

# Science Museum of Virginia Foundation, Inc.

## Financial Statements

*As of and for the Year Ended June 30, 2017  
(With Comparative Totals for June 30, 2016)*

*And Report of Independent Accountants*



4401 Dominion Boulevard  
Glen Allen, Virginia 23060  
Tel: 804.747.0000  
[www.keitercpa.com](http://www.keitercpa.com)

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

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

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

### **Report on the 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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **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, 2017, 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.

## **Report on Summarized Comparative Information**

The financial statements of the Science Museum of Virginia Foundation, Inc., as of and for the year ended June 30, 2016, were audited by other auditors whose report, dated October 14, 2016, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as for and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "Keiter", with a long, sweeping horizontal stroke extending to the right.

October 13, 2017  
Glen Allen, Virginia

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

*JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
<b>ASSETS</b>					
Cash	\$ 602,310	\$ 5,243,076	\$ 230,138	\$ 6,075,524	\$ 8,397,052
Accounts receivable	11,682	-	-	11,682	16,059
Promises to give, net	-	423,363	-	423,363	495,650
Contributions receivable, net	-	2,551,424	-	2,551,424	2,754,759
Prepaid expenses	3,912	-	-	3,912	3,068
Investments	642,933	9,465,847	5,770,988	15,879,768	14,191,755
Property and equipment, net	1,799	-	-	1,799	1,937
<b>Total Assets</b>	<u>\$ 1,262,636</u>	<u>\$ 17,683,710</u>	<u>\$ 6,001,126</u>	<u>\$ 24,947,472</u>	<u>\$ 25,860,280</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 125	\$ -	\$ -	\$ 125	\$ 753
Payable to Science Museum of Virginia	-	844,703	-	844,703	773,521
Annuity payable	-	8,724	-	8,724	9,170
<b>Total Liabilities</b>	<u>125</u>	<u>853,427</u>	<u>-</u>	<u>853,552</u>	<u>783,444</u>
<b>NET ASSETS</b>	<u>1,262,511</u>	<u>16,830,283</u>	<u>6,001,126</u>	<u>24,093,920</u>	<u>25,076,836</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,262,636</u>	<u>\$ 17,683,710</u>	<u>\$ 6,001,126</u>	<u>\$ 24,947,472</u>	<u>\$ 25,860,280</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, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
Revenues, Gains, and Other Support:					
Contributions:					
Annual giving and sponsorships	\$ 865,590	\$ 192,577	\$ 1,800	\$ 1,059,967	\$ 1,318,162
Capital Campaign	-	2,235,770	-	2,235,770	958,657
Endowment	-	-	-	-	99,790
Total Contributions	865,590	2,428,347	1,800	3,295,737	2,376,609
Special events and other	750,856	5,118	-	755,974	614,482
Investment income	18,843	65,829	-	84,672	163,975
Net realized and unrealized gains (losses) on investments	61,139	1,558,463	-	1,619,602	(782,737)
Gain on sale of property and equipment	-	-	-	-	207,017
Change in value of split interest agreements	-	(1,539)	-	(1,539)	(1,529)
Revenues, gains and other support	1,696,428	4,056,218	1,800	5,754,446	2,577,817
Net assets released from restrictions, satisfaction of program and project restrictions	5,142,096	(5,142,096)	-	-	-
Total Revenues, Gains, Other Support, and Reclassifications	6,838,524	(1,085,878)	1,800	5,754,446	2,577,817
Grants and Expenses:					
Grants to Science Museum of Virginia (the "Museum"):					
Operations	995,296	-	-	995,296	867,723
Expenditures to or on behalf of the Museum	4,726,549	-	-	4,726,549	1,965,158
Indirect Museum support	164,731	-	-	164,731	159,656
Special events	195,807	-	-	195,807	201,925
Management and general	207,202	-	-	207,202	191,431
Fund-raising	447,777	-	-	447,777	540,541
Total Grants and Expenses	6,737,362	-	-	6,737,362	3,926,434
Change in net assets	101,162	(1,085,878)	1,800	(982,916)	(1,348,617)
Net assets, beginning of year	1,161,349	17,916,161	5,999,326	25,076,836	26,425,453
Net assets, end of year	\$ 1,262,511	\$ 16,830,283	\$ 6,001,126	\$ 24,093,920	\$ 25,076,836

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, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (982,916)	\$ (1,348,617)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,837	1,938
Net unrealized (gains) losses on investments	(1,619,602)	782,737
Gain on sale of property and equipment	-	(207,017)
Amortization of discount on receivables and promises to give	(35,891)	(30,931)
Allowance for uncollectible promises to give and contributions receivable	18,295	(2,894)
Contributions restricted for future Endowment	(1,800)	(1,800)
Contributions restricted for Endowment	-	(99,790)
(Increase) decrease in:		
Accounts receivable and promises to give	57,885	(232,787)
Prepaid expenses	(844)	1,037
Contributions receivable - capital campaign	239,711	1,061,467
Increase (decrease) in:		
Accounts payable and accrued expenses	(628)	(349)
Payable to Science Museum of Virginia	71,181	176,837
Annuity payable	(446)	(458)
Deferred revenue	-	(9,375)
Net cash (used in) provided by operating activities	<u>(2,252,218)</u>	<u>89,998</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,699)	-
Proceeds from sale of property and equipment	-	1,999,017
Purchase of investments	(181,828)	(258,457)
Proceeds from sale of investments	113,417	670,387
Net cash (used in) provided by investing activities	<u>(71,110)</u>	<u>2,410,947</u>
<b>Cash flows from financing activities:</b>		
Contributions restricted for future Endowment	1,800	1,800
Contributions restricted for Endowment	-	99,790
Net cash provided by financing activities	<u>1,800</u>	<u>101,590</u>
Net (decrease) increase in cash	(2,321,528)	2,602,535
Cash, beginning of year	<u>8,397,052</u>	<u>5,794,517</u>
Cash, end of year	<u>\$ 6,075,524</u>	<u>\$ 8,397,052</u>

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

# SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### 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 the 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. Unrestricted cash balances totaling \$400,000 are board-designated as a financial reserve.
- 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 promises to give and contributions receivable, discount on land and building donated, and annuities payable.

*Promises to Give, Net and Contributions Receivable, Net* – Promises to give include gifts for operations of the Foundation and are primarily due within one year. Contributions receivable include gifts made for capital campaigns and are due within one to five years. Both balances are shown net of allowances for amounts estimated to be uncollectible and a discount on amounts due beyond one year.

*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 the net asset value per share as 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, 2017

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### Note 1—Summary of significant accounting principles (continued)

*Investments, 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. However, the Foundation 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 that expires over the asset's useful life on contributions exceeding \$2,000. As a result, contributions of property are recorded as restricted support. Refer to Note 8 for additional discussion regarding certain property received by the Foundation during fiscal year 1996 and sold in fiscal year 2016.

*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 \$21,450 were received in the year ended June 30, 2017. During 2017, 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 2017. 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, 2017. 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, 2017

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**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, 2016, from which the summarized information was derived.

**Note 2—Promises to Give and Contributions Receivable**

*Promises to Give* – The present value of estimated future cash flows of promises to give discounted at risk-free rates ranging from 0.58% to 2.50% are expected to be received as follows at June 30, 2017:

Amounts due in:

Less than one year	\$ 333,628
One to five years	162,666
Total promises to give	<u>496,294</u>
Allowance for uncollectible promises to give	(70,002)
Unamortized discount on amount due beyond one year	<u>(2,929)</u>
Promises to give, net	<u><u>\$ 423,363</u></u>

Unconditional promises to give are primarily from individuals, government agencies, 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 contributions receivable discounted at risk-free rates ranging from 0.58% to 1.88% are expected to be received as follows at June 30, 2017:

Amounts due in:

Less than one year	\$ 680,147
One to five years	1,964,560
Total contributions receivable	<u>2,644,707</u>
Allowance for uncollectible contributions receivable	(26,447)
Unamortized discount on amount due beyond one year	<u>(66,836)</u>
Contributions receivable, net	<u><u>\$ 2,551,424</u></u>

Contributions 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 by the donors for Inspire the World capital campaign purposes.

As of June 30, 2017, the Foundation has a \$500,000 conditional pledge that is not included as an asset in the accompanying financial statements because the conditions on which it depends have not been substantially met.

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

*JUNE 30, 2017*

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**Note 3—Investments**

The Foundation's investments consist of the following at June 30, 2017:

	<u>Cost</u>	<u>Market Value</u>
Private Investment Funds	<u>\$ 10,592,720</u>	<u>\$ 15,879,768</u>

Investment return is summarized as follows at June 30, 2017:

Interest, dividends, and capital gains distributions	\$ 199,561
Investment fees	<u>(114,889)</u>
	84,672
Unrealized gain on investments	<u>1,619,602</u>
Total investment return	<u>\$ 1,704,274</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.

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.

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

JUNE 30, 2017

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

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, by level within the fair value hierarchy.

Fair value measurements at June 30, 2017 using:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Annuity payable	\$ -	\$ -	\$ 8,724	\$ 8,724

The annuity payable is considered Level 3 because some of the factors used in the valuation include factors not easily observable in similar instruments in an active market, specifically the discount rate used to estimate the liability (see Note 9):

Beginning balance as of July 1, 2016	\$ 9,170
Change in annuity liability payable	<u>(446)</u>
Ending balance as of June 30, 2017	<u>\$ 8,724</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.

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.

# SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

### Note 5—Investments carried at net asset value or its equivalent (continued)

The table below sets forth a summary of investments that are valued using NAV at June 30, 2017. 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>
TIFF Multi-Asset Fund (a)	\$ 4,668,166	\$ -	Daily	None
The Richmond Fund (b)	11,211,602	-	Daily	60 days
	<u>\$ 15,879,768</u>			

- (a) TIFF Multi-Asset Fund (“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 30 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.

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.

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

JUNE 30, 2017

**Note 6—Endowment funds (continued)**

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, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 5,610,591	\$ 5,986,726	\$ 11,597,317
Board-designated endowment funds	663,730	4,897,040	-	5,560,770
Total endowed net assets	<u>\$ 663,730</u>	<u>\$ 10,507,631</u>	<u>\$ 5,986,726</u>	<u>\$ 17,158,087</u>

Board-designated temporarily restricted endowment funds represent prior year gifts for which the donors specified purpose restrictions of specific projects, but which were not specified by the donors to serve as endowment funds. The Board elected to designate these specific-purpose gifts as endowment and provide annual distributions in accordance with endowment policy (see below), with such distributions to be spent in accordance with the donor purpose restrictions.

Changes in endowment net assets for the year ended June 30, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 564,032	\$ 9,699,218	\$ 5,986,726	\$ 16,249,976
Investment return:				
Investment income	2,582	65,829	-	68,411
Net appreciation	61,139	1,558,463	-	1,619,602
Transfers to board-designated funds	49,682	1,479	-	51,161
Appropriation of endowment assets for expenditure	<u>(13,705)</u>	<u>(817,358)</u>	<u>-</u>	<u>(831,063)</u>
Endowment net assets, June 30, 2017	<u>\$ 663,730</u>	<u>\$ 10,507,631</u>	<u>\$ 5,986,726</u>	<u>\$ 17,158,087</u>

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

*JUNE 30, 2017*

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**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 occurred subsequent to the investment of new permanently restricted contributions and continued appropriation for certain programs that is deemed prudent by the Board of Directors. Deficiencies of this nature are reported in unrestricted net assets. 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, 2017.

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, 2017:

	<b>Unrestricted</b>
Furniture and fixtures	\$ 33,203
Less accumulated depreciation	(31,404)
	<u>\$ 1,799</u>

Depreciation expense amounted to \$2,837 for the year ended June 30, 2017. Refer to Note 8 for additional discussion regarding certain property received by the Foundation during fiscal year 1996 and sold in fiscal year 2016.

# SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### **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 Unitrust 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. Assets formerly held in the Unitrust were transferred to a named endowment in support of the Rice property (the "Rice House Endowment") and were included in 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.

Beginning in 2008, the Rice residence and surrounding property were included in temporarily restricted property and equipment in the financial statements of the Foundation 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.

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. The property was recorded on the financial statements of the Foundation and was included in temporarily restricted property and equipment at the 2008 market value of \$350,000.

On December 21, 2015, the Rice residence, surrounding property, and additional acreage and islands were sold for net proceeds of \$1,998,667. The proceeds were transferred to a named endowment in support of educational activities of the Museum and are classified as temporarily restricted investments at fair market value in the accompanying financial statements. The former Rice House Endowment was designated as an endowment in support of the Museum's Inger Rice Learning Center and those assets remain included in temporarily restricted investments at fair market value in the accompanying financial statements.

### **Note 9—Annuity payable**

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 are equal to the present value of the future distributions to the annuitants, adjusted to fair value annually (see Note 4). Assets held under these arrangements had a fair value of \$3,162 at June 30, 2017, and the present value of the future liabilities of \$8,724 was calculated using a discount rate of 7% and applicable mortality tables.

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

*JUNE 30, 2017*

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**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, 2017:

Endowments for general program activities	\$ 3,717,860
Endowments for specifically designated programs	2,268,866
Funds accumulating for endowment designation	14,400
	<hr/>
Total permanently restricted net assets	<u>\$ 6,001,126</u>

Temporarily restricted net assets are available for the following purposes at June 30, 2017:

Capital campaign projects	\$ 5,091,870
General program activities	2,299,398
Education and outreach programs	6,359,193
Exhibits and exhibit maintenance	2,006,047
Virginia Aviation Museum	996,137
Other specific programs	77,638
	<hr/>
Total temporarily restricted net assets	<u>\$ 16,830,283</u>

Temporarily restricted net assets released from restrictions for the year ended June 30, 2017 are as follows:

Capital campaign projects	\$ 3,132,596
General program activities	415,547
Education and outreach programs	873,327
Exhibits and exhibit maintenance	304,612
Virginia Aviation Museum	409,872
Other specific programs	6,143
	<hr/>
Total temporarily restricted net assets released from restrictions	<u>\$ 5,142,096</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, 2017, balances not insured by FDIC amounted to approximately \$5.3 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. The maximum amount of loss due to credit is limited to the balance of those receivables. Approximately 78% of promises to give and contributions receivable at June 30, 2017 relate to gifts for the capital campaign from three donors. Approximately 44% of contributions received for the year ended June 30, 2017 was from two donors.

# SCIENCE MUSEUM OF VIRGINIA FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

### 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 \$13,902 in 2017.

### Note 13—Related parties

The Foundation received cash and in-kind contributions from Board members in the amount of \$133,159 for the year ending June 30, 2017. Promises to give from Board members totaled \$69,743 at June 30, 2017.

### Note 14—Grants and expenses

Grants to or on behalf of the Museum totaled \$5,721,845 for 2017. Non-grant expenses totaled \$1,015,517 and are set forth in detail below.

	<b>Special Events</b>	<b>Management and General</b>	<b>Fund-Raising</b>	<b>Indirect Museum Support</b>	<b>Total</b>
Salaries and benefits	\$ 55,752	\$ 152,955	\$ 331,312	\$ 61,847	\$ 601,866
Professional services	-	40,309	3,280	55,300	98,889
Printing and postage	347	385	41,863	165	42,760
Computer supplies and support	-	3,537	19,824	-	23,361
Supplies	119	1,042	12,473	85	13,719
Annual report	-	-	-	4,013	4,013
Director’s expense	-	-	-	31,719	31,719
Depreciation	-	594	1,980	263	2,837
Events	138,176	-	-	10,585	148,761
Donor cultivation	-	-	23,710	-	23,710
Other services	1,413	8,380	13,335	754	23,882
	<u>\$ 195,807</u>	<u>\$ 207,202</u>	<u>\$ 447,777</u>	<u>\$ 164,731</u>	<u>\$1,015,517</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. The Science Museum of Virginia Foundation is expected to be an income beneficiary of these assets. Since The Community Foundation has variance power over the gift, it is not included as an asset in the accompanying financial statements.

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

*JUNE 30, 2017*

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**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 (3.05% on June 30, 2017). The line matures on November 15, 2017, unless extended or renewed at the sole discretion of the lender. There was no balance outstanding on the line as of June 30, 2017, and there were no borrowings made on the line during the year ended June 30, 2017.

**Note 17—Litigation**

In December 2016, the Foundation received notice from the liquidating trust of a Richmond-based company (the "Company") that transfers to the Foundation totaling \$2.4 million, which were received during 2011, 2012, and 2013, may be recoverable by the liquidating trust in relation to the bankruptcy filing of the Company. In June 2017, the liquidating trustee filed suit against the Foundation for the \$2.4 million claim, plus interest and other costs. The Foundation believes the likelihood of a loss in some amount is reasonably possible, but the amount of any such loss is not currently estimable. The Foundation will defend against the claim with legal proceedings ongoing as of October 13, 2017, which was the date these financial statements were available to be issued.

**Note 18—Subsequent events**

In preparation of its financial statements, the Foundation considered subsequent events through October 13, 2017, which was the date these financial statements were available to be issued, and has determined that there are no subsequent events to be reported in the accompanying financial statements.