



Louisville Free Public Library Foundation, Inc.

Louisville, Kentucky

Independent Auditors' Report

And Financial Statements

For The Years Ended

June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 4, 2020

Louisville Free Public Library Foundation, Inc.
 Statements of Financial Position
 June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 234,818	\$ 379,703
Miscellaneous receivables	-	900
Promises to give, net	764,847	1,042,461
Prepaid expenses	3,654	3,503
Investments	3,587,727	3,103,664
Investments - restricted	5,788,301	5,546,252
Beneficial interest in assets held by others	5,847,507	5,874,696
Furniture and equipment, net	6,120	6,120
Total Assets	\$ 16,232,974	\$ 15,957,299
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 19,614	\$ 20,852
Due to Library	57,265	39,293
Loan payable	70,500	-
Custodial funds	5,788,301	5,546,252
Total Liabilities	5,935,680	5,606,397
Net Assets		
Without donor restrictions	748,689	297,381
With donor restrictions		
Restricted by purpose or time	3,339,232	3,844,373
Restricted in perpetuity	6,209,373	6,209,148
Total Net Assets with Donor Restrictions	9,548,605	10,053,521
Total Net Assets	10,297,294	10,350,902
Total Liabilities and Net Assets	\$ 16,232,974	\$ 15,957,299

Louisville Free Public Library Foundation, Inc.
 Statements of Activities
 For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Contributions and grants	\$ 1,018,395	\$ 510,557	\$ 1,528,952	\$ 621,495	\$ 1,074,065	\$ 1,695,560
Interest and dividends	6,813	219,067	225,880	25,801	280,313	306,114
Realized/unrealized gains (losses)	(1,913)	73,684	71,771	(521)	117,690	117,169
Total Revenue and Support	<u>1,023,295</u>	<u>803,308</u>	<u>1,826,603</u>	<u>646,775</u>	<u>1,472,068</u>	<u>2,118,843</u>
Net Assets Released from Restrictions	<u>1,308,224</u>	<u>(1,308,224)</u>	<u>-</u>	<u>3,320,472</u>	<u>(3,320,472)</u>	<u>-</u>
Total Revenue and Support and Releases	<u>2,331,519</u>	<u>(504,916)</u>	<u>1,826,603</u>	<u>3,967,247</u>	<u>(1,848,404)</u>	<u>2,118,843</u>
Expenses:						
Program services	1,407,782	-	1,407,782	3,264,019	-	3,264,019
Management and general	199,466	-	199,466	205,578	-	205,578
Fundraising	272,963	-	272,963	200,472	-	200,472
Total Expenses	<u>1,880,211</u>	<u>-</u>	<u>1,880,211</u>	<u>3,670,069</u>	<u>-</u>	<u>3,670,069</u>
Change in Net Assets	451,308	(504,916)	(53,608)	297,178	(1,848,404)	(1,551,226)
Net Assets at Beginning of Year	<u>297,381</u>	<u>10,053,521</u>	<u>10,350,902</u>	<u>203</u>	<u>11,901,925</u>	<u>11,902,128</u>
Net Assets at End of Year	<u>\$ 748,689</u>	<u>\$ 9,548,605</u>	<u>\$ 10,297,294</u>	<u>\$ 297,381</u>	<u>\$ 10,053,521</u>	<u>\$ 10,350,902</u>

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, 2020 and 2019

	2020				2019			
	Total	Program Services	Management and General	Fund- Raising	Total	Program Services	Management and General	Fund- Raising
Grants to the Library	\$ 1,341,061	\$ 1,341,061	\$ -	\$ -	\$ 3,222,780	\$ 3,222,780	\$ -	\$ -
Salaries and wages	280,760	46,782	74,703	159,275	220,466	29,030	79,078	112,358
Employee benefits	94,991	15,828	25,275	53,888	74,219	9,773	26,621	37,825
Contractor expense	41,145	-	41,145	-	43,077	-	43,077	-
Payroll taxes	22,325	3,720	5,940	12,665	16,541	2,178	5,933	8,430
Other fundraising	17,356	-	-	17,356	12,051	-	-	12,051
Advocacy	16,909	-	-	16,909	13,788	-	-	13,788
Office expense	13,018	-	13,018	-	12,735	-	12,735	-
Information technology	12,548	-	12,548	-	14,763	-	14,763	-
Annual appeal	11,538	-	-	11,538	15,021	-	-	15,021
Professional fees	11,263	391	9,540	1,332	9,925	258	8,668	999
Travel and meetings	10,499	-	10,499	-	8,111	-	8,111	-
Insurance	6,798	-	6,798	-	6,592	-	6,592	-
Total Expenses	\$ 1,880,211	\$ 1,407,782	\$ 199,466	\$ 272,963	\$ 3,670,069	\$ 3,264,019	\$ 205,578	\$ 200,472

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, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ (53,608)	\$ (1,551,226)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized gains on investments	(73,614)	(148,254)
(Increase) decrease in operating assets:		
Miscellaneous receivables	900	10,814
Promises to give	277,614	307,554
Prepaid expenses	(151)	328
Increase (decrease) in operating liabilities:		
Accounts payable	(1,238)	(2,504)
Due to Library	17,972	7,647
	167,875	(1,375,641)
Cash Flows From Investing Activities:		
Purchases of investments	(765,395)	(1,264,609)
Sales of investments	382,135	2,160,530
	(383,260)	895,921
Cash Flows From Financing Activities:		
Proceeds from loan payable	70,500	-
	70,500	-
Net Decrease In Cash	(144,885)	(479,720)
Cash at Beginning of Year	379,703	859,423
	\$ 234,818	\$ 379,703
Cash at End of Year	\$ 234,818	\$ 379,703

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019

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 determined that all promises are collectible, therefore 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, 2020 and 2019.

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, 2020 and 2019

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.

Revenue Recognition

Contributions and grants 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.

No such amounts were recorded for the years ended June 30, 2020 and 2019.

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.

Expense Allocation

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, costs have been allocated among the program and supporting services benefited. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2020 and 2019

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

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Foundation implemented Topic 606 and adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on net assets.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

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, 2020 and 2019 was \$121,585 and \$140,397, 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, 2020 and 2019

Note 3 - Promises to Give

Promises to give consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Annual appeal	\$ 41,929	\$ 6,485
Northeast capital campaign	516,296	1,024,494
Summer reading	133,300	-
Other restricted promises	<u>80,000</u>	<u>40,000</u>
	<u>\$ 771,525</u>	<u>\$ 1,070,979</u>
Receivable in less than one year	\$ 506,656	\$ 413,018
Receivable in one to five years	<u>264,869</u>	<u>657,961</u>
Total promises to give	771,525	1,070,979
Less discounts to net present value	<u>(6,678)</u>	<u>(28,518)</u>
Net promises to give	<u>\$ 764,847</u>	<u>\$ 1,042,461</u>

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 and mutual funds. Cost, fair value (all level 1) and unrealized gains of investments are summarized below as of June 30:

<u>June 30, 2020</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Money market funds	\$ 2,051,089	\$ 2,051,089	\$ -
Equity mutual funds	3,697,036	5,998,236	2,301,200
Bond mutual funds	<u>1,277,634</u>	<u>1,326,703</u>	<u>49,069</u>
Total investments	<u>\$ 7,025,759</u>	<u>\$ 9,376,028</u>	<u>\$ 2,350,269</u>
			<u>Unrealized Gains</u>
<u>June 30, 2019</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Money market funds	\$ 1,489,059	\$ 1,489,059	\$ -
Equity mutual funds	3,661,017	5,813,846	2,152,829
Bond mutual funds	<u>1,341,424</u>	<u>1,347,011</u>	<u>5,587</u>
Total investments	<u>\$ 6,491,500</u>	<u>\$ 8,649,916</u>	<u>\$ 2,158,416</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2020 and 2019

Note 4 - Investments (Continued)

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

	<u>2020</u>	<u>2019</u>
Investments	\$ 3,587,727	\$ 3,103,664
Restricted investments	<u>5,788,301</u>	<u>5,546,252</u>
	<u>\$ 9,376,028</u>	<u>\$ 8,649,916</u>

Note 5 - 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>2020</u>	<u>2019</u>
Balance beginning of year	\$ 5,546,252	\$ 6,206,611
Contributions	7,388	1,743
Interest and dividend income	112,924	117,863
Realized and unrealized gains	153,289	225,118
Transfers to Library	<u>(31,552)</u>	<u>(1,005,083)</u>
Balance end of year	<u>\$ 5,788,301</u>	<u>\$ 5,546,252</u>

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

Note 6 - 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, 2020 and 2019 were \$241,241 and \$268,430, respectively. The fair value of the trust (level 3 input) and activity for the years ended June 30 is as follows:

	<u>2020</u>	<u>2019</u>
Fair value at the beginning of year	\$ 5,874,696	\$ 6,882,444
Interest and dividend income	193,156	237,427
Realized and unrealized gains	(3,902)	64,880
Investment fees	(26,750)	(30,324)
Transfers to foundation	<u>(189,693)</u>	<u>(1,279,731)</u>
Fair value at the end of year	<u>\$ 5,847,507</u>	<u>\$ 5,874,696</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2020 and 2019

Note 7 - Furniture and Equipment

Furniture and equipment consist of the following at June 30:

	2020	2019
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 8 - Loan Payable

On April 16, 2020, the Foundation qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$70,500 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Foundation's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Foundation. The Foundation intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the Foundation will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in July 2021 principal and interest payments will be required through the maturity date in April 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2020 and 2019

Note 9 - Net Assets with Donor Restrictions

Net assets are restricted for the following purposes as of June 30:

	<u>2020</u>	<u>2019</u>
Subject to specified purpose or passage of time:		
Program activities	\$ 405,076	\$ 432,501
New Book Endowment fund	2,106,542	2,161,248
Children's Program Endowment fund	48,495	45,893
Scholarship Endowment fund	127,983	121,557
Craig Buthod Author Series	71,831	65,989
Capital Projects	579,305	1,017,185
	<u>3,339,232</u>	<u>3,844,373</u>
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	221,192	220,992
Craig Buthod Author Series	276,315	276,290
	<u>6,209,373</u>	<u>6,209,148</u>
Total net assets with donor restrictions	<u>\$ 9,548,605</u>	<u>\$ 10,053,521</u>

If the market value of the New Book Endowment Fund at the Community Foundation of Louisville, Inc., (see Note 6) 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net assets, beginning of year	\$ 3,844,373	\$ 5,692,777
Contributions	510,332	1,074,065
Interest and dividend income	245,817	280,313
Realized and unrealized gains	73,684	148,014
Investment fees	(26,750)	(30,324)
Assets released from restrictions	(1,308,224)	(3,320,472)
Net assets, end of year	<u>\$ 3,339,232</u>	<u>\$ 3,844,373</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2020 and 2019

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.

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, 2020 and 2019

Note 10 - Endowment (Continued)

Endowment net assets composition by type at June 30, 2020 and 2019 are as follows:

<u>June 30, 2020</u>	<u>Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
New Book Endowment	\$ 2,106,542	\$ 5,606,266	\$ 7,712,808
Children's Program Endowment	48,495	105,600	154,095
Scholarship Endowment	127,983	221,192	349,175
Craig Buthod Author Series	71,831	276,315	348,146
	<u>\$ 2,354,851</u>	<u>\$ 6,209,373</u>	<u>\$ 8,564,224</u>
<u>June 30, 2019</u>	<u>Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
New Book Endowment	\$ 2,161,248	\$ 5,606,266	\$ 7,767,514
Children's Program Endowment	45,893	105,600	151,493
Scholarship Endowment	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>

Louisville Free Public Library Foundation, Inc.
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Note 10 - Endowment (Continued)

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	<u>Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
<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
	<u>397,973</u>	<u>-</u>	<u>397,973</u>
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>
Investment return:			
Realized income	551,975	-	551,975
Market value change	(259,676)	-	(259,676)
	<u>292,299</u>	<u>-</u>	<u>292,299</u>
Contributions	-	225	225
Distributions	(332,135)	-	(332,135)
June 30, 2020	<u><u>\$ 2,354,851</u></u>	<u><u>\$ 6,209,373</u></u>	<u><u>\$ 8,564,224</u></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 \$41,827 and \$33,253 for the years ended June 30, 2020 and 2019, respectively.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2020 and 2019

Note 12 - Liquidity and Availability of Financial Assets

The following table reflects the Foundation's financial assets as of June 30, 2020 and 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.

	2020	2019
Financial Assets		
Cash and cash equivalents	\$ 234,818	\$ 379,703
Promises to give, net	764,847	1,042,461
Investments	3,587,727	3,103,664
Beneficial interests in assets held by others	5,847,507	5,874,696
Financial assets, at year-end	10,434,899	10,400,524
Less those unavailable for general expenditure within one year		
Promises to give collectible beyond one year	(258,191)	(629,443)
Contributions subject to satisfaction of donor restriction	(219,534)	(407,225)
Perpetual endowments	(6,209,373)	(6,209,148)
Accumulated endowment earnings	(2,354,851)	(2,394,687)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,392,950	\$ 760,021

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 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requiring an entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. ASU 2020-07 includes additional disclosure requirements about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The standard will be applied on a retrospective basis and will be effective for the year ending June 30, 2022. The Foundation does not expect the new standard will impact its financial statements other than a reclassification on the statement of activities and additional disclosures.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2020 and 2019

Note 14 - Subsequent Events

Due to the global viral outbreak caused by coronavirus disease 2019 (COVID-19) in 2020, there have been resulting effects in the general economy that could negatively impact the Foundation's overall business as the broader economic impact of COVID-19 develops. The ultimate impact of these matters to the Foundation and its financial condition is presently unknown. The effect of this subsequent event did not result in any changes to the accompanying financial statements as of and for the year ended June 30, 2020.

Management has evaluated subsequent events for recognition or disclosure in the financial statements through November 4, 2020, which was the date at which the financial statements were available to be issued.