



Louisville Free Public Library Foundation, Inc.

Louisville, Kentucky

Independent Auditors' Report

And Financial Statements

For The Years Ended

June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Louisville Free Public Library Foundation, Inc.

We have audited the accompanying financial statements of the Louisville Free Public Library Foundation, Inc., (a not-for-profit organization) 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville Free Public Library Foundation, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baldwin CPAs, PLLC

Louisville, Kentucky
November 17, 2018

Louisville Free Public Library Foundation, Inc.
 Statements of Financial Position
 June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 859,423	\$ 91,759
Miscellaneous receivables	11,714	-
Promises to give	1,350,015	1,151,851
Prepaid expenses	3,831	5,598
Investments	2,843,583	2,187,637
Investments - restricted	6,206,611	6,047,289
Beneficial interest in assets held by others	6,882,444	6,413,489
Furniture and equipment, net	6,120	6,120
	\$ 18,163,741	\$ 15,903,743
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 23,356	\$ 24,831
Due to Library	31,646	12,650
Custodial funds	6,206,611	6,047,289
	6,261,613	6,084,770
 NET ASSETS		
Unrestricted	203	1,977
Temporarily restricted	5,692,777	3,607,848
Permanently restricted	6,209,148	6,209,148
	11,902,128	9,818,973
	\$ 18,163,741	\$ 15,903,743

Louisville Free Public Library Foundation, Inc.
 Statements of Activities
 For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:								
Contributions and grants	\$ 375,402	\$ 2,455,095	\$ -	\$ 2,830,497	\$ 426,860	\$ 683,199	\$ 10,100	\$ 1,120,159
Interest and dividends	12,060	220,491	-	232,551	12,347	213,922	-	226,269
Realized/unrealized gains (losses)	(4,752)	428,576	-	423,824	(6,555)	845,102	-	838,547
Total revenue and support	382,710	3,104,162	-	3,486,872	432,652	1,742,223	10,100	2,184,975
Net assets released from restrictions								
Restrictions satisfied by payments	1,019,233	(1,019,233)	-	-	2,662,564	(2,662,564)	-	-
Total revenue and support	1,401,943	2,084,929	-	3,486,872	3,095,216	(920,341)	10,100	2,184,975
Grants and expenses:								
Grants to Library	946,160	-	-	946,160	2,642,087	-	-	2,642,087
Foundation operations:								
Salaries and benefits	275,978	-	-	275,978	276,939	-	-	276,939
Other operating expenses	95,564	-	-	95,564	90,972	-	-	90,972
Fundraising expenses	55,180	-	-	55,180	83,947	-	-	83,947
Investment fees	30,835	-	-	30,835	29,078	-	-	29,078
Total grants and expenses	1,403,717	-	-	1,403,717	3,123,023	-	-	3,123,023
Change in net assets	(1,774)	2,084,929	-	2,083,155	(27,807)	(920,341)	10,100	(938,048)
Net assets at beginning of year	1,977	3,607,848	6,209,148	9,818,973	29,784	4,528,189	6,199,048	10,757,021
Net assets at end of year	\$ 203	\$ 5,692,777	\$ 6,209,148	\$11,902,128	\$ 1,977	\$ 3,607,848	\$ 6,209,148	\$ 9,818,973

The accompanying notes are an integral part of the financial statements.

Louisville Free Public Library Foundation, Inc.
 Statements of Cash Flows
 For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,083,155	\$ (938,048)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Contributions restricted for long-term investment	-	(10,100)
Depreciation	-	52
Realized and unrealized gains on investments	(423,824)	(838,547)
(Increase) decrease in operating assets:		
Miscellaneous receivables	(11,714)	-
Promises to give	(198,164)	(265,740)
Prepaid expenses	1,767	1,938
Increase (decrease) in operating liabilities:		
Accounts payable	(1,475)	3,598
Due to Library	18,996	(5,238)
	1,468,741	(2,052,085)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,101,098)	(1,154,151)
Sales of investments	400,021	2,877,371
	(701,077)	1,723,220
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	-	10,100
	-	10,100
Net cash provided (used) by financing activities	-	10,100
Net increase (decrease) in cash	767,664	(318,765)
Cash at beginning of year	91,759	410,524
	\$ 859,423	\$ 91,759
Cash at end of year	\$ 859,423	\$ 91,759

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies

The Louisville Free Public Library Foundation, Inc. (the Foundation) is a not-for-profit organization, located in Louisville, Kentucky, established to enhance the programs and services of the Louisville Free Public Library (the Library) through solicitations of public and private donations.

Basis of Accounting

The Foundation prepares its financial statements on the accrual basis in accordance with accounting principles generally accepted in the United State of America.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) with regards to financial statements of Not-for-Profit Organizations. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net assets categories follows:

Unrestricted Net Assets: include the portion of expendable funds that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: include gifts for which donor-imposed restrictions have not been met.

Permanently Restricted Net Assets: include amounts which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of checking and money market accounts on deposit with various financial institutions with maturities of three months or less. Cash held in brokerage accounts is considered part of investments for the purposes of the statements of cash flows.

Promises to Give

Promises to give are recognized as support and receivables in the financial statements. Promises to give are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. Promises to give becoming due in the next year are recorded at net realizable value. Promises to give in subsequent years are reported at the present value of their net realizable value, using risk free interest rates applicable to the years in which the pledges are recognized. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Management reviews all promises to give balances that are past due and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Estimated uncollectible accounts increase the allowance for doubtful accounts and when the promises to give are written off, the allowance for doubtful accounts is decreased. Management feels that all promises are collectible, so no allowance is necessary.

Investments

Investments in marketable securities with readily determinable fair values are recorded at their fair value in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the statements of activities. Realized gains and losses on the marketable securities are determined based upon the specific securities sold.

The ASC establishes a framework for measuring fair value based upon a hierarchy that prioritizes observable and unobservable inputs used to measure fair value as follows:

Level 1 – Quoted 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 for identical or similar assets or liabilities in inactive markets; 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 Foundation's own assumptions.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation 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.

Restricted Investments

Restricted investments include funds received from the Library Advisory Commission, and held on its behalf. These amounts are included in custodial funds payable at June 30, 2018 and 2017.

Beneficial Interest in Assets Held by Others

Beneficial interest in assets held by others are funds held by the Community Foundation of Louisville for the benefit of the Foundation in accordance with the terms of the original donors. These funds are neither in the possession, nor under the control, of the Foundation. The fair value of the fund is recognized as an asset. Distributions from the fund are recorded as transfers from one asset to another and the carrying value of the asset is adjusted annually for changes in the fair value of the fund.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Furniture and Equipment

Furniture and equipment is recorded at cost, or if donated, at the approximate fair value at the date of donation. The cost of property and equipment purchased in excess of \$1,000 is capitalized. Depreciation expense is computed using the straight-line method over the estimated lives of the assets as follows:

Computer equipment and software	3 to 5 years
Furniture and office equipment	7 to 10 years

Due to Library

Amounts due to Library are funds received from the Library Advisory Commission's investment account but not yet disbursed to the Library.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-Kind Contributions

The Foundation records various types of in-kind support, including contributed professional services, advertising, books and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses.

For the years ended June 30, 2018 and 2017, in-kind contributions of \$500,000 and \$0, respectively, are included in the financial statements as contributions and are offset by like amounts included in expenses.

The Foundation uses certain office space, equipment and other assets owned by the Louisville Free Public Library, the primary beneficiary of Foundation grants. The value of the use of these assets has not been determined or recorded in the financial statements.

Income Tax Status

The Foundation is exempt from federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statement of activities or accrued in the statement of financial position.

Note 2. Concentrations of Credit Risk

Cash and cash equivalents - The Foundation maintains bank accounts at multiple financial institutions in Kentucky. The cash balances are insured by the Federal Deposit Insurance Corporation. The amount of cash in excess of federally insured limits at June 30, 2018 and 2017 was \$600,851 and \$0, respectively. Risk is managed by maintaining all deposits in high quality financial institutions.

Promises to give – Financial instruments that are exposed to credit risk consist of promises to give. Promises to give are principally with foundations and corporations based in the Louisville area. Realization of these accounts is dependent on various individual economic conditions.

Investments – Investment in marketable securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain marketable securities, it is at least reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. To address the risk, the Foundation maintains a formal investment policy that sets out investment guidelines, asset allocation guidelines and requires review of the investment manager’s performance. The finance committee oversees the entire process.

Note 3. Promises to Give

Promises to give consist of the following at June 30:

	2018	2017
Annual appeal	\$ 5,906	\$ 56,400
Northeast capital campaign	1,060,452	302,334
South Central capital campaign	250,000	680,000
Other restricted promises	50,000	127,000
	\$ 1,366,358	\$ 1,165,734
Receivable in less than one year	\$ 909,333	\$ 551,567
Receivable in one to five years	457,025	604,167
Receivable in more than five years	-	10,000
	1,366,358	1,165,734
Less discounts to net present value	(16,343)	(13,883)
	\$ 1,350,015	\$ 1,151,851

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Promises to give due in more than one year are recognized at fair value, using present value techniques and a discount rate between 1% and 2%. No allowance for doubtful accounts is necessary, as management believes that all amounts are collectible.

Note 4. Investments

Investments consist of money market funds, certificates of deposit and mutual funds. Cost, fair value and unrealized gain (loss) of investments are summarized below as of June 30:

<u>June 30, 2018</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gains (Losses)</u>
Money market funds	\$ 1,409,447	\$ 1,409,447	\$ -
Certificates of deposit	567,936	567,936	-
Equity funds	3,259,208	5,570,961	2,311,753
Bond funds	1,540,054	1,501,850	(38,204)
Total investments	<u>\$ 6,776,645</u>	<u>\$ 9,050,194</u>	<u>\$ 2,273,549</u>
<u>June 30, 2017</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gains (Losses)</u>
Money market funds	\$ 542,174	\$ 542,174	\$ -
Certificates of deposit	660,709	660,709	-
Equity funds	3,468,091	5,372,330	1,904,239
Bond funds	1,665,216	1,659,713	(5,503)
Total investments	<u>\$ 6,336,190</u>	<u>\$ 8,234,926</u>	<u>\$ 1,898,736</u>

Investments are reported on the statements of financial position as follows:

	<u>2018</u>	<u>2017</u>
Investments	\$ 2,843,583	\$ 2,187,637
Restricted investments	6,206,611	6,047,289
	<u>\$ 9,050,194</u>	<u>\$ 8,234,926</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Note 5. Fair Value

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and 2017. There were no assets valued using level 3 inputs.

<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market funds	\$ 1,409,447	\$ -	\$ 1,409,447
Certificates of deposit	-	567,936	567,936
Equity funds - US Stocks	4,529,001	-	4,529,001
Equity funds - Int'l	1,041,960	-	1,041,960
Bond funds	1,501,850	-	1,501,850
Total	\$ 8,482,258	\$ 567,936	\$ 9,050,194
<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market funds	\$ 542,174	\$ -	\$ 542,174
Certificates of deposit	-	660,709	660,709
Equity funds - US Stocks	3,898,755	-	3,898,755
Equity funds - Int'l	1,163,273	-	1,163,273
Equity funds - Growth	310,302	-	310,302
Bond funds	1,659,713	-	1,659,713
Total	\$ 7,574,217	\$ 660,709	\$ 8,234,926

Note 6. Restricted Investments and Custodial Funds

The activity of the funds owned by the Library Advisory Commission is as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Balance beginning of year	\$ 6,047,289	\$ 5,805,590
Contributions	5,350	5,515
Interest and dividend income	113,568	114,542
Realized and unrealized gains	444,229	580,723
Transfers to Library	(403,825)	(459,081)
Balance end of year	\$ 6,206,611	\$ 6,047,289

The receipts and disbursements are not reflected in the statement of activities of the Foundation in accordance with ASC 958-605-25.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Note 7. Beneficial Interests in Assets Held by Others

The Foundation has a beneficial interest in the New Book Endowment Fund held at the Community Foundation of Louisville, Inc. As part of the agreement with the Community Foundation of Louisville, Inc., the Foundation may withdraw funds in excess of \$5,606,266. The amounts available for withdrawal as of June 30, 2018 and 2017 were \$1,276,178 and \$807,223, respectively. The fair value of the trust (level 3 input) and activity for the years ended June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Fair value at the beginning of year	\$ 6,413,489	\$ 5,768,006
Interest and dividend income	186,326	178,849
Realized and unrealized gains	312,311	654,407
Investment fees	(29,682)	(27,773)
Transfers to foundation	-	(160,000)
	<u>6,882,444</u>	<u>6,413,489</u>
Fair value at the end of year	<u>\$ 6,882,444</u>	<u>\$ 6,413,489</u>
Permanently restricted	\$ 5,606,266	\$ 5,606,266
Available for withdrawal	\$ 1,276,178	\$ 807,223

Note 8. Furniture and Equipment

Furniture and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computer equipment and software	\$ 3,849	\$ 3,849
Furniture and office equipment	8,469	8,469
Artwork	6,120	6,120
	<u>18,438</u>	<u>18,438</u>
Total costs	18,438	18,438
Less accumulated depreciation	(12,318)	(12,318)
	<u>6,120</u>	<u>6,120</u>
Furniture and equipment, net	<u>\$ 6,120</u>	<u>\$ 6,120</u>
Depreciation expense	<u>\$ -</u>	<u>\$ 52</u>

The cost of certain City-owned equipment and facilities, which are used by the Foundation in connection with its Library support programs, is not reflected in the statement of financial position because asset titles remain with the City of Louisville. The Foundation has not recorded any amount related to the free use of equipment and facilities used.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Note 9. Temporarily Restricted Net Assets

Following is a summary of the activities in the temporarily restricted funds for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Net assets, beginning of year	\$ 3,607,848	\$ 4,528,189
Contributions	2,455,095	683,199
Interest and dividend income	220,491	213,922
Realized and unrealized gains	428,576	845,102
Investment fees	(29,682)	(27,773)
Assets released from restrictions	<u>(989,551)</u>	<u>(2,634,791)</u>
Net assets, end of year	<u>\$ 5,692,777</u>	<u>\$ 3,607,848</u>

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Program activities	\$ 357,519	\$ 494,418
New Book Endowment fund	2,103,959	1,833,193
Children's Program Endowment fund	41,259	32,427
Scholarship Endowment fund	111,732	93,228
Craig Buthod Author Series	55,945	36,284
Capital Projects	<u>3,022,363</u>	<u>1,118,298</u>
Net assets, end of year	<u>\$ 5,692,777</u>	<u>\$ 3,607,848</u>

If the market value of the New Book Endowment Fund at the Community Foundation of Louisville, Inc., (see Note 7) decreases below the permanently restricted balance of \$5,606,266, then other New Book Endowment Fund investments included in temporarily restricted net assets would cover the shortfall.

Note 10. Permanently Restricted Net Assets

Permanently restricted net assets are as follows at June 30:

	<u>2018</u>	<u>2017</u>
New Book Endowment fund	\$ 5,606,266	\$ 5,606,266
Children's Program Endowment fund	105,600	105,600
Scholarship Endowment fund	220,992	220,992
Craig Buthod Author Series	<u>276,290</u>	<u>276,290</u>
Net assets, end of year	<u>\$ 6,209,148</u>	<u>\$ 6,209,148</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

During the years ended June 30, 2018 and 2017, the Foundation received contributions of \$0 and \$10,000, respectively to the Children's Program Endowment fund, and \$0 and \$100, respectively to the Craig Buthod Author Series.

Note 11. Endowment

The Foundation has determined its permanently restricted net assets meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminates the requirement to maintain the historic dollar value of donor-restricted endowments and instead focuses on donor intent and spending practices that are prudent for the uses, benefits, purposes and duration for which the endowment fund is established.

UPMIFA also creates a time restriction on the portion of the endowment that is not permanently restricted and requires classification of that portion of the endowment to be temporarily restricted net assets until appropriated for expenditure by the organization.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as Foundation-designated funds. Under this policy, as approved by the Foundation, the endowment assets are invested in a manner that is intended to produce results to mirror those of major indexes while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating distributions of no more than 4 percent of its endowment fund's rolling average value from the previous 12 quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to maintain the fair value of the original gift. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Endowment net assets composition by type at June 30, 2018 and 2017 are as follows:

<u>June 30, 2018</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
New Book Endowment fund	\$ 2,103,959	\$ 5,606,266	\$ 7,710,225
Children's Program Endowment fund	41,259	105,600	146,859
Scholarship Endowment fund	111,732	220,992	332,724
Craig Buthod Author Series	55,945	276,290	332,235
	<u>\$ 2,312,895</u>	<u>\$ 6,209,148</u>	<u>\$ 8,522,043</u>
<u>June 30, 2017</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
New Book Endowment fund	\$ 1,833,193	\$ 5,606,266	\$ 7,439,459
Children's Program Endowment fund	32,427	105,600	138,027
Scholarship Endowment fund	93,228	220,992	314,220
Craig Buthod Author Series	36,284	276,290	312,574
	<u>\$ 1,995,132</u>	<u>\$ 6,209,148</u>	<u>\$ 8,204,280</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2018 and 2017

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
<u>June 30, 2016</u>	\$ 1,440,920	\$ 6,199,048	\$ 7,639,968
Investment return:			
Realized income	392,968	-	392,968
Market value change	638,208	-	638,208
 Total investment return	 1,031,176	 -	 1,031,176
 Contributions	 -	 10,100	 10,100
Distributions	(476,964)	-	(476,964)
 <u>June 30, 2017</u>	 1,995,132	 6,209,148	 8,204,280
Investment return:			
Realized income	629,728	-	629,728
Market value change	(10,495)	-	(10,495)
 Total investment return	 619,233	 -	 619,233
 Contributions	 -	 -	 -
Distributions	(301,470)	-	(301,470)
 June 30, 2018	 <u>\$ 2,312,895</u>	 <u>\$ 6,209,148</u>	 <u>\$ 8,522,043</u>

All endowment assets stated above are a result of donor restrictions, with no self-imposed restrictions by the board. Therefore, no amount of the endowment as described above is considered unrestricted.

Note 12. Classification of Expenses

The statement of activities discloses expenses by natural classification. The classification of expenses by function for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Program	\$ 983,820	\$ 2,679,400
Management and general	232,985	219,803
Fundraising	186,912	223,820
 Total expenses	 <u>\$ 1,403,717</u>	 <u>\$ 3,123,023</u>

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Note 13. Retirement Plan

The Foundation adopted a SEP IRA retirement plan in August 2008 under which all full-time employees are eligible to participate. The Foundation contributes 15.1% of each full-time employee's salary, regardless of the employee contribution to the plan. The Foundation contributed \$28,934 and \$29,875 for the years ended June 30, 2018 and 2017, respectively.

Note 14. Recently Issue Accounting Standards

Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The ASU will be effective for the Foundation for the year ending June 30, 2019. Early adoption is permitted. The Foundation is currently evaluating the effect that the new standard will have on its financial statements.

Note 15. Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through November 17, 2018, which was the date at which the financial statements were available to be issued.