

**SCIENCE MUSEUM OF VIRGINIA
FOUNDATION, INC.**

FINANCIAL STATEMENTS

*As of and for the Year Ended June 30, 2015
(With Comparative Totals for June 30, 2014)*

And Report of Independent Auditor

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR..... 1

FINANCIAL STATEMENTS

Statement of Financial Position 2
Statement of Activities 3
Statement of Cash Flows..... 4
Notes to Financial Statements..... 5-15

Report of Independent Auditor

To the Board of Directors
Science Museum of Virginia Foundation, Inc.
Richmond, Virginia

Report on Financial Statements

We have audited the accompanying financial statements of the Science Museum of Virginia Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to 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 audit. We conducted our audit 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the Science Museum of Virginia Foundation, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2014 financial statements, and our report dated October 6, 2014 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent in all material respects with the audited financial statements from which it has been derived.



Richmond, Virginia
October 7, 2015

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
ASSETS					
Cash	\$ 656,054	\$ 5,127,663	\$ 10,800	\$ 5,794,517	\$ 4,326,290
Accounts receivable	12,674	100	-	12,774	9,218
Promises to give, net	-	272,854	-	272,854	258,012
Contributions receivable, net	-	3,775,695	-	3,775,695	4,719,538
Prepaid expenses	4,105	-	-	4,105	6,478
Investments	573,015	8,926,471	5,886,936	15,386,422	15,434,341
Property and equipment, net	3,875	1,792,000	-	1,795,875	1,795,079
Total Assets	<u>\$ 1,249,723</u>	<u>\$ 19,894,783</u>	<u>\$ 5,897,736</u>	<u>\$ 27,042,242</u>	<u>\$ 26,548,956</u>
LIABILITIES					
Accounts payable	\$ 1,002	\$ 100	\$ -	\$ 1,102	\$ 1,606
Payable to Science Museum of Virginia	-	596,684	-	596,684	658,935
Annuities payable	-	9,628	-	9,628	10,094
Deferred revenue	9,375	-	-	9,375	88,336
Total Liabilities	<u>10,377</u>	<u>606,412</u>	<u>-</u>	<u>616,789</u>	<u>758,971</u>
NET ASSETS	<u>1,239,346</u>	<u>19,288,371</u>	<u>5,897,736</u>	<u>26,425,453</u>	<u>25,789,985</u>
Total Liabilities and Net Assets	<u>\$ 1,249,723</u>	<u>\$ 19,894,783</u>	<u>\$ 5,897,736</u>	<u>\$ 27,042,242</u>	<u>\$ 26,548,956</u>

The accompanying notes to financial statements are an integral part of this statement.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2015	2014
Revenues, Gains, and Other Support:					
Contributions:					
Annual giving and sponsorships	\$ 902,252	\$ 294,926	\$ 1,800	\$ 1,198,978	\$ 1,471,677
Capital Campaign	-	1,311,441	-	1,311,441	5,322,198
Endowment	-	-	500	500	100
Total Contributions	902,252	1,606,367	2,300	2,510,919	6,793,975
Special events and other	619,817	6,279	-	626,096	533,669
Investment income	14,016	268,383	-	282,399	365,797
Net realized and unrealized gains on investments	8,513	228,480	-	236,993	1,590,197
Gain on sale of property and equipment	1,150	-	-	1,150	-
Change in value of split interest agreements	-	(1,520)	-	(1,520)	(1,512)
Net assets released from restrictions, satisfaction of program and project restrictions	1,555,610	(1,555,610)	-	-	-
Total Revenues, Gains, and Other Support	3,101,358	552,379	2,300	3,656,037	9,282,126
Grants and Expenses:					
Grants to Science Museum of Virginia (the "Museum"):					
Operations	687,626	-	-	687,626	554,537
Expenditures to or on behalf of the Museum	1,210,664	-	-	1,210,664	1,121,675
Indirect Museum support	188,508	-	-	188,508	271,252
Special events	204,765	-	-	204,765	176,117
Management and general	207,280	-	-	207,280	210,908
Fund-raising	521,726	-	-	521,726	583,323
Total Grants and Expenses	3,020,569	-	-	3,020,569	2,917,812
Change in net assets	80,789	552,379	2,300	635,468	6,364,314
Net assets, beginning of year	1,158,557	18,735,992	5,895,436	25,789,985	19,425,671
Net assets, end of year	\$ 1,239,346	\$ 19,288,371	\$ 5,897,736	\$ 26,425,453	\$ 25,789,985

The accompanying notes to financial statements are an integral part of this statement.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 635,468	\$ 6,364,314
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,360	2,006
Net unrealized gains on investments	(236,993)	(1,590,197)
Gain on sale of property and equipment	(1,150)	-
Amortization of discount on receivables and promises to give	(32,596)	(3,648)
Provision for losses related to promises to give and contributions receivable	7,008	32,310
Contributions restricted for Endowment	(500)	(100)
(Increase) decrease in:		
Accounts receivable and promises to give	(34,491)	48,071
Prepaid expenses	2,373	(4,971)
Contributions receivable - capital campaign	985,524	(2,875,143)
Increase (decrease) in:		
Accounts payable and accrued expenses	(504)	455
Payable to Science Museum of Virginia	(62,251)	(121,936)
Annuities payable	(466)	(475)
Deferred revenue	(78,961)	88,336
Net cash provided by operating activities	<u>1,184,821</u>	<u>1,939,022</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,156)	(2,657)
Proceeds from sale of property and equipment	1,150	-
Purchase of investments	(391,280)	(969,386)
Proceeds from sale of investments	676,192	652,509
Net cash provided by (used in) investing activities	<u>282,906</u>	<u>(319,534)</u>
Cash flows from financing activities:		
Contributions restricted for Endowment	500	100
Net cash provided by financing activities	<u>500</u>	<u>100</u>
Net increase in cash	1,468,227	1,619,588
Cash, beginning of year	<u>4,326,290</u>	<u>2,706,702</u>
Cash, end of year	<u>\$ 5,794,517</u>	<u>\$ 4,326,290</u>

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1—Summary of significant accounting principles

Nature of Activities – The Science Museum of Virginia Foundation, Incorporated (the “Foundation”) is a non-stock, non-profit corporation formed on July 12, 1972, under the Code of the Commonwealth of Virginia for the purpose of implementing and funding those programs, projects, and operations that are authorized and approved by the Trustees of the Science Museum of Virginia (the “Museum”). Resources for the Foundation’s activities are primarily provided by charitable contributions and investment income. These financial statements present only financial position, changes in net assets, and cash flows of the Foundation. The Museum’s records are audited by the Auditor of Public Accounts of the Commonwealth of Virginia.

Basis of Presentation – The Foundation’s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The accrual basis of accounting records revenues in the period in which earned rather than when received and records expenses in the period in which incurred rather than when paid.

In accordance with GAAP, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statements report amounts separately by class of assets as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be filled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The donors of such assets permit the Foundation to use the income earned on the assets.

Cash and Cash Equivalents – For purposes of the statement of cash flows, all highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include amounts for discount and allowances on contributions receivable, discount on land and building donated, and annuities payable.

Promises to Give and Contributions Receivable – Promises to give are primarily due within one year and allowances are provided for amounts estimated to be uncollectible. Contributions receivable-capital campaigns are due within one year to four years, and allowances are provided for amounts estimated to be uncollectible.

Investments – Investments are presented in the financial statements in the aggregate at fair value. Realized and unrealized gains and losses are included in the statement of activities. The fair values of investments are generally determined based on quoted market prices or estimates of fair value provided by external investment managers. The amounts the Foundation will ultimately realize could differ materially from the reported amounts, and significant fluctuations in fair values could occur from year to year.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1—Summary of significant accounting principles (continued)

Dividends and capital gain distributions are reinvested unless determined otherwise based on cash requirements.

Property and Equipment – Generally, the Foundation does not retain title to capital assets. Instead, ownership is passed to the Commonwealth of Virginia in the form of gifts. The Foundation, however, has retained title to various pieces of office equipment and is depreciating them over periods of three to seven years.

Contributed property is recorded at the fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed asset must be used, the Foundation has adopted a policy of implying a time restriction on contributions exceeding \$2,000 of such assets that expires over the assets' useful lives. As a result, contributions of property are recorded as restricted support. During 1996, the Foundation received a home and surrounding land. The home is not depreciated, reflecting the Foundation's intent to preserve, protect, and maintain the home's state historic landmark status. Refer to Note 7 for additional discussion regarding certain property received by the Foundation during fiscal year 1996.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets. When a 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 as net assets released from restrictions.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Unless specifically prohibited by the donor, the Foundation assesses a supporting services fee to all restricted non-endowment gifts ranging from 7%-15%. This fee supports accounting, clerical, and fundraising costs.

Donated Materials and Services – Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. Gift-in-kind contributions of \$41,465 were received in the year ended June 30, 2015. During the year ended June 30, 2015, volunteers donated significant amounts of their time to the Museum. No amounts have been reflected in the financial statements as they did not meet the criteria for recognition under GAAP.

Income Taxes – The Internal Revenue Service has determined that the Science Museum of Virginia Foundation, Inc. is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Income from certain activities not directly related to the Foundation's tax exempt purpose is subject to taxation as unrelated business income. In addition, the Internal Revenue Service has determined that the Foundation is not a "private foundation" within the meaning of Section 509(a) of the Code. The Foundation had no unrelated business income for fiscal year 2015. Management has evaluated the effect of GAAP guidance on Accounting for Uncertainty in Income Taxes and believes that they satisfy the requirements of a tax-exempt organization and had no uncertain income tax positions at June 30, 2015. The Foundation is subject to an audit by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1—Summary of significant accounting principles (continued)

Comparative Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

New Accounting Pronouncements – In April 2013, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-06, *Not for Profit Entities: Services Received from Personnel of an Affiliate*. The amendments in this update require a not-for-profit recipient entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services, as long as that cost does not significantly overstate or understate the value of the service received, whereby the recipient entity could then record the contributed services at fair value. The amendments in this update are effective prospectively for fiscal years beginning after June 15, 2014, and have been adopted by the Foundation for the year ended June 30, 2015. The adoption had no effect on the financial statements for the year ended June 30, 2015.

Note 2—Contributions receivable

Promises to Give – The present value of estimated future cash flows of promises to give discounted at risk-free rates ranging from 0.28% to 2.73% are expected to be received as follows at June 30, 2015:

Amounts due in:

Less than one year	\$ 183,885
One to five years	<u>133,755</u>
Total promises to give	317,640
Allowance for doubtful accounts	(41,833)
Unamortized discount on amount due beyond one year	<u>(2,953)</u>
Promises to give, net	<u><u>\$ 272,854</u></u>

Unconditional promises to give are primarily from individuals and corporations located in the metropolitan Richmond area and are reflected at the present value of estimated future cash flows.

Contributions Receivable – The present value of estimated future cash flows of pledges receivable discounted at risk-free rates ranging from 0.28% to 1.88% are expected to be received as follows at June 30, 2015:

Amounts due in:

Less than one year	\$ 1,136,918
One to five years	<u>2,784,605</u>
Total contributions receivable	3,921,523
Allowance for doubtful accounts	(39,215)
Unamortized discount on amount due beyond one year	<u>(106,613)</u>
Contributions receivable, net	<u><u>\$ 3,775,695</u></u>

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 2—Contributions receivable (continued)

Pledges receivable are primarily from individuals and corporations located in the metropolitan Richmond area and are reflected at the present value of estimated future cash flows. These receivables are restricted for Inspire the World capital campaign purposes.

As of June 30, 2015, the Foundation has no conditional pledges.

Note 3—Investments

The Foundation's investments consist of the following at June 30, 2015:

	<u>Cost</u>	<u>Market Value</u>
Private Investment Funds	<u>\$ 10,885,779</u>	<u>\$ 15,386,422</u>

Investment return is summarized as follows at June 30, 2015:

Interest, dividends and capital gains distributions	\$ 396,463
Investment fees	<u>(114,064)</u>
	<u>282,399</u>
Unrealized gain on investments	236,561
Net realized gain on investments	<u>432</u>
	<u>236,993</u>
Total investment return	<u>\$ 519,392</u>

Note 4—Fair value measurements of assets and liabilities

Current accounting standards establish a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities traded in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
- Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 4—Fair value measurements of assets and liabilities (continued)

The Foundation determines fair value based on 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. In determining fair value the Foundation uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation has evaluated the various types of investment funds in its investment portfolio to determine an appropriate fair value hierarchy level based on trading activity and the observability of market inputs.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015, by level within the fair value hierarchy:

Fair value measurements at June 30, 2015 using:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Planned Giving Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,628</u>	<u>\$ 9,628</u>

Gift annuity liabilities are considered valued at Level 3 because some of the factors used in valuation include factors not easily observable in similar instruments in an active market, specifically the discount rate used to estimate the liability:

Beginning balance as of July 1, 2014	\$ 10,094
Change in annuity liability	<u>(466)</u>
Ending balance as of June 30, 2015	<u>\$ 9,628</u>

Note 5—Investments carried at Net Asset Value or its equivalent

A portion of the Foundation’s long-term investments are held in The Investment Fund for Foundations (“TIFF”) TIFF Multi-Asset Fund, a no-load mutual fund available primarily to foundation endowments, other 501(c)(3) organizations, and certain other non-profit organizations meeting specified accreditation requirements. TIFF manages and invests the funds on behalf of the participating foundations. The Foundation has estimated the fair value of its investments in the TIFF Multi-Asset Fund on the basis of the net asset value (“NAV”) per share of the investment (or its equivalent), as a practical expedient, since a) the underlying investment manager’s calculation of NAV is fair value based, and b) the NAV has been calculated as of the Foundation’s fiscal year end date.

A portion of the Foundation’s long-term investments are held in The Richmond Fund, LP (the “Fund”), an investment limited partnership. The Fund is a global macro hedge and currency asset fund that utilizes a broad spectrum of common and preferred stocks, worldwide futures contracts, global currencies, and forward contracts on currencies, commodities, energy products, interest-rates, and stock indices for its investment portfolio. There are no contribution commitments for the Foundation, and withdrawals of up to 10% of the Foundation’s balance can be made each calendar quarter with a minimum of 60 days advance notice.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 5—Investments carried at Net Asset Value or its equivalent (continued)

The Foundation is required to maintain a balance no less than the original contribution into the Fund (approximately \$8.8 million) through April 2015. Spider Management Company, a wholly owned subsidiary of the University of Richmond, manages the Fund. Based on the terms of the partnership agreement, for fair value measurement the Foundation views its investment in the Fund as a single asset category. The Foundation has estimated the fair value of its investments in the Fund on the basis of the net asset value per share of the investment (or its equivalent), as a practical expedient, since a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the Foundation's fiscal year end date.

The table below sets forth a summary of investments that are valued using Net Asset Value ("NAV") at June 30, 2015. This category includes the following types of investments:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Multi-asset funds ^(a)	\$ 4,295,311	\$ -	Daily	None
The Richmond Fund ^(b)	11,091,111	-	Daily	60 days

^(a) Multi-Asset Funds ("MAF")—Managed by TIFF Advisory Services, Inc., who serves as the MAF's investment advisor, and is responsible for the selection of money managers and other vendors, and for the MAF's asset allocation. The fund seeks to achieve a total return that exceeds inflation plus 5 percent per year by employing a globally diversified portfolio.

^(b) The Richmond Fund ("Fund") —Managed by Spider Management Company, who serves as the Fund's investment advisor, and is responsible for the selection of money managers and other vendors, and for the Fund's asset allocation. The fund seeks to achieve investment returns that mirror the investment returns achieved by the University of Richmond's endowment through a blended rate of return agreement.

Note 6—Endowment funds

In response to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the Foundation adopted the provisions of the Financial Accounting Standards Board ("FASB") Codification's Presentation of Financial Statements for Not-for-Profit Entities, which provides guidance on the net asset classification of donor restricted endowment funds for an organization that is subject to UPMIFA and also required related financial statement disclosures.

The Foundation's endowment consists of approximately 27 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments.

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.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 6—Endowment funds (continued)

The Board of Directors of the Foundation 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 stipulation to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the factors considered by the Foundation in making a determination to appropriate or accumulate donor-restricted endowment funds include:

1. The duration and preservation of the fund.
2. The purposes of the Foundation and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Foundation.
7. The investment policies of the Foundation.

Endowment net assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 7,682,789	\$ 5,886,936	\$ 13,569,725
Board-designated endowment funds	580,264	1,262,640	-	1,842,904
Total endowed net assets	<u>\$ 580,264</u>	<u>\$ 8,945,429</u>	<u>\$ 5,886,936</u>	<u>\$ 15,412,629</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 537,520	\$ 9,027,493	\$ 5,886,436	\$ 15,451,449
Investment return:				
Investment income	10,023	268,383	-	278,406
Net appreciation	8,513	228,480	-	236,993
Contributions	-	-	500	500
Transfers to board-designated funds	25,508	100	-	25,608
Appropriation of endowment assets for expenditure	<u>(1,300)</u>	<u>(579,027)</u>	<u>-</u>	<u>(580,327)</u>
Endowment net assets, June 30, 2015	<u>\$ 580,264</u>	<u>\$ 8,945,429</u>	<u>\$ 5,886,936</u>	<u>\$ 15,412,629</u>

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 6—Endowment funds (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 the Foundation to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur subsequent to the investment of new permanently restricted contributions and continued appropriation for certain programs that is deemed prudent by the Board of Directors. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no funds with such deficiencies noted at June 30, 2015.

The Foundation's primary investment objective is to preserve and protect its assets by earning a total return for each set of assets (a "fund") that is appropriate for each fund's time horizon, distribution requirements, and risk tolerance. Specific objectives, risk parameters, and asset allocation will vary, as appropriate, from fund to fund.

The Foundation seeks reasonable diversification across asset classes, and designated investment advisors are expected to maintain reasonable diversification within their managed portfolios at all times. Asset allocations for each investment account are established and maintained by the designated investment advisor/manager, with oversight and review by the Foundation.

The Foundation has a policy of appropriating for annual distribution, a minimum of prior year support and a maximum of 5.0% of its endowment funds' average fair value, based on the prior three years through the calendar year-end preceding the fiscal year in which the distribution is planned, with the policy goal to reach a 4.5% distribution consisting of 4% to the Foundation's various programs and a 0.5% administrative fee. In establishing this policy, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the spending policy to allow its endowment to maintain its purchasing power over the long term by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

Note 7—Property and equipment

Property and equipment consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Furniture and fixtures	\$ 35,463	\$ -
Buildings	-	583,580
Improvements-Rice property	-	8,420
Land	-	1,200,000
	<u>35,463</u>	<u>1,792,000</u>
Less Accumulated Depreciation	(31,588)	-
	<u>\$ 3,875</u>	<u>\$ 1,792,000</u>

Depreciation expense amounted to \$2,360 for the year ended June 30, 2015. Temporarily restricted property includes \$592,000 for the Rice residence and improvements which are not depreciated, reflecting the Foundation's intent to preserve, protect, and maintain the home's state historic landmark status.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 8—Rice property gift

During fiscal year 1996, Ambassador Walter L. Rice and Inger V. Rice donated property to the Foundation valued in excess of \$3 million.

The first part of the gift consisted of the Rices' residence and approximately four acres of property surrounding the residence. The property had a market value of \$1,350,000 at June 30, 1996, of which \$800,000 was attributed to the house and \$550,000 was attributed to the land. The property was an outright gift to the Foundation with a reserved life estate for Mrs. Rice's life.

The second part of the gift consisted of approximately 18 acres of unimproved real estate (the "Unitrust Property") transferred to the Ambassador Walter L. Rice and Inger V. Rice Charitable Remainder Trust (the "Unitrust"), with the Foundation named as a trustee and the remainder beneficiary of the Unitrust.

The property was sold in 1999, and the net proceeds of the sale (approximately \$1,533,000) were deposited with a regional brokerage firm and invested in a balanced mutual fund.

In 2008, Mrs. Rice relinquished all rights in the reserved life estate and the Unitrust through termination of the life estate and Unitrust agreements. At June 30, 2015, the Rice residence and surrounding property are reflected in the accompanying financial statements at the 2008 fair value of \$1,442,000, of which \$592,000 was attributed to the house and \$850,000 was attributed to the land.

These assets are included in temporarily restricted property and equipment in the statement of financial position. Assets formerly held in the Unitrust were transferred to a named endowment in support of the Rice property and are reported in the accompanying financial statements as temporarily restricted investments at fair market value. The related liability for future payments to Mrs. Rice under the life estate was extinguished at June 30, 2008.

The third part of the gift consisted of an outright gift of approximately eleven additional acres of land and certain islands in the vicinity of the residence property with a 2008 market value of \$350,000. The property is recorded on the financial statements of the Foundation and is included in temporarily restricted property and equipment.

Note 9—Charitable gift annuities

The Foundation has charitable gift annuity arrangements with certain donors. Under the arrangements, the Foundation has agreed to make periodic payments set forth in the gift annuity agreements to the annuitants in return for gifts to the Foundation. The assets received were recorded at fair value at the date of the agreement, and the liabilities were equal to the present value of the future distributions to the annuitants. Assets held under these arrangements had a fair value of \$7,145 at June 30, 2015, and the present value of the future liabilities of \$9,628 was calculated using a discount rate of 7% and applicable mortality tables.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 10—Restricted net asset balances

In accordance with donor stipulations, permanently restricted assets are held in perpetuity. The income derived from these net assets is to be used as follows at June 30, 2015:

Endowments for general program activities	\$ 3,618,070
Endowments for specifically designated programs	2,268,866
Funds accumulating for endowment designation	10,800
Total permanently restricted net assets	<u>\$ 5,897,736</u>

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

Capital campaign projects	\$ 6,341,794
Rice property	3,053,762
General program activities	2,405,287
Education and outreach programs	4,671,627
Exhibits and exhibit maintenance	1,066,471
Virginia Aviation Museum	1,569,470
Other specific programs	179,960
Total temporarily restricted net assets	<u>\$ 19,288,371</u>

Note 11—Concentrations

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash and invested cash deposited in large regional banks or their non-bank subsidiaries. The Federal Deposit Insurance Corporation (“FDIC”) insures cash balances up to \$250,000 for balances in interest-bearing accounts carried in member banks, but amounts carried in non-bank subsidiaries are not FDIC insured. At June 30, 2015, balances not insured by FDIC amounted to approximately \$5.1 million.

Unsecured receivables potentially subject the Foundation to concentration of credit risk. The ability to collect pledges resulting from fund-raising efforts is affected by the general economic conditions and the honoring of pledges by donors.

Note 12—Retirement plans

The Foundation has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (“TIAA”) and the College Retirement Equities Fund (“CREF”) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed 3% of the regular salary of each participant. The Foundation’s employer contributions totaled \$16,048 during the year ended June 30, 2015.

Note 13—Related parties

The Foundation received cash and in-kind contributions from Board members in the amount of \$198,572 for the year ending June 30, 2015. Promises to give from Board members totaled \$179,614 at June 30, 2015.

SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 14—Grants and expenses

Grants to or on behalf of the Museum totaled \$1,898,290 for the year ended June 30, 2015. Non-grant expenses totaled \$1,122,279 and are set forth in detail below.

	<u>Special Events</u>	<u>Management and General</u>	<u>Fund-Raising</u>	<u>Indirect Museum Support</u>	<u>Total</u>
Salaries and benefits	\$ 67,523	\$ 156,420	\$ 413,295	\$ 93,811	\$ 731,049
Professional services	-	39,147	19,800	50,100	109,047
Printing and postage	419	1,147	39,751	395	41,712
Computer supplies and support	-	3,122	18,229	-	21,351
Supplies	189	548	7,261	157	8,155
Annual report	-	-	-	3,946	3,946
Director's expense	-	-	-	22,343	22,343
Depreciation	-	154	2,077	129	2,360
Events	135,541	-	-	16,884	152,425
Donor cultivation	-	-	8,831	-	8,831
Other services	1,093	6,742	12,482	743	21,060
	<u>\$ 204,765</u>	<u>\$ 207,280</u>	<u>\$ 521,726</u>	<u>\$ 188,508</u>	<u>\$ 1,122,279</u>

Note 15—Planned giving

Robert L. Thalhimer, a former Executive Director of the Foundation, established a \$2 million Charitable Remainder Unitrust Agreement (the "Trust") during fiscal year 1994. The Trust, which is being administered by the Community Foundation (the "Trustee"), will provide income to Mr. Thalhimer during his lifetime. After that, the Trustee will transfer 95% of the remaining assets to the Robert L. and Lisa M. Thalhimer Endowment Fund at The Community Foundation, Inc. The Science Museum of Virginia Foundation is expected to be an income beneficiary of these assets. Since The Community Foundation, Inc. has variance power over the gift, it is not included as an asset in the accompanying financial statements.

Note 16—Line of credit

On November 19, 2012, the Foundation obtained an unsecured revolving line of credit from SunTrust Bank to support expansion and installation of new Museum exhibits through the Foundation's "Inspire The World" capital campaign in advance of campaign pledge payment receipts. The maximum borrowing available is \$1.5 million. Interest is payable at the one-month LIBOR rate plus 2.00% per annum (2.19% on June 30, 2015). The line matures on December 31, 2015, unless extended or renewed at the sole discretion of the lender. There was no balance outstanding on the line as of June 30, 2015, and there were no borrowings made on the line during the year ended June 30, 2015.

Note 17—Subsequent events

In preparation of its financial statements, the Foundation considered subsequent events through October 7, 2015, which was the date the financial statements were issued.