2,088 | 2,088 | | 4,176 |
| Utilities | | 6,185 | 6,185 | 6,185 | | 12,370 |
| Website | | | 0 | 556 | | 556 |
| In-kind donations, services: | | | | | | |
| Guest speakers | | 1,200 | 1,200 | | | 1,200 |
| H'Artful of Fun | | | 0 | | 2,000 | 2,000 |
| Professional services | | | 0 | 12,100 | | 12,100 |
| Repairs and maintenance | | | 0 | | | 0 |
| Teaching assistants | | 2,160 | 2,160 | | | 2,160 |
| In-kind donations, other: | | | | | | |
| H'Artful of Fun | | | 0 | | 55,100 | 55,100 |
| Landscaping | | 1,789 | 1,789 | 1,788 | | 3,577 |
| Lease | | 3,250 | 3,250 | | | 3,250 |
| Supplies | | 8,391 | 8,391 | | | 8,391 |
| Total expenses | \$ 5,731 | \$ 231,806 | \$ 237,537 | \$ 200,491 | \$ 83,567 | \$ 521,595 |

THE LIVING ARTS AND SCIENCE CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 198,313 | \$ 5,464 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 26,050 | 24,630 |
| Donated property | 0 | (8,835) |
| Realized and unrealized losses on investments | 16,045 | 6,679 |
| Changes in operating assets and liabilities: | | |
| Pledge receivable | (191,446) | 0 |
| Prepaid expenses and other assets | (376) | 1,061 |
| Accounts payable | (1,671) | 1,549 |
| Accrued expenses | 5,528 | 1,786 |
| Deferred revenue | 860 | (8,247) |
| Other current liabilities | (185) | 350 |
| Net cash flows from operating activities | <u>53,118</u> | <u>24,437</u> |
| Cash flows from investing activities: | | |
| Purchase of equipment | <u>(14,606)</u> | <u>0</u> |
| Change in cash and cash equivalents | 38,512 | 24,437 |
| Cash and cash equivalents, beginning of year | <u>88,951</u> | <u>64,514</u> |
| Cash and cash equivalents, end of year | <u>\$ 127,463</u> | <u>\$ 88,951</u> |
| Supplemental disclosure: | | |
| Noncash contributions of equipment and supplies | <u>\$ 62,719</u> | <u>\$ 79,153</u> |

THE LIVING ARTS AND SCIENCE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The Living Arts and Science Center, Inc. (the Center) is presented to assist in understanding the Center's financial statements. The financial statements and notes are representations of the Center's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Nature of Activities:

The Center was organized as a not-for-profit organization in 1968 to provide creative and educational opportunities in the arts and sciences accessible to all children and adults in the central Kentucky area. The Center provides classes at their own facility and works with numerous social service agencies, school systems, community groups, and local government to provide no-cost and low-cost arts and science programs to at-risk and underserved children and adults. The Center's revenues primarily come from contributions, tuition, membership fees, and science tours.

Basis of Accounting:

The financial statements of the Center have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation:

The financial statements of the Center have been prepared following the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Center is required to report information regarding its financial position and activities under three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Allocation of Expenses:

Expenses that can be directly attributed to a particular function are charged to that function. Certain indirect costs have been allocated among program services, general and management, and fundraising.

Concentration:

The Center maintains its cash balances at financial institutions in Lexington, Kentucky. The Federal Deposit Insurance Corporation insures up to \$250,000 at each institution. During the year, the balances may exceed the FDIC insured amount. All funds were FDIC insured at year end.

Cash Equivalents:

The Center considers all amounts available for immediate withdrawal to be cash equivalents.

Pledges:

Pledges are recorded after discounting to the present value of future cash flows, using a risk-free interest rate at the time the pledge is made.

THE LIVING ARTS AND SCIENCE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments:

The Center carries investments in marketable securities with readily determinable fair values established by quoted market prices and all investments in debt securities at their fair values. Money market accounts are carried at cost, which approximates fair value. Unrealized gains and losses are included in the determination of the change in net assets in the statements of activities.

Property and Equipment:

Property and equipment is recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of donations. Acquisitions of equipment in excess of \$500 are capitalized. Depreciation is recorded using the straight-line method over estimated useful lives of the respective assets, which range from 5 to 40 years. Donated fixed assets are capitalized at their estimated fair market values at the date of receipt.

Membership Dues:

Membership dues are recognized as revenue in the applicable membership period. Prepayments by members are reported as deferred revenue. Memberships provide benefits that entail discounts on classes and workshops offered by the Center, mailings of all class schedules, newsletters and invitations by the Center, 10% discount in the Center art galleries and gift shop, and access to the Center's photographic darkroom. Memberships can be obtained at five different levels ranging from \$30 to \$500. Additional benefits are included as price range increases. Memberships are not required in order to participate in Center programs or workshops.

Tax Exempt Status:

The Center is a not-for-profit corporation, other than a private foundation, organized under Section 501(c)(3) of the Internal Revenue Code and is thus exempt from federal and state income taxes. Accordingly, no income tax expense is reflected in the accompanying financial statements.

Contributions:

Contributions are recorded when received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as satisfaction of program restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skill, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Use of Estimates:

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

THE LIVING ARTS AND SCIENCE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising:

The Center uses advertising to promote its programs among the community it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2009 and 2008 was \$4,922 and \$3,264, respectively.

Reclassifications:

Certain reclassifications have been made to the 2008 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 2 - INVESTMENTS HELD BY OTHERS

Investments held by others is a donor designated endowment fund that is the property of Blue Grass Community Foundation (BGCF) which has variance power over the funds. BGCF includes a corresponding liability in its financial statements for the amounts attributable to the Center. Distributions of the funds are at the discretion of BGCF board and the funds are invested in accordance with the BGCF investment policy. All the investments held by BGCF are based on unobservable inputs which are considered level 3 measurements.

Assets measured on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2009:

| | |
|--|------------------|
| Beginning balance | \$ 81,770 |
| Change in value of funds held in trust | <u>(16,045)</u> |
| Ending balance | <u>\$ 65,725</u> |

Assets measured on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2008:

| | |
|--|------------------|
| Beginning balance | \$ 88,449 |
| Change in value of funds held in trust | <u>(6,679)</u> |
| Ending balance | <u>\$ 81,770</u> |

NOTE 3 - PLEDGES RECEIVABLE

In 2009, the Center received a pledge to contribute \$50,000 annually through 2013 for the Development Director position and the fundraising and development work of the Center. Pledges receivable at June 30, 2009 represent unconditional promises to give as follows:

| | |
|--------------------------------|-------------------|
| Unconditional promises to give | \$ 200,000 |
| Less unamortized discount | <u>(8,554)</u> |
| Net pledges receivable | <u>\$ 191,446</u> |

THE LIVING ARTS AND SCIENCE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 3 - PLEDGES RECEIVABLE (CONTINUED)

Pledges receivable are due as follows:

| | | |
|------------------------|----|----------------|
| Less than one year | \$ | 50,000 |
| One to three years | | 150,000 |
| Net pledges receivable | \$ | <u>200,000</u> |

Pledges receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rate at June 30, 2009 was 1.73%. Management feels the pledge will be fully collectible and thus, no allowance for uncollectible pledges has been made. Pledges receivable are carried at fair value on a recurring basis using unobservable inputs (Level 3). Following is a reconciliation of activity for pledges receivable for years ending June 30, 2009:

| | | |
|----------------------------------|----|----------------|
| Beginning balance | \$ | 0 |
| Pledges | | 250,000 |
| Collections | | (50,000) |
| Adjustment for net present value | | (8,554) |
| Ending balance | \$ | <u>191,446</u> |

There were no pledges receivable at July 1, 2007 and no pledges received during fiscal year 2008.

NOTE 4 - LEASES

The Center leases a copier under an operating lease which expires in August 2011. Total equipment rental expense for 2009 and 2008 was \$3,643 and \$4,486, respectively. Future minimum lease payments are \$1,909 each for fiscal years 2010 and 2011 and \$318 for fiscal year 2012. The aggregate of future minimum lease payments is \$4,136.

NOTE 5 - ENDOWMENT FUND

The Center has adopted the enhanced disclosure provisions of Financial Accounting Standards Board's Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1) effective July 1, 2008. The adoption of FSP 117-1 did not have a material impact on the Center's financial statements. FSP 117-1 provides for improved disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Kentucky has not adopted UPMIFA.

The Center's endowment includes funds designated by the Board of Directors and donor-restricted funds to function as endowments. As required by generally accepted accounting principles, 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.

The Center does not have an investment policy. In approving endowment, spending and related policies, as part of the prudent and diligent discharge of its duties, the Center's Board of Directors as authorized by Kentucky law, has relied upon the actions, reports, information, advice and counsel taken from its third-party trustee.

THE LIVING ARTS AND SCIENCE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 5 - ENDOWMENT FUND (CONTINUED)

For accounting and financial statement purposes, the Center classifies as permanently restricted net assets the value of assets held as board-designated and donor-restricted endowments, including any subsequent gifts and any accumulations to board and donor-restricted endowments.

The BGCF audit report can be referred to for disclosures regarding the investment policies of the endowment fund. The 2009 audit report for BGCF is located on the internet at <http://www.bgcf.org/page10002415.cfm>.

Endowment net asset composition by type of fund as of June 30, 2009 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Net Assets</u> |
|-----------------------------------|---------------------|-----------------------------------|-----------------------------------|---|
| Donor-restricted endowment funds | \$ 0 | \$ 0 | \$ 1,425 | \$ 1,425 |
| Board-designated endowment funds | <u>0</u> | <u>0</u> | <u>64,300</u> | <u>64,300</u> |
| Endowment net assets, end of year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 65,725</u> | <u>\$ 65,725</u> |

Changes in endowment net assets as of June 30, 2009 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Net Assets</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---|
| Endowment net assets, beginning of year | \$ 0 | \$ 0 | \$ 81,770 | \$ 81,770 |
| Investment income | 0 | 0 | 2,346 | 2,346 |
| Net depreciation | <u>0</u> | <u>0</u> | <u>(18,391)</u> | <u>(18,391)</u> |
| Endowment net assets, end of year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 65,725</u> | <u>\$ 65,725</u> |

Endowment net asset composition by type of fund as of June 30, 2008 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Net Assets</u> |
|-----------------------------------|---------------------|-----------------------------------|-----------------------------------|---|
| Donor-restricted endowment funds | \$ 0 | \$ 0 | \$ 1,425 | \$ 1,425 |
| Board-designated endowment funds | <u>0</u> | <u>0</u> | <u>80,345</u> | <u>80,345</u> |
| Endowment net assets, end of year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 81,770</u> | <u>\$ 81,770</u> |

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NOTE 5 - ENDOWMENT FUND (CONTINUED)

Changes in endowment net assets as of June 30, 2008 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Net Assets</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---|
| Endowment net assets, beginning of year | \$ 0 | \$ 0 | \$ 88,449 | \$ 88,449 |
| Investment income | 0 | 0 | 2,650 | 2,650 |
| Net depreciation | 0 | 0 | (9,329) | (9,329) |
| Endowment net assets, end of year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 81,770</u> | <u>\$ 81,770</u> |

NOTE 6 - NET ASSET CLASSIFICATION

As of June 30, 2009, temporarily restricted net assets were \$248,837 which consisted of \$769 for Mes de la Hispanidad (Month of the Hispanic), \$9,901 for the Science Explorer Program and \$236,167 for the Development Director position and development of the organization, and \$2,000 for Technology upgrades. As of June 30, 2008 temporarily restricted net assets were \$3,821, which consisted of \$769 for Mes de la Hispanidad (Month of the Hispanic), \$1,052 for the Science Explorers Program, and \$2,000 for technology upgrades. Permanently restricted net assets, which were \$65,725 at June 30, 2009 and \$81,770 at June 30, 2008, were restricted for scholarships.

NOTE 7 - RECLASSIFICATION OF NET ASSETS

At June 30, 2007, certain amounts were reported as temporarily restricted net assets which were unrestricted at the time of donation. These amounts have been reclassified from temporarily restricted net assets to unrestricted net assets as of June 30, 2008, in the accompanying financial statements.

The above reclassification had no effect on total assets, total liabilities or total net assets of the Center as previously reported at June 30, 2008. The effect of the reclassification on the net assets previously reported at June 30, 2008 is summarized as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Net Assets</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Net assets at June 30, 2008, as previously reported | \$ 604,908 | \$ 3,821 | \$ 49,578 | \$ 658,307 |
| Effect of reclassification | <u>(32,192)</u> | <u>0</u> | <u>32,192</u> | <u>0</u> |
| Net assets at June 30, 2008 | <u>\$ 572,716</u> | <u>\$ 3,821</u> | <u>\$ 81,770</u> | <u>\$ 658,307</u> |

The effect of the above errors did not affect the change in unrestricted or temporarily restricted net assets as previously reported for the year ended June 30, 2008.

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NOTE 8 - DONATED SERVICES

During fiscal year 2009, various individuals and organizations donated in-kind teaching assistance and guest speaking services to the Center at rates less than fair value. The excess of fair value of services over the amount paid by the Center to these individuals and organizations was recognized as revenues and expenses when the services were provided in accordance with SFAS No. 116. The total recognized for the years ending June 30, 2009 and 2008 was \$3,720 and 3,360, respectively.

During fiscal year 2009, various professional organizations contributed in-kind accounting and maintenance services to the Center at rates less than fair value. The excess of fair value of services over the amount paid by the Center to these various professional organizations was recognized as revenues and expenses when the services were provided in accordance with SFAS No. 116. The total recognized for the years ending June 30, 2009 and 2008 was \$9,977 and \$12,100, respectively.

During fiscal year 2009, the Center received contributed in-kind rental space. The excess of fair value over the amount paid by the Center was recognized as revenues and expenses in accordance with SFAS No. 116. The total recognized for the years ending June 30, 2009 and 2008 was \$2,000 and \$2,000, respectively.

NOTE 9 - RETIREMENT PLAN

During 2009, the Center initiated a Simple IRA Plan for full-time employees earning more than \$5,000. Eligible employees may contribute up to the maximum amount allowed by the Internal Revenue Code. The Center will match employee contributions up to three percent of an employee's salary. Retirement expense for the Center at June 30, 2009 was \$3,631.

NOTE 10 - SUBSEQUENT EVENTS

The Center has evaluated subsequent events through January 13, 2010, the date which the financial statements were available to be issued.

Financial Accounting Standards Board (FASB) Accounting Standards Codification 740-10 (ASC 740-10) (formerly Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes), issued June 2006, will be effective for the Center beginning with its year ending June 30, 2010. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management of the Center has not yet determined the effect this statement will have on the Center's financial statements.