



Louisville Free Public Library Foundation, Inc.

Louisville, Kentucky

Independent Auditors' Report

And Financial Statements

For The Years Ended

June 30, 2019 and 2018

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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, 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.

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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements management has adopted ASU 2016-14 *Not-for-profits: Presentation of Financial Statements of Not-for-Profit Entities* in 2019. Our opinion is not modified with respect to that matter.

Baldwin CPAs, PLLC

Louisville, Kentucky
November 14, 2019

Louisville Free Public Library Foundation, Inc.
 Statements of Financial Position
 June 30, 2019 and 2018

	Assets	2019	2018
Assets			
Cash and cash equivalents		\$ 379,703	\$ 859,423
Miscellaneous receivables		900	11,714
Promises to give		1,042,461	1,350,015
Prepaid expenses		3,503	3,831
Investments		3,103,664	2,843,583
Investments - restricted		5,546,252	6,206,611
Beneficial interest in assets held by others		5,874,696	6,882,444
Furniture and equipment, net		6,120	6,120
		<hr/>	<hr/>
Total assets		<u>\$ 15,957,299</u>	<u>\$ 18,163,741</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable		\$ 20,852	\$ 23,356
Due to Library		39,293	31,646
Custodial funds		5,546,252	6,206,611
		<hr/>	<hr/>
Total liabilities		<u>5,606,397</u>	<u>6,261,613</u>
Net Assets			
Without donor restrictions		<u>297,381</u>	<u>203</u>
With donor restrictions			
Restricted by purpose or time		3,844,373	5,692,777
Restricted in perpetuity		6,209,148	6,209,148
		<hr/>	<hr/>
Total Net Assets with Donor Restrictions		<u>10,053,521</u>	<u>11,901,925</u>
		<hr/>	<hr/>
Total Net Assets		<u>10,350,902</u>	<u>11,902,128</u>
		<hr/>	<hr/>
Total Liabilities and Net Assets		<u>\$ 15,957,299</u>	<u>\$ 18,163,741</u>

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

Louisville Free Public Library Foundation, Inc.
 Statements of Activities
 For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Contributions and grants	\$ 621,495	\$ 1,074,065	\$ 1,695,560	\$ 375,402	\$ 2,455,095	\$ 2,830,497
Interest and dividends	25,040	249,989	275,029	12,060	220,491	232,551
Realized/unrealized gains (losses)	240	148,014	148,254	(35,586)	428,576	392,990
Total Revenue and Support	646,775	1,472,068	2,118,843	351,876	3,104,162	3,456,038
Net Assets Released from Restrictions	3,320,472	(3,320,472)	-	1,019,233	(1,019,233)	-
Total Revenue and Support and Releases	3,967,247	(1,848,404)	2,118,843	1,371,109	2,084,929	3,456,038
Expenses:						
Program services	3,264,019	-	3,264,019	983,822	-	983,822
Management and general	205,578	-	205,578	202,149	-	202,149
Fundraising	200,472	-	200,472	186,912	-	186,912
Total Expenses	3,670,069	-	3,670,069	1,372,883	-	1,372,883
Change in Net Assets	297,178	(1,848,404)	(1,551,226)	(1,774)	2,084,929	2,083,155
Net Assets at Beginning of Year	203	11,901,925	11,902,128	1,977	9,816,996	9,818,973
Net Assets at End of Year	\$ 297,381	\$10,053,521	\$10,350,902	\$ 203	\$ 11,901,925	\$ 11,902,128

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

Louisville Free Public Library Foundation, Inc.
 Statements of Functional Expenses
 For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Total	Program Services	Management and General	Fund-Raising	Total	Program Services	Management and General	Fund-Raising
Salaries and wages	\$ 220,466	\$ 29,030	\$ 79,078	\$ 112,358	\$ 197,346	\$ 26,753	\$ 77,019	\$ 93,574
Payroll taxes	16,541	2,178	5,933	8,430	15,072	2,043	5,882	7,147
Employee benefits	74,219	9,773	26,621	37,825	63,558	8,616	24,805	30,137
Contractor expense	43,077	-	43,077	-	39,960	-	39,960	-
Grants to the Library	3,222,780	3,222,780	-	-	946,160	946,160	-	-
Professional fees	9,925	258	8,668	999	9,409	250	8,285	874
Information technology	14,763	-	14,763	-	21,850	-	21,850	-
Office expense	12,735	-	12,735	-	10,308	-	10,308	-
Travel and meetings	8,111	-	8,111	-	7,561	-	7,561	-
Annual appeal	15,021	-	-	15,021	10,513	-	-	10,513
Advocacy	13,788	-	-	13,788	15,024	-	-	15,024
Other fundraising	12,051	-	-	12,051	29,643	-	-	29,643
Insurance	6,592	-	6,592	-	6,479	-	6,479	-
Total Expenses	\$ 3,670,069	\$ 3,264,019	\$ 205,578	\$ 200,472	\$ 1,372,883	\$ 983,822	\$ 202,149	\$ 186,912

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, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,551,226)	\$ 2,083,155
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized gains on investments	(148,254)	(423,824)
(Increase) decrease in operating assets:		
Miscellaneous receivables	10,814	(11,714)
Promises to give	307,554	(198,164)
Prepaid expenses	328	1,767
Increase (decrease) in operating liabilities:		
Accounts payable	(2,504)	(1,475)
Due to Library	7,647	18,996
	(1,375,641)	1,468,741
Net Cash Provided (Used) By Operating Activities		
Cash Flows From Investing Activities:		
Purchases of investments	(1,264,609)	(1,101,098)
Sales of investments	2,160,530	400,021
	895,921	(701,077)
Net Cash Provided (Used) By Investing Activities		
Net Increase (Decrease) In Cash	(479,720)	767,664
Cash at Beginning of Year	859,423	91,759
	\$ 379,703	\$ 859,423
Cash at End of Year		

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements
June 30, 2019 and 2018

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 two classes of net assets. A description of the net assets categories follows:

Net assets without donor restrictions: expendable funds that are not subject to donor-imposed stipulations.

Net assets with donor restrictions: stipulated by donors for specific operating purposes or are restricted by time. These include donor restrictions requiring that the corpus to be invested in perpetuity and only the income be made available for 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, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2019 and 2018.

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, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies (Continued)

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 increases to net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires because the contributed resources are spent in accordance with the donor's instructions or because of passage of time, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restriction. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment or on assets restricted to acquiring property or equipment expire when the property or equipment is placed in service.

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, 2019 and 2018, in-kind contributions of \$0 and \$500,000, 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.

Reclassification

Certain reclassifications have been made to prior year amounts to conform with the current presentation.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies (Continued)

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).

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.

Recently Issued Accounting Standards

For the year ended June 30, 2019, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-profits (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This 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 between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

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, 2019 and 2018 was \$140,397 and \$600,851, 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.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

Note 3 - Promises to Give

Promises to give consist of the following at June 30:

	2019	2018
Annual appeal	\$ 6,485	\$ 5,906
Northeast capital campaign	1,024,494	1,060,452
South Central capital campaign	-	250,000
Other restricted promises	40,000	50,000
	\$ 1,070,979	\$ 1,366,358
Receivable in less than one year	\$ 413,018	\$ 909,333
Receivable in one to five years	657,961	457,025
Total promises to give	1,070,979	1,366,358
Less discounts to net present value	(28,518)	(16,343)
Net promises to give	\$ 1,042,461	\$ 1,350,015

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:

June 30, 2019	Cost Basis	Fair Value	Unrealized Gains (Losses)
Money market funds	\$ 1,489,059	\$ 1,489,059	\$ -
Equity funds	3,661,017	5,813,846	2,152,829
Bond funds	1,341,424	1,347,011	5,587
Total investments	\$ 6,491,500	\$ 8,649,916	\$ 2,158,416

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

Note 4 – Investments (Continued)

<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)
	<u>\$ 6,776,645</u>	<u>\$ 9,050,194</u>	<u>\$ 2,273,549</u>

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

	<u>2019</u>	<u>2018</u>
Investments	\$ 3,103,664	\$ 2,843,583
Restricted investments	5,546,252	6,206,611
	<u>\$ 8,649,916</u>	<u>\$ 9,050,194</u>

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, 2019 and 2018. There were no assets valued using level 3 inputs.

<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market funds	\$ 1,489,059	\$ -	\$ 1,489,059
Equity funds - US Stocks	4,621,009	-	4,621,009
Equity funds - Int'l	1,192,837	-	1,192,837
Bond funds	1,347,011	-	1,347,011
	<u>\$ 8,649,916</u>	<u>\$ -</u>	<u>\$ 8,649,916</u>
<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
	<u>\$ 8,482,258</u>	<u>\$ 567,936</u>	<u>\$ 9,050,194</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

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:

	2019	2018
Balance beginning of year	\$ 6,206,611	\$ 6,047,289
Contributions	1,743	5,350
Interest and dividend income	117,863	113,568
Realized and unrealized gains	225,118	444,229
Transfers to Library	(1,005,083)	(403,825)
	\$ 5,546,252	\$ 6,206,611

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

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, 2019 and 2018 were \$268,430 and \$2,278,178, respectively. The fair value of the trust (level 3 input) and activity for the years ended June 30 is as follows:

	2019	2018
Fair value at the beginning of year	\$ 6,882,444	\$ 6,413,489
Interest and dividend income	237,427	186,326
Realized and unrealized gains	64,880	312,311
Investment fees	(30,324)	(29,682)
Transfers to foundation	(1,279,731)	-
	\$ 5,874,696	\$ 6,882,444

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

Note 8 - Furniture and Equipment

Furniture and equipment consist of the following at June 30:

	2019	2018
Computer equipment and software	\$ 3,849	\$ 3,849
Furniture and office equipment	8,469	8,469
Artwork	6,120	6,120
 Total costs	 18,438	 18,438
Less accumulated depreciation	(12,318)	(12,318)
 Furniture and equipment, net	 \$ 6,120	 \$ 6,120

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.

Note 9 – Net Assets with Donor Restrictions

Net assets are restricted for the following purposes:

	2019	2018
Subject to specified purpose or passage of time:		
Program activities	\$ 432,501	\$ 357,519
New Book Endowment fund	2,161,248	2,103,959
Children's Program Endowment fund	45,893	41,259
Scholarship Endowment fund	121,557	111,732
Craig Buthod Author Series	65,989	55,945
Capital Projects	1,017,185	3,022,363
	3,844,373	5,692,777
 Subject to restriction in perpetuity:		
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	276,290	276,290
	6,209,148	6,209,148
 Total net assets with donor restrictions	 \$ 10,053,521	 \$ 11,901,925

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

Note 9 – Net Assets with Donor Restrictions (Continued)

If the market value of the New Book Endowment Fund at the Community Foundation of Louisville, Inc., (see Note 7) decreases below the perpetually restricted balance of \$5,606,266, then other New Book Endowment Fund investments subject to specified purpose or passage of time would cover the shortfall.

Following is a summary of the activity in the funds that are donor restricted by purpose or time for the years ended June 30, 2019 and 2018:

	2019	2018
Net assets, beginning of year	\$ 5,692,777	\$ 3,607,848
Contributions	1,074,065	2,455,095
Interest and dividend income	280,313	220,491
Realized and unrealized gains	148,014	428,576
Investment fees	(30,324)	(29,682)
Assets released from restrictions	(3,320,472)	(989,551)
Net assets, end of year	\$ 3,844,373	\$ 5,692,777

Note 10 - Endowment

The Foundation has determined its perpetually 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 perpetually restricted and requires classification of that portion of the endowment to be classified as net assets with donor restrictions until appropriated for expenditures by the Foundation.

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.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

Note 10 – Endowment (Continued)

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.

Endowment net assets composition by type at June 30, 2019 and 2018 are as follows:

<u>June 30, 2019</u>	<u>Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
New Book Endowment fund	\$ 2,161,248	\$ 5,606,266	\$ 7,767,514
Children's Program Endowment fund	45,893	105,600	151,493
Scholarship Endowment fund	121,557	220,992	342,549
Craig Buthod Author Series	65,989	276,290	342,279
	<u>\$ 2,394,687</u>	<u>\$ 6,209,148</u>	<u>\$ 8,603,835</u>
<u>June 30, 2018</u>	<u>Accumulated Earnings</u>	<u>Endowment Corpus</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>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2019 and 2018

Note 10 – Endowment (Continued)

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	Accumulated Earnings	Endowment Corpus	Total
<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)
 <u>June 30, 2018</u>	 <u>2,312,895</u>	 <u>6,209,148</u>	 <u>8,522,043</u>
Investment return:			
Realized income	316,586	-	316,586
Market value change	81,387	-	81,387
 Total investment return	 397,973	 -	 397,973
 Contributions	 992,294	 -	 992,294
Distributions	(1,308,475)	-	(1,308,475)
 <u>June 30, 2019</u>	 <u>\$ 2,394,687</u>	 <u>\$ 6,209,148</u>	 <u>\$ 8,603,835</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 11 - 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 \$33,253 and \$28,934 for the years ended June 30, 2019 and 2018, respectively.

Louisville Free Public Library Foundation, Inc.
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Note 12 - Liquidity and Availability of Financial Assets

The following table reflects the Foundation’s financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year.

Financial Assets	
Cash and cash equivalents	\$ 379,703
Promises to give, net	1,042,461
Investments	3,103,664
Beneficial interests in assets held by others	<u>5,874,696</u>
Financial assets, at year-end	10,400,524
Less those unavailable for general expenditure within one year	
Promises to give collectible beyond one year	(629,443)
Contributions subject to satisfaction of donor restriction	(407,225)
Perpetual endowments	(6,209,148)
Accumulated endowment earnings	<u>(2,394,687)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 760,021</u></u>

In addition to financial assets available to meet general expenditures over the year, the Foundation operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient program and other revenues, by utilizing resources from current and prior year’s gifts and by appropriating the investment return on its donor-restricted endowments, as needed.

Note 13 - Recently Issue Accounting Standards

Accounting Standards Update 2018-08, Not-for-Profit Entities

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to 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. The ASU will be effective for the Foundation for the year ending June 30, 2020. The Foundation is currently evaluating the effect that the new standard will have on its financial statements.

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Note 14 - Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through November 14, 2019, which was the date at which the financial statements were available to be issued.