

Fund for the Arts
Financial Statements
and
Supplemental Information
Years Ended June 30, 2017 and 2016

Fund for the Arts

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June 30, 2017 and 2016

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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, 2017 and 2016, 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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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, 2017 and 2016, 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.



Louisville, Kentucky
August 25, 2017

Fund for the Arts
Statements of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 516,531	\$ 449,793
Investments	2,542,621	2,674,669
Contributions receivable, net of discounts and allowance for uncollectible pledges of approximately \$305,000 and \$286,000 for 2017 and 2016, respectively	5,739,874	5,108,092
Note receivable from FFTA Properties, Inc.	141,192	-
Notes receivable	37,225	73,225
Other assets	32,568	36,142
Property and equipment, net	<u>624,455</u>	<u>639,529</u>
Total Assets	<u>\$ 9,634,466</u>	<u>\$ 8,981,450</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 94,104	\$ 127,462
Deferred revenue	3,769	-
Campaign grants payable	4,457,418	4,649,374
Other liabilities	21,952	35,167
Payable to FFTA Properties, Inc.	<u>156,127</u>	<u>97,863</u>
Total Liabilities	4,733,370	4,909,866
Commitments and Contingencies		
Net assets		
Unrestricted		
Designated for subsequent year's operating expenses and special projects	1,269,708	1,558,910
Invested in property and equipment	624,455	639,529
Undesignated	<u>-</u>	<u>196,230</u>
Total Unrestricted	1,894,163	2,394,669
Temporarily restricted	2,846,933	1,516,915
Permanently restricted	<u>160,000</u>	<u>160,000</u>
Total Net Assets	<u>4,901,096</u>	<u>4,071,584</u>
Total Liabilities and Net Assets	<u>\$ 9,634,466</u>	<u>\$ 8,981,450</u>

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2017 with comparative totals as of June 30, 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public Support and Gains					
Contribution revenues					
Current year campaign	\$ 5,887,127	\$ 2,378,879	\$ -	\$ 8,266,006	\$ 8,260,013
Fundraising events	22,996	638,084	-	661,080	454,559
Future year campaigns and other	-	398,350	-	398,350	(74,898)
Less amounts designated by donors for specific organizations	(665,345)	-	-	(665,345)	(1,047,482)
Total Contribution Revenues	5,244,778	3,415,313	-	8,660,091	7,592,192
Allowance for pledge discounts and uncollectible pledges	(225,000)	(18,634)	-	(243,634)	(192,928)
Returned grants	-	-	-	-	(96,878)
Net Contribution Revenues	5,019,778	3,396,679	-	8,416,457	7,302,386
Other public support and gains					
Investment income	15,673	23,697	-	39,370	43,268
Rental income, net	24,191	-	-	24,191	29,644
Miscellaneous	13,000	-	-	13,000	12,750
Total Other Public Support and Gains	52,864	23,697	-	76,561	85,662
Total Public Support and Gains	5,072,642	3,420,376	-	8,493,018	7,388,048
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	7,388,048
Grants and Expenses					
Undesignated grants					
Total grants	5,844,594	-	-	5,844,594	6,388,008
Less amounts designated by donors for specific organizations	(665,345)	-	-	(665,345)	(1,047,482)
Total Undesignated Grants	5,179,249	-	-	5,179,249	5,340,526
Program expenses	1,144,561	-	-	1,144,561	922,814
Total Undesignated Grants and Program Expenses	6,323,810	-	-	6,323,810	6,263,340
Other Expenses					
Fundraising expenses	989,338	-	-	989,338	1,113,685
Management and general expenses	350,358	-	-	350,358	304,117
Total Other Expenses	1,339,696	-	-	1,339,696	1,417,802
Total Grants and Expenses	7,663,506	-	-	7,663,506	7,681,142
Changes in Net Assets	(500,506)	1,330,018	-	829,512	(293,094)
Net Assets at Beginning of Year	2,394,669	1,516,915	160,000	4,071,584	4,364,678
Net Assets at End of Year	\$ 1,894,163	\$ 2,846,933	\$ 160,000	\$ 4,901,096	\$ 4,071,584

See accompanying notes.

Fund for the Arts
Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Gains				
Contribution revenues				
Current year campaign	\$ 6,644,585	\$ 1,615,428	\$ -	\$ 8,260,013
Fundraising events, net	23,080	431,479	-	454,559
Future year campaigns and other	-	(74,898)	-	(74,898)
Less amounts designated by donors for specific organizations	(1,047,482)	-	-	(1,047,482)
Total Contribution Revenues	5,620,183	1,972,009	-	7,592,192
Allowance for pledge discounts and uncollectible pledges	(200,000)	7,072	-	(192,928)
Returned grants	-	(96,878)	-	(96,878)
Net Contribution Revenues	5,420,183	1,882,203	-	7,302,386
Other public support and gains				
Investment income	42,989	279	-	43,268
Rental income, net	29,644	-	-	29,644
Miscellaneous	12,750	-	-	12,750
Total Other Public Support and Gains	85,383	279	-	85,662
Total Public Support and Gains	5,505,566	1,882,482	-	7,388,048
Net assets released from restricted status upon satisfaction of program restrictions	1,850,006	(1,850,006)	-	-
Total Public Support and Gains	7,355,572	32,476	-	7,388,048
Grants and Expenses				
Undesignated grants				
Total grants	6,388,008	-	-	6,388,008
Less amounts designated by donors for specific organizations	(1,047,482)	-	-	(1,047,482)
Total Undesignated Grants	5,340,526	-	-	5,340,526
Program expenses	922,814	-	-	922,814
Total Undesignated Grants and Program Expenses	6,263,340	-	-	6,263,340
Other Expenses				
Fundraising expenses	1,113,685	-	-	1,113,685
Management and general expenses	304,117	-	-	304,117
Total Other Expenses	1,417,802	-	-	1,417,802
Total Grants and Expenses	7,681,142	-	-	7,681,142
Changes in Net Assets	(325,570)	32,476	-	(293,094)
Net Assets at Beginning of Year	2,720,239	1,484,439	160,000	4,364,678
Net Assets at End of Year	\$ 2,394,669	\$ 1,516,915	\$ 160,000	\$ 4,071,584

See accompanying notes.

Fund for the Arts
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in Net Assets	\$ 829,512	\$ (293,094)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	73,857	65,140
Net unrealized and realized (gains) losses on investments	(9,246)	4,739
Allowance for pledge discounts and uncollectible pledges	243,634	192,928
Noncash guarantee provided to FFTA Properties, Inc.	(13,215)	(1,323)
Changes in:		
Contributions receivable	(875,416)	(162,038)
Note receivable from FFTA Properties, Inc.	(1,192)	-
Other assets	3,574	(13,598)
Accounts payable and accrued expenses	(33,358)	40,896
Deferred revenue	3,769	-
Campaign grants payable	(191,956)	488,997
Payable to FFTA Properties, Inc.	58,264	(57,082)
	<u>88,227</u>	<u>265,565</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Proceeds from maturities and sale of investments	390,015	380,457
Purchases of investments	(248,721)	(831,486)
Purchase of property and equipment	(58,783)	(25,469)
Advances to FFTA Properties, Inc.	(140,000)	-
Payments from note receivable	36,000	75,000
	<u>(21,489)</u>	<u>(401,498)</u>
Net Cash Used in Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	66,738	(135,933)
Cash and Cash Equivalents at Beginning of Year	<u>449,793</u>	<u>585,726</u>
Cash and Cash Equivalents at End of Year	<u>\$ 516,531</u>	<u>\$ 449,793</u>

See accompanying notes.

Fund for the Arts
Notes to Financial Statements
June 30, 2017 and 2016

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 2017 and 2016 were Actors Theatre of Louisville, Commonwealth Theatre Center, Kentucky Opera Association, Kentucky Shakespeare, KMAC Museum (f/k/a Kentucky Museum of Art and Craft), 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 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". Through June 30, 2016, the Fund also hosted power2give.org, an online crowd-funding platform for Section 501(c)(3) organizations in Kentucky and Southern Indiana to post arts and culture projects. As of July 1, 2016, ArtsMatch, a new grants pool again utilizing an online crowd-funding platform was launched to fund strategic priorities around education, access and innovation.

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, ArtSpace, Fifth Third Conference Center, Hilliard Lyons Hall of Recognition 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.

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.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

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.
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.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2017 and 2016

Note B - Summary of Significant Accounting Policies (Continued)

11. Reclassifications: Certain reclassifications were made to the June 30, 2016 financial statements to conform to the June 30, 2017 presentation. These reclassifications had no impact on net assets or the change in net assets reported in the accompanying financial statements.
12. Recent Accounting Pronouncements: In August 2016, the FASB issued Accounting Standards Update No. 2016-14 (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. The Fund is currently evaluating ASU No. 2016-14, including the related impact thereof.

Note C - Contributions Receivable

Contributions receivable include the following unconditional pledges at June 30, 2017 and 2016:

	2017	2016
Gross contributions receivable	\$ 6,044,429	\$ 5,394,473
Less: Allowance for doubtful pledges	(282,670)	(283,130)
Unamortized discount on future contributions	(21,885)	(3,251)
Contributions Receivable, Net	\$ 5,739,874	\$ 5,108,092
Gross contributions receivable are due according to the following schedule:		
Less than one year	\$ 5,250,536	
One to five years	793,893	
Total Gross Contributions Receivable	\$ 6,044,429	

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 (4.25% at June 30, 2017) plus 0.5% with a floor of 3.75%. At June 30, 2017 and 2016 there was \$37,225 and \$73,225 outstanding, respectively.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2017 and 2016

Note E - Property and Equipment

Property and equipment at June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 1,592,168	\$ 1,576,293
Office furniture and equipment	<u>347,309</u>	<u>304,401</u>
	1,939,477	1,880,694
Less accumulated depreciation	<u>1,315,022</u>	<u>1,241,165</u>
	<u>\$ 624,455</u>	<u>\$ 639,529</u>

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)
June 30, 2017 and 2016

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, 2017 and 2016.

	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>

	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>

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, 2017 and 2016

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, 2017, \$50,000 of the fund is permanently restricted and \$31,370 is temporarily restricted. As of June 30, 2016, \$50,000 of the fund is permanently restricted and \$26,257 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, 2017, \$100,000 of the endowment fund is permanently restricted and \$9,787 is unrestricted. As of June 30, 2016, \$100,000 of the fund is permanently restricted and \$1,502 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 \$7,363,937 and \$6,758,874 at June 30, 2017 and 2016, 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 \$343,039 and \$340,535 during 2017 and 2016, 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, 25% bond and cash, and 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, 2017 and 2016

Note H - Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following:

	<u>2017</u>	<u>2016</u>
Education Programming	\$ 651,239	\$ 614,337
Future Campaign/Project Funding	520,064	115,348
Jennifer Lawrence Arts Fund	399,925	207,714
West Louisville Collaborative/Education/Project(s)	283,692	142,158
Jennifer Lawrence Arts Fund - Imagine 2020	250,000	-
Operating and Program Underwriting	242,000	178,500
Art in Healthcare	185,859	110,000
Other	105,000	351
Cultural Pass	100,759	-
Arts in Aging	51,750	13,100
Whittenberg Scholarship Fund	31,370	26,257
ArtsMatch	15,969	-
Cowen Innovation Fund	9,306	-
Arts Master Plan	-	98,296
Power2give	-	10,854
	<u>\$ 2,846,933</u>	<u>\$ 1,516,915</u>

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

	<u>2017</u>	<u>2016</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>

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2017 and 2016

Note I - Leases

The Fund owns a building and leases office space in that building to others. Gross rental income during 2017 and 2016 was \$74,245 and \$73,329 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, 2017:

Year Ending June 30,	Amount
2018	\$ 29,610
2019	18,360
2020	7,650
	\$ 55,620

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 2017 and 2016 were \$41,605 and \$40,678, 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 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. 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.

For 2017 and 2016, the Fund granted to Properties \$105,000, in each year, as general support for the payment of Properties' commitments. For 2017 and 2016, 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 \$2,195,344 and \$3,516,655 at June 30, 2017 and 2016, respectively. See Note L for additional information.

During 2017, the Fund advanced \$140,000 to Properties to assist with the cash flow requirements of Properties. Interest accrues on these advances at the prime rate (4.25% at June 30, 2017). At June 30, 2017, accrued interest of \$1,192 is reflected within the note receivable from FFTA Properties, Inc. balance on the accompanying statements of financial position.

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2017 and 2016

Note K - FFTA Properties, Inc. (Continued)

Properties leases space to the Louisville Orchestra (through April 30, 2017), Kentucky Opera Association, Kentucky Shakespeare, and West Louisville Performing Arts Academy, all Fund Cultural Partners. These 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 \$85,613 and \$90,828 for the years ended June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Total net property and equipment	\$ 5,972,285	\$ 7,411,966
Total assets	6,288,312	7,588,729
Total liabilities	2,802,784	3,509,982
Total net assets	3,485,528	4,078,747
Total revenues and other support	503,310	523,285
Total expenses and losses	1,096,529	927,939
Total changes in net assets	(593,219)	(404,654)

Note L - Other Liabilities

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 \$1,075,361 remains outstanding at June 30, 2017. Properties also obtained a \$500,000 line of credit during 2011 which was increased in February 2016 to \$1,300,000 and further increased to \$2,300,000 in April 2017 to allow for the construction of a new cooling tower. The line of credit matures on April 24, 2018. The Fund provides a guarantee of payment. The outstanding balance on the line of credit as of June 30, 2017 and 2016 was \$1,119,983 and \$1,088,163, 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 maximum liability to the Fund at June 30, 2017 is the outstanding balance of the debt, \$2,195,344, plus any unpaid interest and fees along with the costs of collecting the obligations. No material liabilities have been recorded as of June 30, 2017 and 2016 as the likelihood of default is deemed to be less than probable. The liability to "stand ready" at June 30, 2017 and 2016 associated with the guarantee is included in other liabilities in the accompanying statements of financial position at \$21,952 and \$35,167, respectively. The liability to "stand ready" is calculated at a rate of 1% of the following debt balances of Properties:

	<u>2017</u>	<u>2016</u>
Properties debt - 2011	\$ 1,075,361	\$ 2,428,492
Properties - line of credit	<u>1,119,983</u>	<u>1,088,163</u>
	<u>\$ 2,195,344</u>	<u>\$ 3,516,655</u>

Fund for the Arts
Notes to Financial Statements (Continued)
June 30, 2017 and 2016

Note M - Fundraising Events

Gross revenues and direct event expenses related to the following fundraising events during the year ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Awards in the Arts		
Revenues	\$ 638,084	\$ 431,479
Expenses	<u>(233,159)</u>	<u>(193,765)</u>
	404,925	237,714
Raffle		
Revenues	28,800	27,700
Expenses	<u>(5,804)</u>	<u>(4,620)</u>
	<u>22,996</u>	<u>23,080</u>
	<u>\$ 427,921</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, 2017 and 2016

	<u>2017</u>	<u>2016</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	-	375,120
General Operating Support Grants to Cultural Partners	3,916,500	4,291,620
Special Initiatives/Grants - Cultural Partners	267,490	149,203
Power2give Grants (including \$-0- and \$332,057 designated grants in FY17 and FY16, respectively)	10,854	509,864
Donor-Designated Grants (excluding portion applicable to power2give)	665,345	715,425
ArtsMatch	256,305	-
Miscellaneous education/community grants/special projects	728,100	721,896
Total Grants	<u>\$ 5,844,594</u>	<u>\$ 6,388,008</u>

General Operating Support Grants to Cultural Partners

Actors Theatre of Louisville	\$ 861,000	\$ 861,000
Commonwealth Theatre Center	51,000	51,000
Kentucky Opera Association	576,000	576,000
Kentucky Shakespeare	100,000	100,000
KMAC Museum (f/k/a Kentucky Museum of Art and Craft)	140,000	140,000
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
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
West Louisville Performing Arts Academy	39,000	39,000
West Louisville Performing Arts Academy - Payment of FY15 Contingent Grant	-	35,745
W.L. Lyons Brown Theatre/Fifth Third Conference Center/ArtSpace	105,000	105,000
Total General Operating Support Grants to Cultural Partners	<u>\$ 3,916,500</u>	<u>\$ 4,291,620</u>

See independent auditor's report.

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

	Program	Fundraising	Management and General	Total
Undesignated grants	\$ 5,179,249	\$ -	\$ -	\$ 5,179,249
Salaries and benefits	250,126	679,989	211,124	1,141,239
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	100,741	-	-	100,741
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
Totals per Statement of Activities (Page 4)	\$ 6,323,810	\$ 989,338	\$ 350,358	\$ 7,663,506
Campaign grants designated by donors for specific organizations	665,345	-	-	665,345
Totals Including Designated Grants	\$ 6,989,155	\$ 989,338	\$ 350,358	\$ 8,328,851
Expense Ratios	84%	12%	4%	100%

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 Events - Awards in the Arts				
Direct donor benefits	162,805	-	-	162,805
Other special events costs	22,059	8,901	-	30,960
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 5)	\$ 6,263,340	\$ 1,113,685	\$ 304,117	\$ 7,681,142
Campaign grants designated by donors for specific organizations	1,047,482	-	-	1,047,482
Totals Including Designated Grants	\$ 7,310,822	\$ 1,113,685	\$ 304,117	\$ 8,728,624
Expense Ratios	84%	13%	3%	100%

See independent auditor's report.

Fund for the Arts
Schedule of Eligible Income for Kentucky Arts Council Grant
Year Ended June 30, 2017

Campaign 2017 - Unrestricted	\$ 5,910,123
Less Allowance for Uncollectible Pledges	(225,000)
Plus Other Public Support and Gains	52,864
Plus Net Assets Released from Restrictions	<u>2,090,358</u>
Total Income	7,828,345
Less In-Kind	<u>(277,304)</u>
Total Eligible Income	<u>\$ 7,551,041</u>

See independent auditor's report.