

Fund for the Arts
Financial Statements
Years Ended June 30, 2019 and 2018

Fund for the Arts

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Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, and the related statements of activities, functional expenses 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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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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note B1, the Fund has adopted Financial Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule on page 21 is presented for purposes of additional analysis and is 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 19, 2019

Fund for the Arts
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and Cash Equivalents	\$ 1,359,777	\$ 1,964,843
Investments	1,306,462	1,290,848
Contributions Receivable, net of discounts and allowance for uncollectible pledges of approximately \$260,000 and \$327,000 for 2019 and 2018, respectively	5,493,278	5,751,402
Note Receivable from FFTA Properties, Inc.	172,791	187,814
Other Assets	64,345	33,645
Property and Equipment, net	<u>591,527</u>	<u>626,459</u>
Total Assets	<u>\$ 8,988,180</u>	<u>\$ 9,855,011</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 128,127	\$ 145,003
Grants payable	453,944	754,635
Payable to FFTA Properties, Inc.	<u>-</u>	<u>50,000</u>
Total Liabilities	582,071	949,638
Commitments and Contingencies		
Net Assets		
Without donor restriction		
Available for subsequent year's operating expenses, special projects and sustaining impact grants	4,726,040	4,820,686
Invested in property and equipment	<u>591,527</u>	<u>626,459</u>
Total Without Donor Restrictions	5,317,567	5,447,145
With donor restriction	<u>3,088,542</u>	<u>3,458,228</u>
Total Net Assets	<u>8,406,109</u>	<u>8,905,373</u>
Total Liabilities and Net Assets	<u>\$ 8,988,180</u>	<u>\$ 9,855,011</u>

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2019 with comparative totals as of June 30, 2018

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Public Support and Gains				
Contribution revenues				
Current year campaign	\$ 5,504,480	\$ 2,216,797	\$ 7,721,277	\$ 8,043,353
Fundraising events	53,200	498,093	551,293	946,319
Future year campaigns and other	(172,449)	74,000	(98,449)	536,000
Less amounts designated by donors for specific organizations	(505,183)	-	(505,183)	(376,482)
Total Contribution Revenues	4,880,048	2,788,890	7,668,938	9,149,190
Allowance for pledge discounts and uncollectible pledges	(275,000)	23,902	(251,098)	(267,631)
Returned grants	-	-	-	(203,051)
Net Contribution Revenues	4,605,048	2,812,792	7,417,840	8,678,508
Other public support and gains				
Investment income	57,610	7,166	64,776	39,547
Rental income, net	14,213	-	14,213	21,603
Miscellaneous	14,250	-	14,250	14,250
Total Other Public Support and Gains	86,073	7,166	93,239	75,400
Total Public Support and Gains	4,691,121	2,819,958	7,511,079	8,753,908
Net Assets Released from Restricted Status Upon Satisfaction of Program Restrictions	3,189,644	(3,189,644)	-	-
Total Public Support and Gains	7,880,765	(369,686)	7,511,079	8,753,908
Grants and Expenses				
Undesignated grants				
Total grants (See Note P)	5,575,616	-	5,575,616	2,272,121
Less amounts designated by donors for specific organizations	(505,183)	-	(505,183)	(376,482)
Total Undesignated Grants	5,070,433	-	5,070,433	1,895,639
Program expenses	1,477,650	-	1,477,650	1,423,532
Total Undesignated Grants and Program Expenses	6,548,083	-	6,548,083	3,319,171
Other Expenses				
Fundraising expenses	1,028,560	-	1,028,560	1,094,639
Management and general expenses	433,700	-	433,700	335,821
Total Other Expenses	1,462,260	-	1,462,260	1,430,460
Total Grants and Expenses	8,010,343	-	8,010,343	4,749,631
Changes in Net Assets	(129,578)	(369,686)	(499,264)	4,004,277
Net Assets at Beginning of Year	5,447,145	3,458,228	8,905,373	4,901,096
Net Assets at End of Year	\$ 5,317,567	\$ 3,088,542	\$ 8,406,109	\$ 8,905,373

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Gains			
Contribution revenues			
Current year campaign	\$ 5,631,223	\$ 2,412,130	\$ 8,043,353
Fundraising events, net	56,600	889,719	946,319
Future year campaigns and other	(181,449)	717,449	536,000
Less amounts designated by donors for specific organizations	<u>(376,482)</u>	<u>-</u>	<u>(376,482)</u>
Total Contribution Revenues	5,129,892	4,019,298	9,149,190
Allowance for pledge discounts and uncollectible pledges			
	(225,000)	(42,631)	(267,631)
Returned grants	<u>(3,051)</u>	<u>(200,000)</u>	<u>(203,051)</u>
Net Contribution Revenues	4,901,841	3,776,667	8,678,508
Other public support and gains			
Investment income	26,936	12,611	39,547
Rental income, net	21,603	-	21,603
Miscellaneous	<u>14,250</u>	<u>-</u>	<u>14,250</u>
Total Other Public Support and Gains	62,789	12,611	75,400
Total Public Support and Gains	4,964,630	3,789,278	8,753,908
Net Assets Released from Restricted Status Upon Satisfaction of Program Restrictions			
	<u>3,337,983</u>	<u>(3,337,983)</u>	<u>-</u>
Total Public Support and Gains	8,302,613	451,295	8,753,908
Grants and Expenses			
Undesignated grants			
Total grants	2,272,121	-	2,272,121
Less amounts designated by donors for specific organizations	<u>(376,482)</u>	<u>-</u>	<u>(376,482)</u>
Total Undesignated Grants	1,895,639	-	1,895,639
Program expenses			
	<u>1,423,532</u>	<u>-</u>	<u>1,423,532</u>
Total Undesignated Grants and Program Expenses	3,319,171	-	3,319,171
Other Expenses			
Fundraising expenses	1,094,639	-	1,094,639
Management and general expenses	<u>335,821</u>	<u>-</u>	<u>335,821</u>
Total Other Expenses	1,430,460	-	1,430,460
Total Grants and Expenses	<u>4,749,631</u>	<u>-</u>	<u>4,749,631</u>
Changes in Net Assets	3,552,982	451,295	4,004,277
Net Assets at Beginning of Year			
	<u>1,894,163</u>	<u>3,006,933</u>	<u>4,901,096</u>
Net Assets at End of Year	<u>\$ 5,447,145</u>	<u>\$ 3,458,228</u>	<u>\$ 8,905,373</u>

See accompanying notes.

Fund for the Arts
Statement of Functional Expenses
Year Ended June 30, 2019

	Program	Fundraising	Management and General	Total
Grants	\$ 5,070,433	\$ -	\$ -	\$ 5,070,433
Salaries and Benefits/Contract Labor	562,427	681,001	246,572	1,490,000
Occupancy	29,654	34,658	10,460	74,772
Special Events - Awards in the Arts				
Direct donor benefits	177,964	-	-	177,964
Other special events costs	38,695	28,106	-	66,801
Special Programs				
Arts in Health and Aging	13,166	-	-	13,166
ArtsMatch	-	5,242	-	5,242
Culinary	8,998	-	-	8,998
Imagine 2020	26,469	-	-	26,469
NeXt	11,438	-	-	11,438
Other special programs	4,261	-	-	4,261
Arts Showcase	23,342	-	-	23,342
Campaign Incentives/Entertainment	-	32,469	-	32,469
Data Processing/Impact and ECampaign Software	49,600	72,302	13,633	135,535
Dues and Subscriptions	3,776	4,414	1,382	9,572
Events	82,662	16,065	-	98,727
Financial Service Fees	-	17,184	-	17,184
Insurance	9,506	11,111	3,479	24,096
Legal, Accounting and Other Consulting	-	-	23,000	23,000
Materials and Supplies	4,515	5,277	1,652	11,444
Meetings	18,073	16,888	10,153	45,114
Miscellaneous	1,500	1,752	1,068	4,320
Postage	8,647	10,107	3,165	21,919
Printing and Marketing (Including In-kind)	318,583	15,729	2,047	336,359
Raffle	-	25,850	-	25,850
Strategic Expenses and Branding	41,250	-	101,305	142,555
Telephone	10,590	12,378	3,876	26,844
Training and Development	9,915	11,589	3,629	25,133
Travel and Transportation	22,619	26,438	8,279	57,336
	<u>6,548,083</u>	<u>1,028,560</u>	<u>433,700</u>	<u>8,010,343</u>
Totals per Statement of Activities (Page 4)				
Campaign Grants Designated by Donors for Specific Organizations	<u>505,183</u>	<u>-</u>	<u>-</u>	<u>505,183</u>
Totals Including Designated Grants	<u>\$ 7,053,266</u>	<u>\$ 1,028,560</u>	<u>\$ 433,700</u>	<u>\$ 8,515,526</u>
Expense Ratios	<u>83%</u>	<u>12%</u>	<u>5%</u>	<u>100%</u>

See accompanying notes.

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

	Program	Fundraising	Management and General	Total
Grants	\$ 1,895,639	\$ -	\$ -	\$ 1,895,639
Salaries and Benefits	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				
Arts in Health and Aging	112,790	-	-	112,790
ArtsMatch	-	9,858	-	9,858
Cultural Pass	10,975	-	-	10,975
Imagine 2020	38,568	-	-	38,568
NeXt	9,174	-	-	9,174
Other special programs	8,815	-	-	8,815
Arts Showcase	6,816	-	-	6,816
Campaign Incentives/Entertainment	-	29,217	-	29,217
Data Processing/Impact and ECampaign Software	39,505	58,022	11,914	109,441
Dues and Subscriptions	4,085	6,286	1,755	12,126
Events	48,868	11,206	-	60,074
Financial Service Fees	-	15,721	4,875	20,596
Insurance	7,367	11,336	3,164	21,867
Legal, Accounting and Other Consulting	-	-	22,560	22,560
Materials and Supplies	2,723	4,188	1,169	8,080
Meetings	15,642	11,690	17,972	45,304
Miscellaneous	1,790	2,755	768	5,313
Postage	7,308	11,245	3,139	21,692
Printing and Marketing (Including In-kind)	296,358	65,365	2,736	364,459
Raffle	-	28,565	-	28,565
Strategic Planning	-	-	10,756	10,756
Telephone	8,098	12,461	3,478	24,037
Training and Development	5,544	8,530	2,381	16,455
Travel and Transportation	16,321	25,114	7,010	48,445
Totals per Statement of Activities (Page 5)	3,319,171	1,094,639	335,821	4,749,631
Campaign Grants Designated by Donors for Specific Organizations	376,482	-	-	376,482
Totals Including Designated Grants	\$ 3,695,653	\$ 1,094,639	\$ 335,821	\$ 5,126,113
Expense Ratios	72%	21%	7%	100%

See accompanying notes.

Fund for the Arts
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (499,264)	\$ 4,004,277
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Depreciation	81,315	83,723
Net unrealized and realized (gains) losses on investments	(12,647)	1,294
Allowance for pledge discounts and uncollectible pledges	251,098	267,631
Noncash guarantee provided to FFTA Properties, Inc.	-	(21,952)
Changes in		
Contributions receivable	7,026	(279,159)
Note receivable from FFTA Properties, Inc.	(8,809)	(6,622)
Other assets	(30,700)	(1,077)
Accounts payable and accrued expenses	(16,876)	50,899
Deferred revenue	-	(3,769)
Grants payable	(300,691)	(3,702,783)
Payable to FFTA Properties, Inc.	(50,000)	(106,127)
	<u>(579,548)</u>	<u>286,335</u>
Net Cash (Used in) Provided by Operating Activities	(579,548)	286,335
Cash Flows from Investing Activities		
Proceeds from maturities and sale of investments	477,598	1,363,540
Purchases of investments	(480,565)	(113,061)
Purchase of property and equipment	(46,383)	(85,727)
Advances to FFTA Properties, Inc.	(17,500)	(40,000)
Payments from note receivable FFTA Properties, Inc.	41,332	-
Payments from note receivable	-	37,225
	<u>(25,518)</u>	<u>1,161,977</u>
Net Cash (Used in) Provided by Investing Activities	(25,518)	1,161,977
Net (Decrease) Increase in Cash and Cash Equivalents	(605,066)	1,448,312
Cash and Cash Equivalents at Beginning of Year	<u>1,964,843</u>	<u>516,531</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,359,777</u>	<u>\$ 1,964,843</u>

See accompanying notes.

Fund for the Arts
Notes to Financial Statements
Years Ended June 30, 2019 and 2018

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 and cultural organizations and individual artists and drives accessibility across neighborhoods, schools, community centers, senior care facilities, parks, libraries and public spaces.

The Fund provides grants to more than 450 schools and community arts and cultural 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 were awarded in August 2018 to 23 arts organizations.

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 the Imagine 2020 priorities. 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 ArtSpace and the Bank of Louisville Community Room.

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.

On August 18, 2016 FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Fund has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note B - Summary of Significant Accounting Policies (Continued)

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 information regarding its financial position and activities according to the following net asset classification:
 - *Net Assets Without Donor Restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Fund's management and the board of directors.
 - *Net Assets with Donor Restrictions*: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Fund or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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. Functional Allocation of Expenses: The cost of programs and supporting services activities has been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expense by function. Accordingly, certain cost has been allocated among the programs and supporting serviced benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits/contract labor which is allocated on the basis of estimates of time and effort.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note B - Summary of Significant Accounting Policies (Continued)

9. **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. The fund is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Fund is subject to income tax on net income that was derived from business activities that are unrelated to their exempt purpose. The Fund files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business income tax. The Fund paid \$519 and \$0 of unrelated business income tax during the years ended June 30, 2019 and 2018, respectively.

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.

10. **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.
11. **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) were awarded in August 2018 and are recorded in the June 30, 2019 financial statements.
12. **Recent Accounting Pronouncements:** In May 2014, the FASB issued 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 the Fund's year ending June 30, 2020. The Fund has evaluated the impact of the adoption of ASU 2014-09 on the financial statements and did not record any material impact from the adoption of ASU 2014-09 as of July 1, 2019.
- 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 the Fund's year ending June 30, 2020 and contributions made for the Fund's year ending June 30, 2021. The Fund is currently in the process of evaluating the impact of adoption of the ASU on the financial statements.
13. **Reclassifications:** Certain reclassifications were made to the June 30, 2018 financial statements to conform to the June 30, 2019 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)
Years Ended June 30, 2019 and 2018

Note C - Liquidity and Availability of Resources

The following reflects the Fund's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include investments in perpetuity consisting of two donor-restricted endowment funds and an education enhancement fund and amounts restricted for future periods.

Cash and Cash Equivalents	\$ 1,359,777
Investments	1,306,462
Accounts Receivable-net of Discounts	5,493,278
Notes Receivable from FFTA Properties, Inc.	172,791
Other Receivables	<u>3,999</u>
 Total Financial Assets	 8,336,307
 Less Those Unavailable for General Expenditures Within year, due to:	
Total net assets with donor restrictions	3,088,542
Net assets with donor time restrictions expiring in the following year	<u>(402,651)</u>
 Assets with Donor Restrictions Released in Subsequent Year	 <u>2,685,891</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	 <u><u>\$ 5,650,416</u></u>

As part of the Fund's liquidity management, it has a practice of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, cash and cash equivalents are held in investment earning accounts. To help manage unanticipated liquidity needs, the Fund has investments that can be easily liquidated.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note D - Contributions Receivable

Contributions receivable include the following unconditional pledges at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross Contributions Receivable	\$ 5,752,887	\$ 6,078,419
Less: allowance for doubtful pledges	(218,995)	(262,501)
Unamortized discount on future contributions	<u>(40,614)</u>	<u>(64,516)</u>
Contributions Receivable, net	<u>\$ 5,493,278</u>	<u>\$ 5,751,402</u>
Gross Contributions Receivable are due According to the Following Schedule:		
Less than one year	\$ 4,888,387	
One to five years	<u>864,500</u>	
Total Gross Contributions Receivable	<u>\$ 5,752,887</u>	

Pledges due after one year have been discounted at rates ranging from 2.31% to 2.91%.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note E - Donated Goods and Services

The Fund received donated professional services and material as follows during the year ended June 30, 2019:

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management & General</u>	<u>Total</u>
Education and Access	\$ 102,130	\$ -	\$ -	\$ 102,130
Marketing and Advertising	103,558	135,670	-	239,228
Raffle Donations	-	20,977	-	20,977
Program Events	53,255	-	-	53,255
	<u>\$ 258,943</u>	<u>\$ 156,647</u>	<u>\$ -</u>	<u>\$ 415,590</u>

The Fund received donated professional services and material as follows during the year ended June 30, 2018:

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management & General</u>	<u>Total</u>
Education and Access	\$ 92,920	\$ -	\$ -	\$ 92,920
Marketing and Advertising	115,518	138,855	-	254,373
Raffle Donations	-	23,795	-	23,795
Professional Services	-	26,609	6,126	32,735
Program Events	15,481	-	-	15,481
	<u>\$ 223,919</u>	<u>\$ 189,259</u>	<u>\$ 6,126</u>	<u>\$ 419,304</u>

Note F - 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 were due on the first day of each month starting July 1, 2016 and were 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 included an interest rate of prime plus 0.5% with a floor of 3.75%. At June 30, 2018 the note was paid in full.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note G - Property and Equipment

Property and equipment at June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 1,626,144	\$ 1,601,022
Office furniture and equipment	<u>395,492</u>	<u>374,231</u>
	2,021,636	1,975,253
Less accumulated depreciation	<u>1,430,109</u>	<u>1,348,794</u>
	<u>\$ 591,527</u>	<u>\$ 626,459</u>

Note H - 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 and U.S. Treasury Notes*: 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, 2019 and 2018

Note H - 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, 2019 and 2018.

	Investments at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ 83,823	\$ -	\$ -	\$ 83,823
Money Market Accounts	407,847	-	-	407,847
Corporate Bonds	-	402,610	-	402,610
U.S. Treasury Notes	-	224,792	-	224,792
Funds Held at the Louisville Community Foundation, Inc.	-	187,390	-	187,390
	<u>\$ 491,670</u>	<u>\$ 814,792</u>	<u>\$ -</u>	<u>\$ 1,306,462</u>

	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	-	226,538	-	226,538
U.S. Treasury Notes	-	24,513	-	24,513
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>

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, 2019 and 2018

Note I - 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, 2019, the fund totals \$73,893 of which \$50,000 is to be maintained in perpetuity and \$23,893 is restricted as to purpose. As of June 30, 2018, the fund totals \$81,572 of which \$50,000 is to be maintained in perpetuity and \$31,572 is restricted as to purpose.

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, 2019, the fund totals \$113,497 of which \$100,000 is to be maintained in perpetuity and \$13,497 is restricted as to purpose. As of June 30, 2018, the fund totals \$106,715 of which \$100,000 is to be maintained in perpetuity and \$6,715 is restricted as to purpose.

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 \$7,547,826 and \$7,558,289 at June 30, 2019 and 2018, 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 \$349,953 and \$342,177 during 2019 and 2018, 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, 2019 and 2018

Note J - Net Assets with Donor Restrictions

Net Assets with donor restrictions at June 30, 2019 and 2018 are available for the following:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specific Purpose:		
Education programing	\$ 649,800	\$ 622,625
Operating and program underwriting	314,943	443,763
Cultural pass	307,786	266,212
Imagine 2020	262,574	236,479
DeVos project	230,000	-
West Louisville collaborative/education/project(s)	109,464	110,409
Arts in healthcare	81,898	62,466
Culinary arts	76,002	-
Arts in aging	40,310	41,358
Whittenberg scholarship fund	23,893	31,572
Other	4,830	72,234
Cowen innovation fund	3,156	6,715
Jennifer Lawrence arts fund	-	405,962
	<u>2,104,656</u>	<u>2,299,795</u>
Subject to Passage of Time:		
Future campaign/project funding:		
For the period ending June 30, 2020	402,651	363,933
For the period after June 30, 2020	<u>421,235</u>	<u>634,500</u>
	823,886	998,433
Subject to Organization Spending Policy and Appropriation:		
Investment in perpetuity, the income which is available to support:		
Arts innovation endowment	100,000	100,000
Scholarship endowment	50,000	50,000
Education enhancement fund	<u>10,000</u>	<u>10,000</u>
	<u>160,000</u>	<u>160,000</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,088,542</u>	<u>\$ 3,458,228</u>

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note K - Leases

The Fund owns a building and leases office space in that building to others. Gross rental income during 2019 and 2018 was \$64,720 and \$72,273 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, 2019:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	<u>\$ 7,650</u>

Note L - 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 2019 and 2018 were \$45,831 and \$43,287, respectively.

Note M - 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. As of June 30, 2019, Properties continues to own ArtSpace, a significant portion of which serves as the home for various arts organizations.

For 2018, the Fund granted to Properties \$50,000 related to the oversight and management of Properties.

The Fund guaranteed Properties' bonds payable which were repaid as of June 30, 2018. Additionally, the Fund guaranteed Properties' line of credit which had no outstanding balance as of June 30, 2019 and 2018. See Note N for additional information.

During 2019 and 2018, the Fund advanced \$17,500 and \$40,000, respectively, to Properties to assist with the cash flow requirements of Properties. Interest accrues on these advances at the prime rate (5.50% at June 30, 2019). At June 30, 2019 and 2018, accrued interest of \$16,623 and \$7,814, respectively, is reflected within the note receivable from FFTA Properties, Inc. balance on the accompanying statements of financial position.

Properties leases space to 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 for both the years ended June 30, 2019 and 2018 were recorded as additional grants.

Fund for the Arts
Notes to Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

Note N - Other Liabilities

Properties has a \$500,000 line of credit. The line of credit matures on April 22, 2020. The Fund provides a guarantee of payment. There was no outstanding balance on the line of credit as of June 30, 2019 and 2018.

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.

Note O - Fundraising Events

Gross revenues and direct event expenses related to the following fundraising events during the years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Awards in the Arts		
Revenues	\$ 498,093	\$ 889,719
Expenses	(244,765)	(301,769)
	<u>253,328</u>	<u>587,950</u>
Raffle		
Revenues	53,200	56,600
Expenses	(25,850)	(28,565)
	<u>27,350</u>	<u>28,035</u>
	<u>\$ 280,678</u>	<u>\$ 615,985</u>

Note P - 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 arts organizations 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. Grants of \$3,798,834 were awarded in August 2018 and are recorded in the June 30, 2019 financial statements.

Supplemental Information

Fund for the Arts
Schedule of Eligible Income for Kentucky Arts Council Grant
Year Ended June 30, 2019

Campaign 2019 - Unrestricted	\$ 5,385,231
Less allowance for uncollectible pledges	(218,995)
Less returned grants	-
Plus other public support and gains	86,073
Plus net assets released from restrictions	<u>3,189,644</u>
Total Income	8,441,953
Less in-kind	<u>(415,590)</u>
Total Eligible Income	<u><u>\$ 8,026,363</u></u>

See independent auditor's report.