

Fund for the Arts
Financial Statements
and
Supplemental Information
Years Ended June 30, 2016 and 2015

Fund for the Arts

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June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors
Fund for the Arts

We have audited the accompanying financial statements of Fund for the Arts (the "Fund"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

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Ohio

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2016 and 2015, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "M. C. Chilton, Muddley, LLP".

Louisville, Kentucky
September 2, 2016

Fund for the Arts
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 449,793	\$ 585,726
Investments	2,674,669	2,228,379
Contributions receivable, net of discounts and allowance for uncollectible pledges of approximately \$286,000 and \$255,000 for 2016 and 2015, respectively	5,108,092	5,138,982
Notes receivable	73,225	148,225
Other assets	36,142	22,544
Property and equipment, net	<u>639,529</u>	<u>679,200</u>
Total Assets	<u><u>\$ 8,981,450</u></u>	<u><u>\$ 8,803,056</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 127,462	\$ 86,566
Campaign grants payable	4,649,374	4,160,377
Payable to FFTA Properties, Inc.	<u>133,030</u>	<u>191,435</u>
Total Liabilities	4,909,866	4,438,378
Commitments and Contingencies		
Net assets		
Unrestricted		
Designated for subsequent year's operating expenses and arts and regional grants	1,558,910	1,844,809
Invested in property and equipment	639,529	679,200
Undesignated	<u>196,230</u>	<u>196,230</u>
Total Unrestricted	2,394,669	2,720,239
Temporarily restricted	1,516,915	1,484,439
Permanently restricted	<u>160,000</u>	<u>160,000</u>
Total Net Assets	<u><u>4,071,584</u></u>	<u><u>4,364,678</u></u>
Total Liabilities and Net Assets	<u><u>\$ 8,981,450</u></u>	<u><u>\$ 8,803,056</u></u>

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2016 with comparative totals as of June 30, 2015

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public Support and Gains					
Contribution revenues					
Current year campaign	\$ 6,644,585	\$ 1,615,428	\$ -	\$ 8,260,013	\$ 8,015,618
Fundraising events, net	23,080	237,714	-	260,794	-
Future year campaigns and other	-	(74,898)	-	(74,898)	93,499
Less amounts designated by donors for specific organizations	(1,047,482)	-	-	(1,047,482)	(996,973)
Total Contribution Revenues	5,620,183	1,778,244	-	7,398,427	7,112,144
Allowance for pledge discounts and uncollectible pledges	(200,000)	7,072	-	(192,928)	(230,708)
Returned grants	-	(96,878)	-	(96,878)	-
Net Contribution Revenues	5,420,183	1,688,438	-	7,108,621	6,881,436
Other public support and gains					
Investment income	42,989	279	-	43,268	19,323
Rental income, net	29,644	-	-	29,644	28,569
Miscellaneous	12,750	-	-	12,750	5,394
Total Other Public Support and Gains	85,383	279	-	85,662	53,286
Total Public Support and Gains	5,505,566	1,688,717	-	7,194,283	6,934,722
Net assets released from restricted status upon satisfaction of program restrictions	1,656,241	(1,656,241)	-	-	-
Total Public Support and Gains	7,161,807	32,476	-	7,194,283	6,934,722
Grants and Expenses					
Undesignated grants					
Total grants	6,388,008	-	-	6,388,008	5,560,608
Less amounts designated by donors for specific organizations	(1,047,482)	-	-	(1,047,482)	(996,973)
Total Undesignated Grants	5,340,526	-	-	5,340,526	4,563,635
Program expenses	737,950	-	-	737,950	336,647
Total Undesignated Grants and Program Expenses	6,078,476	-	-	6,078,476	4,900,282
Other Expenses					
Fundraising expenses	1,104,784	-	-	1,104,784	1,004,305
Management and general expenses	304,117	-	-	304,117	303,614
Total Other Expenses	1,408,901	-	-	1,408,901	1,307,919
Total Grants and Expenses	7,487,377	-	-	7,487,377	6,208,201
Changes in Net Assets	(325,570)	32,476	-	(293,094)	726,521
Net Assets at Beginning of Year	2,720,239	1,484,439	160,000	4,364,678	3,638,157
Net Assets at End of Year	\$ 2,394,669	\$ 1,516,915	\$ 160,000	\$ 4,071,584	\$ 4,364,678

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Gains				
Contribution revenues				
Current year campaign	\$ 6,684,897	\$ 1,330,721	\$ -	\$ 8,015,618
Future year campaigns and other	-	93,499	-	93,499
Less amounts designated by donors for specific organizations	(996,973)	-	-	(996,973)
Total Contribution Revenues	5,687,924	1,424,220	-	7,112,144
Allowance for pledge discounts and uncollectible pledges	(225,000)	(5,708)	-	(230,708)
Returned grants	-	-	-	-
Net Contribution Revenues	5,462,924	1,418,512	-	6,881,436
Other public support and gains				
Kentucky Arts Commission Challenge grant	-	-	-	-
Investment income	13,739	5,584	-	19,323
Rental income, net	28,569	-	-	28,569
Miscellaneous	5,394	-	-	5,394
Total Other Public Support and Gains	47,702	5,584	-	53,286
Total Public Support and Gains	5,510,626	1,424,096	-	6,934,722
Net assets released from restricted status upon satisfaction of program restrictions	667,883	(667,883)	-	-
Total Public Support and Gains	6,178,509	756,213	-	6,934,722
Grants and Expenses				
Undesignated grants				
Total grants	5,560,608	-	-	5,560,608
Less amounts designated by donors for specific organizations	(996,973)	-	-	(996,973)
Total Undesignated Grants	4,563,635	-	-	4,563,635
Program expenses	336,647	-	-	336,647
Total Undesignated Grants and Program Expenses	4,900,282	-	-	4,900,282
Other Expenses				
Fundraising expenses	1,004,305	-	-	1,004,305
Management and general expenses	303,614	-	-	303,614
Total Other Expenses	1,307,919	-	-	1,307,919
Total Grants and Expenses	6,208,201	-	-	6,208,201
Changes in Net Assets	(29,692)	756,213	-	726,521
Net Assets at Beginning of Year	2,749,931	728,226	160,000	3,638,157
Net Assets at End of Year	\$ 2,720,239	\$ 1,484,439	\$ 160,000	\$ 4,364,678

See accompanying notes.

Fund for the Arts
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Changes in Net Assets	\$ (293,094)	\$ 726,521
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	65,140	68,616
Net unrealized and realized losses (gains) on investments	4,739	(1,898)
Gain on disposal of vehicle	-	(5,210)
Allowance for pledge discounts and uncollectible pledges	192,928	230,708
Noncash guarantee provided to FFTA Properties, Inc.	(1,323)	1,555
Changes in:		
Contributions receivable	(162,038)	(368,378)
Other assets	(13,598)	538
Accounts payable and accrued expenses	40,896	15,075
Campaign grants payable	488,997	(604,807)
Payable to FFTA Properties, Inc.	(57,082)	114,945
Net Cash Provided by Operating Activities	<u>265,565</u>	<u>177,665</u>
Cash Flows from Investing Activities		
Proceeds from maturities and sale of investments	380,457	598,631
Purchases of investments	(831,486)	(776,471)
Proceeds from sale of vehicle	-	5,600
Purchase of property and equipment	(25,469)	(52,650)
Repayment from FFTA Properties, Inc.	-	82,243
Payments from note receivable	75,000	100,000
Net Cash Used in Investing Activities	<u>(401,498)</u>	<u>(42,647)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(135,933)	135,018
Cash and Cash Equivalents at Beginning of Year	<u>585,726</u>	<u>450,708</u>
Cash and Cash Equivalents at End of Year	<u>\$ 449,793</u>	<u>\$ 585,726</u>

See accompanying notes.

Fund for the Arts
Notes to Financial Statements
June 30, 2016 and 2015

Note A - Nature of Organization and Operations

Mayor Charles Farnsley founded Fund for the Arts (the "Fund") in 1949 as an umbrella fundraising organization in support of the arts. The Fund is a regional nonprofit committed to building a vibrant community with the mission to maximize the impact of the arts on economic development, education and a better quality of life for everyone by generating resources, inspiring excellence, and creating community connections. With the help of nearly 20,000 donors, the Fund supports a range of arts organizations and drives accessibility across neighborhoods, schools, community centers, senior care facilities, parks, libraries and public spaces.

The Fund provides grants to more than 350 schools and community arts organizations across the region. This includes funding for access to the arts, arts in education and general operating support grants awarded to pre-identified arts organizations known as the Fund's "Cultural Partners". The Cultural Partners for 2016 and 2015 were Actors Theatre of Louisville, Kentucky Museum of Art and Craft, Kentucky Opera Association, Kentucky Shakespeare, Louisville Ballet, Louisville Orchestra, Louisville Theatrical Association, Louisville Visual Art, Louisville Youth Choir, Louisville Youth Orchestra, StageOne Family Theatre, Commonwealth Theatre Center (p/k/a Walden Theatre/Blue Apple Players), West Louisville Performing Arts Academy, Cultural Partner Supporting Organization and the W.L. Lyons Brown Theatre/Fifth Third Conference Center/ArtSpace. Education programming includes the EVERY Child Arts in Education Initiative where the goal is for every child in every year of their education to have an "arts experience". The Fund also hosts power2give.org, an online crowd-funding platform for Section 501(c)(3) organizations in Kentucky and Southern Indiana to post arts and culture projects.

The Fund incurs direct program expenses in support of its mission including offering a range of community arts services designed to advocate for and extend the reach of the arts to the whole community; funding annual scholarships for students pursuing a career in the performing and visual arts; maintaining a social media presence through Facebook, Twitter, Instagram, YouTube and regular CEO communications; hosting the free app "Louisville Arts Link" that serves as a central arts calendar and offers an Arts Card to encourage arts patronage; conducting "*NeXt!*", a leadership development program for young professionals interested in fostering corporate citizenship through volunteering and serving arts related organizations; and participating in other initiatives important to the success of the arts community such as "ArtSpace" and the Brown Theatre.

Note B - Summary of Significant Accounting Policies

1. Basis of Presentation: The financial statements of the Fund are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

The financial position and activities of FFTA Properties, Inc. ("Properties"), a not-for-profit organization and a related party to the Fund, are not consolidated in the accompanying financial statements (see Note K).

2. Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
3. Subsequent Events: Subsequent events for the Fund have been considered through the date of the Independent Auditor's Report which represents the date which the financial statements were available to be issued.
4. Donor-Imposed Restrictions: The Fund records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

4. Donor-Imposed Restrictions (Continued): The Fund reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

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

5. Cash Equivalents: Cash equivalents represent investments purchased with a maturity of 90 days or less, not designated for a specific purpose, and typically include money market funds utilized to invest cash on-hand in excess of daily requirements. The Fund typically maintains balances with banks in excess of federally-insured limits.
6. Investments: Investments in certificates of deposit and money market accounts are stated at cost plus accrued interest, which approximates fair value. Other investments are recorded at fair value based upon quoted market prices. Realized and unrealized gains and losses are recorded in the statement of activities as incurred.
7. Property and Equipment: The Fund records all purchases of long-lived property and equipment in excess of \$1,000 at cost at the date of acquisition or fair value at date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years.
8. Income Taxes: The Fund has received a determination letter from the Internal Revenue Service indicating that it is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is classified as an organization that is not a private foundation. Accordingly, no provision for income taxes is included in the financial statements.

The Fund evaluates the recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach and has determined that no material adjustment for income tax uncertainties or unrecognized tax benefits is required.

9. Contributions: Contributions are reported at fair value at the date the unconditional promise is received. Conditional promises are not recognized until the conditions on which they depend are substantially met. Contributions receivable are generally expected to be collected in the following year. An allowance for uncollectible pledges receivable is provided based upon the judgment of the Fund considering factors such as the prior collection history and type of contributions.
10. Campaign Grants Payable: Campaign grants payable are to be paid in the following year.
11. Reclassifications: Certain reclassifications were made to the June 30, 2015 financial statements to conform to the June 30, 2016 presentation. These reclassifications had no impact on net assets or the change in net assets reported in the accompanying financial statements.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note C - Contributions Receivable

Contributions receivable include the following unconditional pledges at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Gross contributions receivable	\$ 5,394,473	\$ 5,393,556
Less: Allowance for doubtful pledges	(283,130)	(244,251)
Unamortized discount on future contributions	<u>(3,251)</u>	<u>(10,323)</u>
Contributions Receivable, Net	<u><u>\$ 5,108,092</u></u>	<u><u>\$ 5,138,982</u></u>

Gross contributions receivable are due according to the following schedule:

Less than one year	\$ 4,750,052
One to five years	<u>644,421</u>
Total Gross Contributions Receivable	<u><u>\$ 5,394,473</u></u>

Pledges due after one year have been discounted at rates ranging from 1.86% to 3.07%.

Note D - Notes Receivable

During 2012, the Fund advanced funds to a Cultural Partner. The Agreement provided for an advancement not to exceed \$250,000 at an interest rate of prime plus 0.5% with a floor of 3.75% and interest payments due monthly. During 2016, the agreement was replaced with a new note with a total principal due of \$73,225 and a maturity date of June 30, 2018. Monthly payments of \$3,000 are due on the first day of each month starting July 1, 2016 and are to be paid through offsets of any current or future general operating or special grant payments otherwise due to the Cultural Partner from the Fund. The new agreement includes an interest rate of prime (3.5% at June 30, 2016) plus 0.5% with a floor of 3.75%. At June 30, 2016 and 2015 there was \$73,225 and \$148,225 outstanding, respectively.

Note E - Property and Equipment

Property and equipment at June 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 1,576,293	\$ 1,565,532
Office furniture and equipment	<u>304,401</u>	<u>289,693</u>
	1,880,694	1,855,225
Less accumulated depreciation	<u>1,241,165</u>	<u>1,176,025</u>
	<u><u>\$ 639,529</u></u>	<u><u>\$ 679,200</u></u>

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note F - Fair Value Measurements

FASB ASC defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements. The provisions also establish a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest to lower priority are described below:

- Level 1 - Quote prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Fund's own assumptions.

Following is a description of the valuation methodologies for assets measured at fair value:

Certificates of deposit and money market accounts: Valued at cost which approximates fair value.

Mutual funds: Valued at the net asset value of the underlying assets or at the underlying net asset value less applicable fees.

Funds held at the Louisville Community Foundation, Inc.: The underlying assets of the funds are valued primarily at the closing price reported on the active market on which the individual securities are traded. The funds are valued at the Fund's share of the net asset value of the comingled underlying assets.

Corporate bonds: Valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves and other pricing models utilizing observable inputs.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note F - Fair Value Measurements (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Fund's assets at fair value as of June 30, 2016 and 2015.

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 81,924	\$ -	\$ -	\$ 81,924
Money market accounts	1,849,700	-	-	1,849,700
Mutual funds	241,341	-	-	241,341
Corporate bonds	-	323,945	-	323,945
Funds held at the Louisville Community Foundation, Inc.	-	177,759	-	177,759
	<u>\$ 2,172,965</u>	<u>\$ 501,704</u>	<u>\$ -</u>	<u>\$ 2,674,669</u>

	Investments at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 81,597	\$ -	\$ -	\$ 81,597
Money market accounts	1,650,556	-	-	1,650,556
Mutual funds	304,156	-	-	304,156
Funds held at the Louisville Community Foundation, Inc.	-	192,070	-	192,070
	<u>\$ 2,036,309</u>	<u>\$ 192,070</u>	<u>\$ -</u>	<u>\$ 2,228,379</u>

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Fund.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note G - Endowment Funds

The Fund has placed two donor-restricted endowment funds with Louisville Community Foundation, Inc. (the "Foundation"). The first provides funding for a scholarship to assist pre-college to college age students in pursuing advanced studies in the arts. The agreement with the Foundation provides that a distributable amount of \$5,000 will be made available annually for grants and will be funded from principal if necessary. In the event of the Fund's dissolution, the Fund reserves the right to name a successor organization to the Foundation fund. The net income of the endowment fund, as defined in the agreement between the Foundation and the Fund, is available for distribution. The Fund makes the determination of the amount to be distributed.

As of June 30, 2016, \$50,000 of the fund is permanently restricted and \$26,257 is temporarily restricted. As of June 30, 2015, \$50,000 of the fund is permanently restricted and \$36,330 is temporarily restricted.

The second donor-restricted endowment fund with the Foundation was established to provide funding to assist community arts administrators and artists in pursuing innovative professional development or educational opportunities that will have a long-term impact on the Louisville Arts community. The agreement with the Foundation provides that a distributable amount will be made available annually based on the Foundation's regular distribution policy. The agreement also provides that the Fund's Board may request a complete distribution of the account should they choose to manage the funds directly in the future.

As of June 30, 2016, \$100,000 of the endowment fund is permanently restricted and \$1,502 is unrestricted. As of June 30, 2015, \$100,000 of the fund is permanently restricted and \$5,740 is unrestricted.

The Fund is also the beneficiary of an operating endowment bequeathed to the Foundation by the Estate of Mary Caperton Bingham. The fair value of the assets of the endowment of \$6,758,874 and \$7,036,511 at June 30, 2016 and 2015, respectively, is not recorded in the accompanying financial statements because under the terms of the Bingham Will, the Foundation has the power to redirect the use of the endowment assets to other beneficiaries if the Fund (or its successor) "ceases to perform its current function of helping to fund a broad range of arts organizations in the Louisville Metropolitan Area." Contribution revenue includes amounts from the Foundation of \$340,535 and \$317,441 during 2016 and 2015, respectively.

As these three endowment funds reside at the Foundation, the investment objective of the endowment funds is to have a 65% traditional equities / 25% bond and cash allocation / 10% alternative investments, with the funds invested in moderately conservative investments. This should provide an annual rate of return which exceeds annual distributions in order to protect against inflation. An annualized return may cause the portfolio to experience periods of negative rates of return while aiming for a higher return over a long term period.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note H - Net Assets

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

	<u>2016</u>	<u>2015</u>
Education Programming	\$ 614,337	\$ 567,386
Jennifer Lawrence Arts Fund	207,714	-
Operating and Program Underwriting	178,500	218,938
West Louisville Collaborative/Education/Project(s)	142,158	117,500
Future Campaign/Project Funding	115,348	183,174
Art in Healthcare	110,000	10,000
Arts Master Plan	98,296	140,000
Whittenberg Scholarship Fund	26,257	36,330
Arts in Aging	13,100	3,500
Power2give	10,854	207,611
Other	351	-
	<u>\$ 1,516,915</u>	<u>\$ 1,484,439</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is available to support:

	<u>2016</u>	<u>2015</u>
Arts innovation endowment	\$ 100,000	\$ 100,000
Scholarship endowment	50,000	50,000
Education endowment	10,000	10,000
	<u>\$ 160,000</u>	<u>\$ 160,000</u>

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note I - Leases

The Fund owns a building and leases office space in that building to others. Gross rental income during 2016 and 2015 was \$73,329 and \$75,315 respectively. A portion of the office space is leased for an annual rental rate of \$45,229. The parties have agreed to provide a six-month notice of intent to cancel this arrangement. To date, no notice has been provided. In addition, the following presents the future minimum rentals to be earned under noncancelable leases as of June 30, 2016:

Year Ending June 30,	Amount
2017	\$ 29,254
2018	7,500
	<u>\$ 36,754</u>

Note J - Employee Benefit Plans

Effective March 1, 2007, the Fund adopted a "safe harbor" 401(k) plan that covers substantially all employees of the Fund. Under this plan, the Fund matches employee contributions up to 5% of compensation. Additional employer contributions to the plan are at the discretion of the Fund's Board of Directors and are also determined as a percentage of compensation. Total contributions to the plan during 2016 and 2015 were \$40,678 and \$31,455, respectively.

Note K - FFTA Properties, Inc.

Properties is a not-for-profit organization that has received a determination letter from the Internal Revenue Service indicating that it is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is classified as an organization that is not a private foundation. Properties is a related party to the Fund but its operations are not consolidated due to an independent Board of Directors and the Fund's lack of a direct economic interest in Properties. Properties owns the Ballet Building and the Owsley Brown II Center for Artistic Excellence which includes the W.L. Lyons Brown Theatre (the "Theatre"), the adjoining Fifth Third Conference Center, and 8 floors of the Brown Office Building ("ArtSpace") along with the related land. Properties undertook a complete renovation of ArtSpace, a significant portion of which serves as the home for various Cultural Partners. The Ballet Building is leased to the Kentucky Dance Council ("Louisville Ballet").

For 2016 and 2015, the Fund granted to Properties \$105,000, in each year, as general support for the payment of Properties' commitments. For 2016 and 2015, the Fund granted to Properties \$50,000, in each year, related to the oversight and management of Properties.

Additionally, the Fund has guaranteed payment on the Properties' bonds payable and letter of credit, which were outstanding in the amount of \$3,516,655 and \$3,649,040 at June 30, 2016 and 2015, respectively. See Note L for additional information.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note K - FFTA Properties, Inc. (Continued)

Properties leases space to the Louisville Orchestra, Kentucky Opera Association, Kentucky Shakespeare, StageOne Family Theatre (through September 30, 2014) and West Louisville Performing Arts Academy, all Fund Cultural Partners. The Cultural Partners pay an agreed upon portion of the rent and the Fund pays the balance. The payments on behalf of these Cultural Partners of \$90,828 and \$91,878 for the years ended June 30, 2016 and 2015, respectively, were recorded as additional campaign grants.

The following presents summarized financial data of Properties as of and for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Total net property and equipment	\$ 7,411,966	\$ 7,895,080
Total assets	7,603,190	8,157,283
Total liabilities	3,524,443	3,673,882
Total net assets	4,078,747	4,483,401
Total revenues and other support	523,285	553,750
Total expenses and losses	927,939	969,589
Total changes in net assets	(404,654)	(415,839)

Note L - Guarantees

During 2011, Properties obtained debt financing for which the Fund provided a guarantee of payment to the bank. The debt matures in 2021 and the guarantee will remain in effect until the debt's maturity. The face value of the debt was \$3,000,000 of which \$2,428,492 remains outstanding at June 30, 2016. Properties also obtained a \$500,000 line of credit during 2011 which was increased in February 2016 to \$1,300,000. The Fund provides a guarantee of payment. The outstanding balance on the line of credit as of June 30, 2016 and 2015 was \$1,088,163 and \$325,000, respectively.

During 2006, Properties obtained debt financing for which the Fund provided a guarantee of payment to the bank. The debt matured in 2016 and proceeds from the expanded line of credit discussed above were utilized to repay the debt. The face value of the debt was \$1,200,000, of which \$0- and \$776,117 was outstanding at June 30, 2016 and 2015.

The maximum liability to the Fund at June 30, 2016 is the outstanding balance of the debt, \$3,516,655, plus any unpaid interest and fees along with the costs of collecting the obligations. No material liabilities have been recorded as of June 30, 2016 and 2015 as the likelihood of default is deemed to be less than probable. The liability to "stand ready" at June 30, 2016 and 2015 associated with the guarantee is included in the payable to Properties in the accompanying statements of financial position at \$35,167 and \$36,490, respectively. The liability to "stand ready" is calculated at a rate of 1% of the following debt balances of Properties:

	<u>2016</u>	<u>2015</u>
Properties debt - 2011	\$ 2,428,492	\$ 2,547,923
Properties - line of credit	1,088,163	325,000
Properties debt - 2006	-	776,117
	<u>\$ 3,516,655</u>	<u>\$ 3,649,040</u>

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note M - Designated for Subsequent Year/Contingent Grants

Each year, the Fund grants support to its Cultural Partners which generally approximates the current year's net campaign funds raised less budgeted community grants and direct support/operating costs. For the year ended June 30, 2015, the Fund made various contingent grants. The total of these grants as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Designated for Subsequent Year's Operating Expenses/Special Projects	\$ 1,558,910	\$ 1,469,684
StageOne Family Theatre	-	300,000
Louisville Visual Arts Association	-	39,375
West Louisville Performing Arts Academy	-	35,750
	<u>\$ 1,558,910</u>	<u>\$ 1,844,809</u>

These amounts are presented as designated unrestricted net assets in the statement of financial position at June 30, 2016 and 2015 rather than as a component of campaign grant expenses in the statement of activities and campaign grants payable in the statement of financial position at June 30, 2016 and 2015.

Note N – Fundraising Events

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

	<u>2016</u>
Awards in the Arts	
Revenues	\$ 431,479
Expenses	<u>(193,765)</u>
	237,714
Raffle	
Revenues	27,700
Expenses	<u>(4,620)</u>
	<u>23,080</u>
	<u>\$ 260,794</u>

Supplemental Information

Fund for the Arts
Schedule of Grants and General Operating
Support Grants to Cultural Partners
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Grants</u>		
General Operating Support Grants - Cultural Partners	\$ 3,916,500	\$ 3,916,500
Payment in FY16 of FY15 Contingent General Operating Grants	<u>375,120</u>	<u>(375,125)</u>
General Operating Support Grants to Cultural Partners	4,291,620	3,541,375
Special Initiatives/Grants - Cultural Partners	149,203	496,200
Power2give Grants (including \$332,057 and \$147,326 designated grants in FY16 and FY15, respectively)	509,864	222,650
Donor-Designated Grants (excluding portion applicable to power2give)	715,425	849,647
Miscellaneous education/community grants/special projects	<u>721,896</u>	<u>450,736</u>
Total Grants	<u>\$ 6,388,008</u>	<u>\$ 5,560,608</u>
 <u>General Operating Support Grants to Cultural Partners</u>		
Actors Theatre of Louisville	\$ 861,000	\$ 861,000
Commonwealth Theatre Center (f/k/a Walden Theatre/Blue Apple Players)	51,000	51,000
Kentucky Museum of Art and Craft	140,000	140,000
Kentucky Opera Association	576,000	576,000
Kentucky Shakespeare	100,000	100,000
Louisville Ballet	594,000	594,000
Louisville Orchestra	850,000	850,000
Louisville Theatrical Association	62,000	62,000
Louisville Visual Art	52,500	52,500
Louisville Visual Art - Payment of FY15 Contingent Grant*	39,375	(39,375)
Louisville Youth Choir	35,000	35,000
Louisville Youth Orchestra	51,000	51,000
StageOne Family Theatre	400,000	400,000
StageOne Family Theatre - Payment of FY15 Contingent Grant*	300,000	(300,000)
West Louisville Performing Arts Academy	39,000	39,000
West Louisville Performing Arts Academy - Payment of FY15 Contingent Grant*	35,745	(35,750)
W.L. Lyons Brown Theatre/Fifth Third Conference Center/ArtSpace	<u>105,000</u>	<u>105,000</u>
Total General Operating Support Grants to Cultural Partners	<u>\$ 4,291,620</u>	<u>\$ 3,541,375</u>

* See Note M

See independent auditor's report.

Fund for the Arts
Schedule of Expenses
Year Ended June 30, 2016

	Program	Fundraising	Management and General	Total
Undesignated grants	\$ 5,340,526	\$ -	\$ -	\$ 5,340,526
Salaries and benefits	213,808	674,741	211,022	1,099,571
Occupancy	18,850	38,185	14,518	71,553
Special Programs				
Arts Master Plan	96,704	-	-	96,704
Arts in Health and Aging	23,515	-	-	23,515
power2give	-	22,098	-	22,098
Arts App	9,184	-	-	9,184
Impact Advisory Group	5,461	-	-	5,461
NeXt	5,410	-	-	5,410
Arts Showcase	17,399	-	-	17,399
Events	54,581	669	-	55,250
Campaign incentives/entertainment	-	43,051	-	43,051
Materials and supplies	2,961	5,998	1,808	10,767
Printing and marketing (including in-kind)	220,667	176,863	3,361	400,891
Postage	5,285	10,707	3,227	19,219
Telephone	6,264	12,690	3,825	22,779
Data processing	20,023	40,562	12,225	72,810
Meetings	9,082	9,706	7,646	26,434
Dues and subscriptions	2,841	5,757	1,735	10,333
Legal, accounting and other consulting	-	-	24,129	24,129
Insurance	5,681	11,508	3,468	20,657
Travel and transportation	11,454	23,203	6,993	41,650
Financial service fees	-	11,259	4,800	16,059
Training and development	7,616	15,428	4,650	27,694
Miscellaneous	1,164	2,359	710	4,233
Totals per Statement of Activities (Page 4)	6,078,476	1,104,784	304,117	7,487,377
Campaign grants designated by donors for specific organizations	1,047,482	-	-	1,047,482
Totals Including Designated Grants	\$ 7,125,958	\$ 1,104,784	\$ 304,117	\$ 8,534,859
Expense Ratios	83%	13%	4%	100%

See independent auditor's report.

Fund for the Arts
Schedule of Expenses
Year Ended June 30, 2015

	Program	Fundraising	Management and General	Total
Undesignated grants	\$ 4,563,635	\$ -	\$ -	\$ 4,563,635
Salaries and benefits	167,849	639,952	208,428	1,016,229
Occupancy	14,814	43,789	15,381	73,984
Special Programs				
Power2give	-	9,466	-	9,466
NeXt	3,609	-	-	3,609
Arts Showcase	15,062	-	-	15,062
Events	2,359	15,088	-	17,447
Campaign incentives/entertainment	-	45,741	-	45,741
Materials and supplies	2,402	7,100	2,243	11,745
Printing and marketing (including in-kind)	84,524	92,481	3,198	180,203
Postage	3,891	11,508	3,635	19,034
Telephone	5,167	15,273	4,826	25,266
Data processing	16,818	49,714	15,708	82,240
Meetings	4,398	16,712	6,531	27,641
Dues and subscriptions	2,574	7,608	2,404	12,586
Legal, accounting and other consulting	-	-	24,298	24,298
Insurance	4,101	12,124	3,831	20,056
Travel and transportation	6,384	18,871	5,963	31,218
Financial service fees	-	10,915	4,383	15,298
Training and development	1,694	5,008	1,582	8,284
Miscellaneous	1,001	2,955	1,203	5,159
Totals per Statement of Activities (Page 5)	4,900,282	1,004,305	303,614	6,208,201
Campaign grants designated by donors for specific organizations	996,973	-	-	996,973
Totals Including Designated Grants	<u>\$ 5,897,255</u>	<u>\$ 1,004,305</u>	<u>\$ 303,614</u>	<u>\$ 7,205,174</u>
Expense Ratios	<u>82%</u>	<u>14%</u>	<u>4%</u>	<u>100%</u>

See independent auditor's report.

Fund for the Arts
Schedule of Eligible Income for Kentucky Arts Council Grant
Year Ended June 30, 2016

Campaign 2016 - Unrestricted	\$ 6,667,665
Less Allowance for Uncollectible Pledges	(200,000)
Plus Other Public Support and Gains	85,383
Plus Net Assets Released from Restrictions	<u>1,656,241</u>
Total Income	8,209,289
Less In-Kind/Returned Contributions	<u>(341,197)</u>
Total Eligible Income	<u><u>\$ 7,868,092</u></u>

See independent auditor's report.