



Louisville Free Public Library Foundation, Inc.

Louisville, Kentucky

Independent Auditors' Report

and Financial Statements

For The Years Ended

June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Louisville Free Public Library Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Free Public Library Foundation, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisville Free Public Library Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisville Free Public Library Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures

include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Louisville Free Public Library Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisville Free Public Library Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Baldwin CPAs, PLLC

Louisville, Kentucky
November 29, 2022

Louisville Free Public Library Foundation, Inc.
 Statements of Financial Position
 June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 308,978	\$ 474,026
Promises to give, net	33,440	139,820
Prepaid expenses	7,432	4,590
Due from employees	692	-
Investments	5,086,628	5,566,965
Investments - restricted	6,508,055	7,492,765
Beneficial interest in assets held by others	5,653,963	6,898,847
Furniture and equipment, net	20,078	24,771
Total Assets	\$ 17,619,266	\$ 20,601,784
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 36,982	\$ 38,542
Due to library	89,073	72,773
Custodial funds	6,508,055	7,492,765
Total Liabilities	6,634,110	7,604,080
 Net Assets		
Without donor restrictions	1,341,085	1,347,586
With donor restrictions		
Restricted by purpose or time	3,434,698	5,440,745
Restricted in perpetuity	6,209,373	6,209,373
 Total Net Assets with Donor Restrictions	 9,644,071	 11,650,118
Total Net Assets	10,985,156	12,997,704
Total Liabilities and Net Assets	\$ 17,619,266	\$ 20,601,784

Louisville Free Public Library Foundation, Inc.
Statements of Activities
For the Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Contributions of cash and other financial assets	\$ 502,001	\$ 336,329	\$ 838,330	\$ 957,948	\$ 525,109	\$ 1,483,057
Contributions of nonfinancial assets	12,960	-	12,960	49,003	-	49,003
Forgiveness of PPP loan	-	-	-	70,500	-	70,500
Interest and dividends	6,150	239,550	245,700	789	189,048	189,837
Realized/unrealized gains (losses) on investments	(12,910)	(1,601,672)	(1,614,582)	(6,295)	2,179,833	2,173,538
Total Revenue and Support	508,201	(1,025,793)	(517,592)	1,071,945	2,893,990	3,965,935
Net Assets Released from Restrictions	980,254	(980,254)	-	792,477	(792,477)	-
Total Revenue and Support and Releases	1,488,455	(2,006,047)	(517,592)	1,864,422	2,101,513	3,965,935
Expenses:						
Program services	1,019,291	-	1,019,291	820,982	-	820,982
Management and general	201,492	-	201,492	193,629	-	193,629
Fundraising	274,173	-	274,173	250,914	-	250,914
Total Expenses	1,494,956	-	1,494,956	1,265,525	-	1,265,525
Change in Net Assets	(6,501)	(2,006,047)	(2,012,548)	598,897	2,101,513	2,700,410
Net Assets at Beginning of Year	1,347,586	11,650,118	12,997,704	748,689	9,548,605	10,297,294
Net Assets at End of Year	<u>\$ 1,341,085</u>	<u>\$ 9,644,071</u>	<u>\$10,985,156</u>	<u>\$ 1,347,586</u>	<u>\$ 11,650,118</u>	<u>\$ 12,997,704</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, 2022 and 2021

	2022				2021			
	Total	Program Services	Management and General	Fund- Raising	Total	Program Services	Management and General	Fund- Raising
Grants to the library	\$ 929,546	\$ 929,546	\$ -	\$ -	\$ 740,231	\$ 740,231	\$ -	\$ -
Salaries and wages	306,452	62,166	72,032	172,254	268,630	49,320	60,334	158,976
Employee benefits	84,110	17,063	19,770	47,277	79,541	14,603	17,864	47,074
Contractor expense	42,421	2,085	40,336	-	45,593	-	45,593	-
Payroll taxes	25,400	5,153	5,970	14,277	22,883	4,202	5,139	13,542
Other fundraising	17,888	-	-	17,888	9,124	-	-	9,124
Office expense	12,326	-	12,326	-	10,498	-	10,498	-
Information technology	27,873	1,847	20,909	5,117	17,058	-	17,058	-
Annual appeal	13,397	-	-	13,397	8,534	-	-	8,534
Professional fees	12,821	529	10,827	1,465	11,954	466	9,985	1,503
Travel and meetings	8,247	902	4,847	2,498	6,429	-	6,429	-
Insurance	7,727	-	7,727	-	7,488	-	7,488	-
Strategic planning	-	-	-	-	36,481	12,160	12,160	12,161
Depreciation	6,748	-	6,748	-	1,081	-	1,081	-
Total Expenses	\$ 1,494,956	\$ 1,019,291	\$ 201,492	\$ 274,173	\$ 1,265,525	\$ 820,982	\$ 193,629	\$ 250,914

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, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	\$ (2,012,548)	\$ 2,700,410
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	6,748	1,081
Forgiveness of PPP Loan	-	(70,500)
Realized and unrealized losses (gains) on investments	1,614,582	(2,173,538)
(Increase) decrease in operating assets:		
Promises to give	106,380	625,027
Prepaid expenses	(2,842)	(936)
Due from employees	(692)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(1,560)	18,928
Due to library	16,300	15,508
Net Cash Provided (Used) by Operating Activities	(273,632)	1,115,980
Cash Flows From Investing Activities:		
Purchase of furniture & equipment	(2,056)	(19,731)
Purchases of investments	(526,741)	(1,871,773)
Sales of investments	637,381	1,014,732
Net Cash Provided (Used) By Investing Activities	108,584	(876,772)
Cash Flows From Financing Activities:		
Cash at Beginning of Year	474,026	234,818
Cash at End of Year	\$ 308,978	\$ 474,026

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements
June 30, 2022 and 2021

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.

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, 2022 and 2021.

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, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Furniture and Equipment

Furniture and equipment are 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 of cash and other financial assets 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.

Contribution of Nonfinancial Assets

Contributions of nonfinancial assets, also known as gift-in-kind, are shown separately from contributions of cash or other financial assets on the statement of activities. Contributions of nonfinancial assets are utilized by the Foundation in support of the Louisville Free Public Library's operations and programs. Disaggregation by type, description of donor imposed restrictions, and valuation techniques used are disclosed in Note 11.

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.

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.

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.

Reclassifications

Certain reclassifications have been made to the 2021 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Recently Adopted Accounting Standards

For the year ended June 30, 2022, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2020-07 – *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)*, 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 is required to be adopted on a retrospective basis. Adoption of the standard did not result in any significant changes for the Foundation.

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 was \$0 at June 30, 2022 and 2021. 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, 2022 and 2021

Note 3 - Promises to Give

Promises to give consist of the following at June 30:

	2022	2021
Annual appeal	\$ 3,520	\$ 2,000
Northeast capital campaign	20,000	88,204
Summer reading	5,000	-
Other restricted promises	5,000	50,000
	\$ 33,520	\$ 140,204
Receivable in less than one year	\$ 21,520	\$ 110,204
Receivable in one to five years	12,000	30,000
	33,520	140,204
Total promises to give	33,520	140,204
Less discounts to net present value	(80)	(384)
	\$ 33,440	\$ 139,820

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 and unrealized gains of investments are summarized below as of June 30:

June 30, 2022	Cost Basis	Fair Value	Unrealized Gains (losses)
Money market funds	\$ 2,023,389	\$ 2,023,389	\$ -
Equity mutual funds	4,092,271	6,895,896	2,803,625
Bond mutual funds	2,869,879	2,675,398	(194,481)
	\$ 8,985,539	\$ 11,594,683	\$ 2,609,144
Total investments	\$ 8,985,539	\$ 11,594,683	\$ 2,609,144
June 30, 2021	Cost Basis	Fair Value	Unrealized Gains (losses)
Money market funds	\$ 2,231,814	\$ 2,231,814	\$ -
Equity mutual funds	3,709,712	8,042,208	4,332,496
Bond mutual funds	2,761,665	2,785,708	24,043
	\$ 8,703,191	\$ 13,059,730	\$ 4,356,539
Total investments	\$ 8,703,191	\$ 13,059,730	\$ 4,356,539

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2022 and 2021

Note 4 – Investments (Continued)

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used to determine fair value at June 30, 2022 and 2021.

Money market funds; Valued at cost, plus accrued interest

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

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 fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Foundation’s investments at fair value:

<u>June 30, 2022</u>	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ 2,023,389	\$ -	\$ -	\$ 2,023,389
Equity mutual funds				
Balanced	5,579,690	-	-	5,579,690
International	1,316,206	-	-	1,316,206
Bond mutual funds	2,675,398	-	-	2,675,398
Total investments at fair value	<u>\$ 11,594,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,594,683</u>
<u>June 30, 2021</u>				
Money market funds	\$ 2,231,814	\$ -	\$ -	\$ 2,231,814
Equity mutual funds				
Balanced	6,454,052	-	-	6,454,052
International	1,588,156	-	-	1,588,156
Bond mutual funds	2,785,708	-	-	2,785,708
Total investments at fair value	<u>\$ 13,059,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,059,730</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2022 and 2021

Note 4 – Investments (Continued)

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

	2022	2021
Investments	\$ 5,086,628	\$ 5,566,965
Restricted investments	6,508,055	7,492,765
	\$ 11,594,683	\$ 13,059,730

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:

	2022	2021
Balance beginning of year	\$ 7,492,765	\$ 5,788,301
Contributions	4,481	38,435
Interest and dividend income	121,537	92,497
Realized and unrealized (losses) gains	(1,085,923)	1,609,217
Transfers to Library	(24,805)	(35,685)
Balance end of year	\$ 6,508,055	\$ 7,492,765

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, 2022 and 2021 were \$47,697 and \$1,292,581 respectively. The fair value of the trust (level 3 input) and activity for the years ended June 30 are as follows:

	2022	2021
Fair value at the beginning of year	\$ 6,898,847	\$ 5,847,507
Interest and dividend income	188,405	163,291
Realized and unrealized (losses) gains	(1,138,094)	1,465,209
Investment fees	(15,195)	(22,160)
Transfers to foundation	(280,000)	(555,000)
Fair value at the end of year	\$ 5,653,963	\$ 6,898,847

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2022 and 2021

Note 7 - Furniture and Equipment

Furniture and equipment consist of the following at June 30:

	2022	2021
Computer equipment and software	\$ 25,636	\$ 23,580
Furniture and office equipment	8,469	8,469
Artwork	6,120	6,120
Total costs	40,225	38,169
Less accumulated depreciation	(20,147)	(13,398)
Furniture and equipment, net	\$ 20,078	\$ 24,771

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 Louisville Free Public Library Foundation, Inc. applied for forgiveness of the loan and was approved for forgiveness on January 19, 2021. The proceeds from the forgiveness of the loan are recognized as revenue on the statement of activities as of June 30, 2021.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2022 and 2021

Note 9 - Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to specified purpose or passage of time:		
Program activities	\$ 482,122	\$ 767,953
New Book Endowment fund	2,066,060	3,619,876
Children's Program Endowment fund	57,729	87,581
Scholarship Endowment fund	149,035	216,604
Craig Buthod Author Series	92,567	159,907
Capital Projects	<u>587,185</u>	<u>588,824</u>
	<u>3,434,698</u>	<u>5,440,745</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	221,192
Craig Buthod Author Series	<u>276,315</u>	<u>276,315</u>
	<u>6,209,373</u>	<u>6,209,373</u>
Total net assets with donor restrictions	<u>\$ 9,644,071</u>	<u>\$ 11,650,118</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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net assets, beginning of year	\$ 5,440,745	\$ 3,339,232
Contributions	336,329	525,109
Interest and dividend income	239,550	211,208
Realized and unrealized gains	(1,586,477)	2,179,833
Investment fees	(15,195)	(22,160)
Assets released from restrictions	<u>(980,254)</u>	<u>(792,477)</u>
Net assets, end of year	<u>\$ 3,434,698</u>	<u>\$ 5,440,745</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2022 and 2021

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, 2022 and 2021

Note 10 - Endowment (Continued)

Endowment net assets composition by type at June 30, 2022 and 2021 are as follows:

<u>June 30, 2022</u>	<u>Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
New Book Endowment	\$ 2,066,060	\$ 5,606,266	\$ 7,672,326
Children's Program Endowment	57,729	105,600	163,329
Scholarship Endowment	149,035	221,192	370,227
Craig Buthod Author Series	92,567	276,315	368,882
	<u>\$ 2,365,391</u>	<u>\$ 6,209,373</u>	<u>\$ 8,574,764</u>
<u>June 30, 2021</u>	<u>Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
New Book Endowment	\$ 3,619,876	\$ 5,606,266	\$ 9,226,142
Children's Program Endowment	87,581	105,600	193,181
Scholarship Endowment	216,604	221,192	437,796
Craig Buthod Author Series	159,907	276,315	436,222
	<u>\$ 4,083,968</u>	<u>\$ 6,209,373</u>	<u>\$ 10,293,341</u>

Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows:

	<u>Earnings</u>	<u>Corpus</u>	<u>Total</u>
<u>June 30, 2020</u>	\$ 2,354,851	\$ 6,209,373	\$ 8,564,224
Realized income	325,393	-	325,393
Market value change	2,043,456	-	2,043,456
Total investment return	2,368,849	-	2,368,849
Contributions	-	-	-
Distributions	(639,732)	-	(639,732)
<u>June 30, 2021</u>	4,083,968	6,209,373	10,293,341
Realized income	421,459	-	421,459
Market value change	(1,783,611)	-	(1,783,611)
Total investment return	(1,362,152)	-	(1,362,152)
Contributions	280,000	-	280,000
Distributions	(636,425)	-	(636,425)
<u>June 30, 2022</u>	<u>\$ 2,365,391</u>	<u>\$ 6,209,373</u>	<u>\$ 8,574,764</u>

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2022 and 2021

Note 10 - Endowment (Continued)

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 – Contribution of Nonfinancial Assets

For the years ended June 30, contributed nonfinancial assets recognized within the statement of activities included:

	2022	2021
Computer Monitors	\$ 12,960	\$ -
Marketing and advertising	-	49,003
	\$ 12,960	\$ 49,003

The Foundation recognized contributed nonfinancial assets within revenue, including a contribution of computer monitors and marketing and advertising.

In 2022, The Foundation received a contribution of like new computer monitors. These monitors were utilized by the Louisville Free Public Library in their day-to-day operations, by both staff and patrons. There were no donor-imposed restrictions. The computer monitors were valued at 50% of the cost of a new monitor.

In 2021, The Foundation received a contribution of marketing and advertising services from an advertising agency. The services were restricted to the Foundations' support of the Library. The Foundation used these services to promote the Library through print and digital media, and radio broadcasts. The nonfinancial asset was valued using the total service hours contributed by a discounted hourly market rate determined by the donor.

Note 12 - 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 \$45,334 and \$37,687 for the years ended June 30, 2022 and 2021, respectively.

Louisville Free Public Library Foundation, Inc.
Notes to Financial Statements – Continued
June 30, 2022 and 2021

Note 13 - Liquidity and Availability of Financial Assets

The following table reflects the Foundation's financial assets as of June 30, 2022 and 2021, 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.

	2022	2021
Financial Assets		
Cash and cash equivalents	\$ 308,978	\$ 474,026
Promises to give, net	33,440	139,820
Due from employees	692	-
Investments	5,086,628	5,566,965
Beneficial interests in assets held by others	5,653,963	6,898,847
Financial assets, at year-end	11,083,701	13,079,658
Less those unavailable for general expenditure within one year		
Promises to give collectible beyond one year	(11,919)	(29,616)
Contributions subject to satisfaction of donor restriction	(1,035,867)	(1,216,957)
Perpetual endowments	(6,209,373)	(6,209,373)
Accumulated endowment earnings	(2,365,391)	(4,083,968)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,461,151	\$ 1,539,744

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 14 - Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through November 29, 2022, which was the date at which the financial statements were available to be issued.