

Fund for the Arts
Financial Statements
and
Supplemental Information
Years Ended June 30, 2018 and 2017

Fund for the Arts

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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, 2018 and 2017, 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.

Kentucky
Indiana
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, 2018 and 2017, 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.

MCM CPAs & Advisors LLP

Louisville, Kentucky

August 20, 2018

Fund for the Arts
Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 1,964,843	\$ 516,531
Investments	1,290,848	2,542,621
Contributions receivable, net of discounts and allowance for uncollectible pledges of approximately \$327,000 and \$305,000 for 2018 and 2017, respectively	5,751,402	5,739,874
Note receivable from FFTA Properties, Inc.	187,814	141,192
Notes receivable	-	37,225
Other assets	33,645	32,568
Property and equipment, net	<u>626,459</u>	<u>624,455</u>
Total Assets	<u>\$ 9,855,011</u>	<u>\$ 9,634,466</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 145,003	\$ 94,104
Deferred revenue	-	3,769
Grants payable	754,635	4,457,418
Other liabilities	-	21,952
Payable to FFTA Properties, Inc.	<u>50,000</u>	<u>156,127</u>
Total Liabilities	949,638	4,733,370
Commitments and Contingencies		
Net assets		
Unrestricted		
Designated for subsequent year's operating expenses, special projects and sustaining impact grants	4,820,686	1,269,708
Invested in property and equipment	<u>626,459</u>	<u>624,455</u>
Total Unrestricted	5,447,145	1,894,163
Temporarily restricted	3,298,228	2,846,933
Permanently restricted	<u>160,000</u>	<u>160,000</u>
Total Net Assets	<u>8,905,373</u>	<u>4,901,096</u>
Total Liabilities and Net Assets	<u>\$ 9,855,011</u>	<u>\$ 9,634,466</u>

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2018 with comparative totals as of June 30, 2017

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public Support and Gains					
Contribution revenues					
Current year campaign	\$ 5,631,223	\$ 2,412,130	\$ -	\$ 8,043,353	\$ 8,266,006
Fundraising events	28,035	889,719	-	917,754	661,080
Future year campaigns and other	(181,449)	717,449	-	536,000	398,350
Less amounts designated by donors for specific organizations	(376,482)	-	-	(376,482)	(665,345)
Total Contribution Revenues	5,101,327	4,019,298	-	9,120,625	8,660,091
Allowance for pledge discounts and uncollectible pledges	(225,000)	(42,631)	-	(267,631)	(243,634)
Returned grants	(3,051)	(200,000)	-	(203,051)	-
Net Contribution Revenues	4,873,276	3,776,667	-	8,649,943	8,416,457
Other public support and gains					
Investment income	26,936	12,611	-	39,547	39,370
Rental income, net	21,603	-	-	21,603	24,191
Miscellaneous	14,250	-	-	14,250	13,000
Total Other Public Support and Gains	62,789	12,611	-	75,400	76,561
Total Public Support and Gains	4,936,065	3,789,278	-	8,725,343	8,493,018
Net assets released from restricted status upon satisfaction of program restrictions	3,337,983	(3,337,983)	-	-	-
Total Public Support and Gains	8,274,048	451,295	-	8,725,343	8,493,018
Grants and Expenses					
Undesignated grants					
Total grants (See Note N)	2,272,121	-	-	2,272,121	5,912,844
Less amounts designated by donors for specific organizations	(376,482)	-	-	(376,482)	(665,345)
Total Undesignated Grants	1,895,639	-	-	1,895,639	5,247,499
Program expenses	1,423,532	-	-	1,423,532	1,076,311
Total Undesignated Grants and Program Expenses	3,319,171	-	-	3,319,171	6,323,810
Other Expenses					
Fundraising expenses	1,066,074	-	-	1,066,074	989,338
Management and general expenses	335,821	-	-	335,821	350,358
Total Other Expenses	1,401,895	-	-	1,401,895	1,339,696
Total Grants and Expenses	4,721,066	-	-	4,721,066	7,663,506
Changes in Net Assets	3,552,982	451,295	-	4,004,277	829,512
Net Assets at Beginning of Year	1,894,163	2,846,933	160,000	4,901,096	4,071,584
Net Assets at End of Year	\$ 5,447,145	\$ 3,298,228	\$ 160,000	\$ 8,905,373	\$ 4,901,096

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Gains				
Contribution revenues				
Current year campaign	\$ 5,887,127	\$ 2,378,879	\$ -	\$ 8,266,006
Fundraising events, net	22,996	638,084	-	661,080
Future year campaigns and other	-	398,350	-	398,350
Less amounts designated by donors for specific organizations	(665,345)	-	-	(665,345)
Total Contribution Revenues	5,244,778	3,415,313	-	8,660,091
Allowance for pledge discounts and uncollectible pledges	(225,000)	(18,634)	-	(243,634)
Returned grants	-	-	-	-
Net Contribution Revenues	5,019,778	3,396,679	-	8,416,457
Other public support and gains				
Investment income	15,673	23,697	-	39,370
Rental income, net	24,191	-	-	24,191
Miscellaneous	13,000	-	-	13,000
Total Other Public Support and Gains	52,864	23,697	-	76,561
Total Public Support and Gains	5,072,642	3,420,376	-	8,493,018
Net assets released from restricted status upon satisfaction of program restrictions	2,090,358	(2,090,358)	-	-
Total Public Support and Gains	7,163,000	1,330,018	-	8,493,018
Grants and Expenses				
Undesignated grants				
Total grants	5,912,844	-	-	5,912,844
Less amounts designated by donors for specific organizations	(665,345)	-	-	(665,345)
Total Undesignated Grants	5,247,499	-	-	5,247,499
Program expenses	1,076,311	-	-	1,076,311
Total Undesignated Grants and Program Expenses	6,323,810	-	-	6,323,810
Other Expenses				
Fundraising expenses	989,338	-	-	989,338
Management and general expenses	350,358	-	-	350,358
Total Other Expenses	1,339,696	-	-	1,339,696
Total Grants and Expenses	7,663,506	-	-	7,663,506
Changes in Net Assets	(500,506)	1,330,018	-	829,512
Net Assets at Beginning of Year	2,394,669	1,516,915	160,000	4,071,584
Net Assets at End of Year	\$ 1,894,163	\$ 2,846,933	\$ 160,000	\$ 4,901,096

See accompanying notes.

Fund for the Arts
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in Net Assets	\$ 4,004,277	\$ 829,512
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	83,723	73,857
Net unrealized and realized losses (gains) on investments	1,294	(9,246)
Allowance for pledge discounts and uncollectible pledges	267,631	243,634
Noncash guarantee provided to FFTA Properties, Inc.	(21,952)	(13,215)
Changes in:		
Contributions receivable	(279,159)	(875,416)
Note receivable from FFTA Properties, Inc.	(6,622)	(1,192)
Other assets	(1,077)	3,574
Accounts payable and accrued expenses	50,899	(33,358)
Deferred revenue	(3,769)	3,769
Grants payable	(3,702,783)	(191,956)
Payable to FFTA Properties, Inc.	(106,127)	58,264
Net Cash Provided by Operating Activities	<u>286,335</u>	<u>88,227</u>
Cash Flows from Investing Activities		
Proceeds from maturities and sale of investments	1,363,540	390,015
Purchases of investments	(113,061)	(248,721)
Purchase of property and equipment	(85,727)	(58,783)
Advances to FFTA Properties, Inc.	(40,000)	(140,000)
Payments from note receivable	37,225	36,000
Net Cash Provided by (Used in) Investing Activities	<u>1,161,977</u>	<u>(21,489)</u>
Net Increase in Cash and Cash Equivalents	1,448,312	66,738
Cash and Cash Equivalents at Beginning of Year	<u>516,531</u>	<u>449,793</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,964,843</u>	<u>\$ 516,531</u>

See accompanying notes.

Fund for the Arts
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Note A - Nature of Organization and Operations

Fund for 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 operating grants. During the year ended June 30, 2018, the Fund approved and implemented a new strategic plan based on a community-wide cultural plan "Imagine Greater Louisville 2020." This strategic plan adopts the five strategic priorities identified in the cultural plan: Access, Cultivation, Education, Equity, Diversity and Inclusion, and Promotion. As part of the implementation of the strategic plan, the Fund replaced a prior general operating support grants process with new "sustaining impact grants", developed broader criteria for participation and opened the process to any charitable arts organization meeting the criteria and demonstrating alignment with the stated strategic priorities. The first sustaining impact grants will be awarded in August 2018. For the year ended June 30, 2017, in addition to funding access and education grants, general operating support grants were awarded to pre-identified arts organizations known as the Fund's "Cultural Partners". They were Actors Theatre of Louisville, Commonwealth Theatre Center, Kentucky Opera Association, Kentucky Shakespeare, KMAC Museum, Louisville Ballet, Louisville Orchestra, Louisville Theatrical Association, Louisville Visual Art, Louisville Youth Choir, Louisville Youth Orchestra, StageOne Family Theatre, West Louisville Performing Arts Academy, and the W.L. Lyons Brown Theatre/Fifth Third Conference Center/ArtSpace.

Education programming funded 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". During 2017, the Fund began ArtsMatch, a new grants pool utilizing an online crowd-funding platform to fund strategic priorities around education, access and innovation. The Fund also conducts the Cultural Pass program where youth (through age 21) are encouraged to visit various participating cultural venues at no charge (with an accompanying adult) in an effort to combat learning loss over the summer and ensure maximum access to such experiences.

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; funds annual scholarships for students pursuing a career in the performing and visual arts; maintains a social media presence through Facebook, Twitter, and YouTube; hosts the free app "Louisville Arts Link" that serves as a central arts calendar and offers an Arts Card to encourage arts patronage; conducts "NeXt!", a leadership development program for young professionals interested in fostering corporate citizenship through volunteering and serving arts related organizations; and participates in other initiatives important to the success of the arts community such as the Owsley Brown II Center for Artistic Excellence which includes the W.L. Lyons Brown Theatre, Fifth Third Conference Center, and Hilliard Lyons Hall of Recognition (through April 2018) and ArtSpace and the Bank of Louisville Community Room.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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.
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.

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.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

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. Grants Payable: Grants payable are to be paid in the following year. During the year ended June 30, 2018, pursuant to the adoption of a new strategic plan, the Fund changed the grant cycle from a June award date to an August grant award date. As a result, there were no sustaining impact grants approved during the fiscal year ended June 30, 2018. These grants (totaling approximately \$3.8 million) will be awarded in August 2018 and will be recorded in the June 30, 2019 financial statements.
11. Recent Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for reporting periods beginning after December 15, 2018.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, which amends the guidance related to financial statement presentation for not-for-profit entities. The requirements of ASU No. 2016-14 provide changes in the net asset classification requirements and improvements in the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The provisions of ASU No. 2016-14 are effective for the annual reporting periods beginning after December 15, 2017.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. This standard will be effective for contributions received for reporting periods beginning after December 15, 2018 and for contributions made for reporting periods beginning after December 15, 2019.

The Fund is currently in the process of evaluating the impact of adoption of these ASU's on the financial statements.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

12. Reclassifications: Certain reclassifications were made to the June 30, 2017 financial statements to conform to the June 30, 2018 presentation. These reclassifications had no impact on net assets or the change in net assets reported in the accompanying financial statements.

Note C - Contributions Receivable

Contributions receivable include the following unconditional pledges at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Gross contributions receivable	\$ 6,078,419	\$ 6,044,429
Less: Allowance for doubtful pledges	(262,501)	(282,670)
Unamortized discount on future contributions	<u>(64,516)</u>	<u>(21,885)</u>
Contributions Receivable, Net	<u>\$ 5,751,402</u>	<u>\$ 5,739,874</u>
Gross contributions receivable are due according to the following schedule:		
Less than one year	\$ 4,755,248	
One to five years	<u>1,323,171</u>	
Total Gross Contributions Receivable	<u>\$ 6,078,419</u>	

Pledges due after one year have been discounted at rates ranging from 2.61% to 2.91%.

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 plus 0.5% with a floor of 3.75%. At June 30, 2018 there was no balance outstanding. At June 30, 2017 there was \$37,225 outstanding.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note E - Property and Equipment

Property and equipment at June 30, 2018 and 2017 consists of the following:

	2018	2017
Building and improvements	\$ 1,601,022	\$ 1,592,168
Office furniture and equipment	374,231	347,309
	1,975,253	1,939,477
Less accumulated depreciation	1,348,794	1,315,022
	\$ 626,459	\$ 624,455

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.

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

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.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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, 2018 and 2017.

	Investments at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 82,746	\$ -	\$ -	\$ 82,746
Money market accounts	522,659	-	-	522,659
Mutual funds	239,529	-	-	239,529
Corporate bonds	-	251,051	-	251,051
Funds held at the Louisville Community Foundation, Inc.	-	194,863	-	194,863
	<u>\$ 844,934</u>	<u>\$ 445,914</u>	<u>\$ -</u>	<u>\$ 1,290,848</u>

	Investments at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 82,334	\$ -	\$ -	\$ 82,334
Money market accounts	1,667,388	-	-	1,667,388
Mutual funds	240,824	-	-	240,824
Corporate bonds	-	360,248	-	360,248
Funds held at the Louisville Community Foundation, Inc.	-	191,827	-	191,827
	<u>\$ 1,990,546</u>	<u>\$ 552,075</u>	<u>\$ -</u>	<u>\$ 2,542,621</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)
Years Ended June 30, 2018 and 2017

Note G - Endowment Funds

The Fund has placed two donor-restricted endowment funds with Louisville Community Foundation, Inc. (the "Foundation"). The first fund 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.

As of June 30, 2018, \$50,000 of the fund is permanently restricted and \$31,572 is temporarily restricted. As of June 30, 2017, \$50,000 of the fund is permanently restricted and \$31,370 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 of Directors may request a complete distribution of the account should they choose to manage the funds directly in the future.

As of June 30, 2018, \$100,000 of the endowment fund is permanently restricted and \$6,715 is temporarily restricted. As of June 30, 2017, \$100,000 of the fund is permanently restricted and \$9,306 is temporarily restricted.

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 \$7,558,289 and \$7,363,937 at June 30, 2018 and 2017, 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 \$342,177 and \$343,039 during 2018 and 2017, respectively.

As these three endowment funds reside at the Foundation, the investment objective of the endowment funds is to have an allocation of 65% traditional equities, 15% non-traditional equities, 18% fixed income and up to 2% cash 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)
Years Ended June 30, 2018 and 2017

Note H - Net Assets

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

	<u>2018</u>	<u>2017</u>
Future Campaign/Project Funding	\$ 998,433	\$ 520,064
Education Programming	622,625	651,239
Operating and Program Underwriting	443,763	242,000
Jennifer Lawrence Arts Fund	405,962	399,925
Cultural Pass	266,212	100,759
Imagine 2020	236,479	250,000
West Louisville Collaborative/Education/Project(s)	110,409	283,692
Other	72,234	120,969
Art in Healthcare	62,466	185,859
Arts in Aging	41,358	51,750
Whittenberg Scholarship Fund	31,572	31,370
Cowen Innovation Fund	6,715	9,306
	<u>\$ 3,298,228</u>	<u>\$ 2,846,933</u>

Permanently restricted net assets at June 30, 2018 and 2017 are restricted to investment in perpetuity, the income from which is available to support:

	<u>2018</u>	<u>2017</u>
Arts innovation endowment	\$ 100,000	\$ 100,000
Scholarship endowment	50,000	50,000
Education enhancement fund	10,000	10,000
	<u>\$ 160,000</u>	<u>\$ 160,000</u>

Note I - Leases

The Fund owns a building and leases office space in that building to others. Gross rental income during 2018 and 2017 was \$72,273 and \$74,245 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, 2018:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2019	\$ 18,360
2020	7,650
	<u>\$ 26,010</u>

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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 2018 and 2017 were \$43,287 and \$41,605, respectively.

Note K - FFTA Properties, Inc.

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. Through April 20, 2018, Properties owned the Owsley Brown II Center for Artistic Excellence which includes the W.L. Lyons Brown Theatre (the "Theatre"), the adjoining Fifth Third Conference Center ("Conference Center"), and 8 floors of the Brown Office Building ("ArtSpace") along with the related land. On April 20, 2018, Properties sold the Theatre and Conference Center to the Kentucky Center for the Arts Foundation. Properties also owned the "Ballet Building" which was leased to the Kentucky Dance Council ("Louisville Ballet") until June 26, 2017 when the Louisville Ballet repurchased the Ballet Building pursuant to a purchase option included in the lease. As of June 30, 2018, Properties continues to own ArtSpace, a significant portion of which serves as the home for various arts organizations.

For 2018 and 2017, the Fund granted to Properties \$50,000, in each year, related to the oversight and management of Properties. For 2017, the Fund granted properties \$105,000 as general support for the payment of Properties' commitments.

The Fund guaranteed Properties' bonds payable which were repaid as of June 30, 2018 and had an outstanding balance of \$1,075,361 at June 30, 2017. Additionally, the Fund guaranteed Properties' line of credit which had no outstanding balance as of June 30, 2018 and an outstanding balance of \$1,119,983 at June 30, 2017. See Note L for additional information.

During 2018 and 2017, the Fund advanced \$40,000 and \$140,000, respectively, to Properties to assist with the cash flow requirements of Properties. Interest accrues on these advances at the prime rate (5% at June 30, 2018). At June 30, 2018 and 2017, accrued interest of \$7,814 and \$1,192, respectively, is reflected within the note receivable from FFTA Properties, Inc. balance on the accompanying statements of financial position.

Properties leases space to the Louisville Orchestra (through April 30, 2017), Kentucky Opera Association, Kentucky Shakespeare, and West Louisville Performing Arts Academy, all arts organizations. These organizations pay an agreed upon portion of the rent and the Fund pays the balance. The payments on behalf of these organizations of \$70,854 and \$85,613 for the years ended June 30, 2018 and 2017, respectively, were recorded as additional grants.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note L - Other Liabilities

During 2011, Properties obtained debt financing for which the Fund provided a guarantee of payment to the bank. The debt was to mature in 2021 and the guarantee would have remained in effect until the debt's maturity or repayment. The face value of the debt was \$3,000,000 and was repaid at June 30, 2018 as a result of the sale of the Theatre and Conference Center.

Properties increased its \$500,000 line of credit to \$1,300,000 in February 2016 and further increased it to \$2,300,000 in April 2017 to allow for the construction of a new cooling tower on the Theatre Property. As a part of the sales transaction, the outstanding balance on the line of credit was paid and the availability was reduced to \$500,000. The line of credit matures on April 23, 2019. The Fund provides a guarantee of payment. There was no outstanding balance on the line of credit as of June 30, 2018 and \$1,119,983 was outstanding as of June 30, 2017.

The maximum liability for guarantees by the Fund at June 30, 2018 and 2017 is the outstanding balance of the debt, \$0 and \$2,195,344, respectively, plus any unpaid interest and fees along with the costs of collecting the obligations. No material liabilities have been recorded as of June 30, 2018 and 2017 as the likelihood of default is deemed to be less than probable. The liability to "stand ready" at June 30, 2018 and 2017 associated with the guarantee is included in other liabilities in the accompanying statements of financial position at \$0 and \$21,952, respectively.

Note M - Fundraising Events

Gross revenues and direct event expenses related to the following fundraising events during the year ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Awards in the Arts		
Revenues	\$ 889,719	\$ 638,084
Expenses	<u>(301,769)</u>	<u>(233,159)</u>
	587,950	404,925
Raffle		
Revenues	56,600	28,800
Expenses	<u>(28,565)</u>	<u>(5,804)</u>
	<u>28,035</u>	<u>22,996</u>
	<u><u>\$ 615,985</u></u>	<u><u>\$ 427,921</u></u>

Note N - Undesignated Grants

During the year ended June 30, 2018, pursuant to the adoption of a new strategic plan, the Fund transitioned from "general operating support" grants for a pre-selected number of Cultural Partners to a more inclusive "sustaining impact grant" process that was open to more organizations and changed the grants cycle from a June grant award date to an August award date. As a result, there were no sustaining impact grants approved during the fiscal year ended June 30, 2018. These grants (totaling approximately \$3.8 million) will be awarded in August 2018 and will be recorded in the June 30, 2019 financial statements.

Supplemental Information

Fund for the Arts
Schedule of Functional Expenses
Year Ended June 30, 2018

	Program	Fundraising	Management and General	Total
Undesignated grants	\$ 1,895,639	\$ -	\$ -	\$ 1,895,639
Salaries and benefits/contract labor	473,464	725,993	231,495	1,430,952
Occupancy	25,461	39,178	10,649	75,288
Special Events - Awards in the Arts				
Direct donor benefits	209,591	-	-	209,591
Other special events costs	74,269	17,909	-	92,178
Special programs				
Imagine 2020	38,568	-	-	38,568
Cultural Pass	10,975	-	-	10,975
Arts in Health and Aging	112,790	-	-	112,790
ArtsMatch	-	9,858	-	9,858
NeXt	9,174	-	-	9,174
Other special programs	8,815	-	-	8,815
Arts Showcase	6,816	-	-	6,816
Events	48,868	11,206	-	60,074
Campaign incentives/entertainment	-	29,217	-	29,217
Materials and supplies	2,723	4,188	1,169	8,080
Printing and marketing (including in-kind)	296,358	65,365	2,736	364,459
Postage	7,308	11,245	3,139	21,692
Telephone	8,098	12,461	3,478	24,037
Data processing /Impact and ECampaign software	39,505	58,022	11,914	109,441
Meetings	15,642	11,690	17,972	45,304
Dues and subscriptions	4,085	6,286	1,755	12,126
Legal, accounting and other consulting	-	-	22,560	22,560
Insurance	7,367	11,336	3,164	21,867
Travel and transportation	16,321	25,114	7,010	48,445
Financial service fees	-	15,721	4,875	20,596
Training and development	5,544	8,530	2,381	16,455
Strategic planning	-	-	10,756	10,756
Miscellaneous	1,790	2,755	768	5,313
Totals per Statement of Activities (Page 4)	\$ 3,319,171	\$ 1,066,074	\$ 335,821	\$ 4,721,066
Campaign grants designated by donors for specific organizations	376,482	-	-	376,482
Totals Including Designated Grants	\$ 3,695,653	\$ 1,066,074	\$ 335,821	\$ 5,097,548
Expense Ratios	72%	21%	7%	100%

See independent auditor's report.

Fund for the Arts
Schedule of Functional Expenses
Year Ended June 30, 2017

	Program	Fundraising	Management and General	Total
Undesignated grants	\$ 5,247,499	\$ -	\$ -	\$ 5,247,499
Salaries and benefits	258,526	679,989	211,124	1,149,639
Occupancy	21,639	40,383	12,933	74,955
Special Events - Awards in the Arts				
Direct donor benefits	169,318	-	-	169,318
Other special events costs	38,960	24,881	-	63,841
Special programs				
Arts Master Plan	111,496	-	-	111,496
Cultural Pass	24,091	-	-	24,091
Arts in Health and Aging	45,926	-	-	45,926
ArtsMatch	-	11,347	-	11,347
NeXt	5,108	-	-	5,108
Other Special Programs	1,594	-	-	1,594
Arts Showcase	21,298	-	-	21,298
Events	48,374	3,623	-	51,997
Campaign incentives/entertainment	-	32,516	-	32,516
Materials and supplies	3,069	5,726	1,841	10,636
Printing and marketing (including in-kind)	233,682	40,793	3,396	277,871
Postage	5,470	10,208	3,282	18,960
Telephone	7,250	13,530	4,350	25,130
Data processing /Impact and ECampaign software	40,660	40,376	11,796	92,832
Meetings	9,331	11,246	19,738	40,315
Dues and subscriptions	3,492	6,516	2,095	12,103
Legal, accounting and other consulting	-	-	27,530	27,530
Insurance	5,966	11,133	3,579	20,678
Travel and transportation	13,164	24,566	7,899	45,629
Financial service fees	-	17,766	4,940	22,706
Training and development	6,712	12,527	4,027	23,266
Strategic planning	-	-	31,117	31,117
Miscellaneous	1,185	2,212	711	4,108
	<hr/>	<hr/>	<hr/>	<hr/>
Totals per Statement of Activities (Page 5)	\$ 6,323,810	\$ 989,338	\$ 350,358	\$ 7,663,506
Campaign grants designated by donors for specific organizations	665,345	-	-	665,345
	<hr/>	<hr/>	<hr/>	<hr/>
Totals Including Designated Grants	\$ 6,989,155	\$ 989,338	\$ 350,358	\$ 8,328,851
	<hr/>	<hr/>	<hr/>	<hr/>
Expense Ratios	84%	12%	4%	100%
	<hr/>	<hr/>	<hr/>	<hr/>

See independent auditor's report.

Fund for the Arts
Schedule of Eligible Income for Kentucky Arts Council Grant
Year Ended June 30, 2018

Campaign 2018 - Unrestricted	\$ 5,477,809
Less Allowance for Uncollectible Pledges	(225,000)
Less Returned Grants	(3,051)
Plus Other Public Support and Gains	62,789
Plus Net Assets Released from Restrictions	<u>3,337,983</u>
 Total Income	 8,650,530
 Less In-Kind	 <u>(420,005)</u>
 Total Eligible Income	 <u><u>\$ 8,230,525</u></u>

See independent auditor's report.