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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Louisville Visual Art, Inc.

We have audited the accompanying financial statements of Louisville Visual Art, Inc., (a not-for-profit organization) which comprise the statements of financial position as of May 31, 2017 and 2016, 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 Louisville Visual Art, Inc. as of May 31, 2017 and 2016, 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.

Correction of an Error

As discussed in Note 13 to the financial statements, certain errors resulting in overstatement of unrestricted net assets and understatement of permanently restricted net assets as of May 31, 2015, were discovered by management during the current year. Accordingly, amounts reported for unrestricted and permanently restricted net assets have been restated in the 2016 financial statements now presented. Our opinion is not modified with respect to that matter.

Baldwin CPAs, PLLC

Louisville, Kentucky
October 19, 2017

Louisville Visual Art, Inc.
Statements of Financial Position
May 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 81,771	$ 17,908
Grants and accounts receivable	40,782	36,161
Promises to give, net	26,000	41,800
Prepaid expenses	7,183	1,668
Investments	9,437	-
Restricted cash	-	9,593
Land, building, and equipment, net	585,661	519,246
Beneficial interest in perpetual trusts	606,358	565,811
Total assets	$ 1,357,192	$ 1,192,187
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 15,565	$ 33,415
Accrued expenses and payroll withholdings	17,545	13,558
Deferred revenue	107,085	16,055
Fiscal sponsorship payable	-	12,272
Note payable	45,000	45,000
Total liabilities	185,195	120,300
Net Assets		
Unrestricted	539,639	451,026
Temporarily restricted	26,000	55,050
Permanently restricted	606,358	565,811
Total net assets	1,171,997	1,071,887
Total liabilities and net assets	$ 1,357,192	$ 1,192,187

The accompanying notes are in integral part of these financial statements.

Louisville Visual Art, Inc.
Statements of Activities
For the Years Ended May 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:								
Grants and contributions	$ 358,035	$ 26,000	$ -	$ 384,035	$ 256,401	$ 30,050	$ -	$ 286,451
Membership income	5,637	-	-	5,637	8,610	-	-	8,610
Special events	38,695	-	-	38,695	80,707	-	-	80,707
Less direct expenses	(15,676)	-	-	(15,676)	(30,985)	-	-	(30,985)
Program revenue	383,706	-	-	383,706	375,014	-	-	375,014
Investment income	592	-	-	592	2	-	-	2
Change in value of perpetual trusts	28,854	-	40,547	69,401	27,880	-	(40,062)	(12,182)
Fiscal sponsorship revenue	3,642	-	-	3,642	64,940	-	-	64,940
Rental and other income	10,478	-	-	10,478	4,851	-	-	4,851
	813,963	26,000	40,547	880,510	787,420	30,050	(40,062)	777,408
Net assets released from restrictions	55,050	(55,050)	-	-	35,412	(35,412)	-	-
Total revenue and support	869,013	(29,050)	40,547	880,510	822,832	(5,362)	(40,062)	777,408
Expenses:								
Program services	555,827	-	-	555,827	662,233	-	-	662,233
Management and general	117,769	-	-	117,769	65,652	-	-	65,652
Fund raising	106,804	-	-	106,804	84,102	-	-	84,102
Total expenses	780,400	-	-	780,400	811,986	-	-	811,986
Change in net assets	88,613	(29,050)	40,547	100,110	10,846	(5,362)	(40,062)	(34,578)
Net assets at beginning of year	451,026	55,050	565,811	1,071,887	461,382	60,412	584,671	1,106,465
Correct prior year - see Note 13	-	-	-	-	(21,202)	-	21,202	-
Net assets at end of year	$ 539,639	$ 26,000	$ 606,358	$ 1,171,997	$ 451,026	$ 55,050	$ 565,811	$ 1,071,887

The accompanying notes are in integral part of these financial statements.

Louisville Visual Art, Inc.
Statements of Functional Expenses
For the Years Ended May 31, 2017 and 2016

	2017				2016			
	Total	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising
Salaries	$314,252	$ 199,915	$ 62,326	$ 52,011	$ 265,547	$ 198,606	$ 21,861	$ 45,080
Payroll taxes and benefits	62,911	43,345	9,706	9,860	52,160	39,011	4,294	8,855
Professional fees	15,353	-	15,353	-	18,375	-	18,375	-
Office expense/supplies	7,844	4,990	1,556	1,298	11,930	8,923	982	2,025
Telephone	5,419	3,447	1,075	897	7,506	5,614	618	1,274
Travel	9,989	3,330	3,330	3,329	10,579	7,912	871	1,796
Program expense	226,547	226,547	-	-	253,881	253,881	-	-
Exhibit expense	26,378	26,378	-	-	25,133	25,133	-	-
Repairs and maintenance	5,903	5,688	179	36	6,498	4,860	535	1,103
Promotional expenses	36,165	-	-	36,165	13,402	1,014	-	12,388
Insurance	13,544	6,772	6,772	-	15,291	11,436	1,259	2,596
Occupancy	20,022	19,752	225	45	30,038	22,466	2,473	5,099
Membership expense	2,317	-	2,195	122	1,315	1,315	-	-
Technology	1,814	-	1,814	-	4,031	3,015	332	684
Miscellaneous	11,058	1,464	9,594	-	12,499	-	12,499	-
Fiscal sponsorship disbursements	2,513	2,513	-	-	64,940	64,940	-	-
Depreciation	18,371	11,686	3,644	3,041	18,862	14,107	1,553	3,202
Total expenses	$ 780,400	$ 555,827	$ 117,769	$ 106,804	$ 811,987	$ 662,233	$ 65,652	$ 84,102

The accompanying notes are in integral part of these financial statements.

Louisville Visual Art, Inc.
Statements of Cash Flows
For the Years Ended May 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 100,110	$ (34,578)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	18,371	18,862
In-kind stock donation	(9,437)	-
(Increase) decrease in value of perpetual trusts	(40,547)	40,062
(Increase) decrease in operating assets:		
Grants and accounts receivable	(4,621)	-
Prepaid expenses	(5,515)	(22,014)
Promises to give	15,800	7,112
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(13,863)	3,649
Deferred revenue	91,030	4,096
Fiscal sponsorship payable	(12,272)	(55,896)
Net cash provided (used) by operating activities	139,056	(38,707)
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(84,786)	(12,739)
(Increase) decrease in restricted cash	9,593	48,007
Net cash provided (used) by investing activities	(75,193)	35,268
Cash Flows from Financing Activities		
Borrowings (payments) on line of credit	-	(15,200)
Net cash provided (used) by financing activities	-	(15,200)
Net increase (decrease) in cash	63,863	(18,639)
Cash at beginning of year	17,908	36,547
Cash at end of year	$ 81,771	$ 17,908
Supplemental Information		
Cash paid for interest	$ 652	$ 1,262

Louisville Visual Art, Inc.
Notes to Financial Statements
May 31, 2017 and 2016

Note 1 - Summary of Significant Policies

Louisville Visual Art, Inc. (LVA), located in Louisville, Kentucky, was organized under the laws of the Commonwealth of Kentucky in September 1987. LVA was originally organized under the name of Water Tower Art Association; in September 1988 changed their name to Louisville Visual Art Association, Inc.; and in fiscal year 2016 they elected to change their name again to its current name.

The mission of Louisville Visual Art is to improve lives through visual art education, community outreach and artist support

A significant portion of LVA's funding is from the Fund for the Arts, grants, contributions, membership and program service fees. LVA also receives investment and rental income.

Basis of Accounting

LVA prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States 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 Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net assets categories follows:

> Unrestricted Net Assets: include the portion of expendable funds that are not subject to donor-imposed stipulations.
>
> Temporarily Restricted Net Assets: include gifts for which donor- imposed restrictions have not been met.
>
> Permanently Restricted Net Assets: include amounts which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

LVA considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Grants Receivable

Grants receivable consists primarily of receivables from other organizations and businesses for revenues earned by LVA. An allowance for uncollectibles is recorded to the extent it is probable that a portion or all of a particular account will not be collected. Receivables are considered impaired if payments are not received in ninety days. It is LVA's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. There is no allowance for uncollectibles at May 31, 2017 or 2016.

Promises to Give

Promises to give are recognized when the donor makes a promise to give to LVA that is, in substance, unconditional. Promises to give becoming due in the next year are recorded at net realizable value. Promises to give due 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 promises are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. LVA uses the allowance method to estimate uncollectible promises to give. The allowance is based on collection experience in prior years and management's analysis of specific promises made.

Restricted Cash/Fiscal Sponsorship Payable

In prior years, LVA accepted cash from donors and agreed to act as a fiscal sponsor and disburse those assets to designated beneficiaries. LVA oversaw the money spent according to the project contract. Cash held in separate accounts by LVA for these donors is classified as restricted cash. The unspent portion of funds is reported as a fiscal sponsorship payable on the statements of financial position. LVA charged a fee for administering the funds that is included in other income. Fee income was $0 and $1,801 for the years ended May 31, 2017 and 2016, respectively. Restricted cash for this purpose as of May 31, 2017 and 2016 was $0 and $9,593, respectively. Sponsorship payable as of May 31, 2017 and 2016 was $0 and $12,272, respectively. LVA discontinued fiscal sponsorships in the fiscal year ended May 31, 2017.

Land, Building and Equipment

Land, building and equipment are recorded at cost if purchased and fair market value if donated and depreciated based on the straight-line method over the estimated useful life of the respective assets (5-40 years). The cost of land, building and equipment purchased in excess of $250 is capitalized.

Beneficial Interest in Perpetual Trusts

Beneficial interests in perpetual trusts are funds held by outside trustees for the benefit of LVA in accordance with the terms of the irrevocable trusts. These funds are neither in the possession, nor under the control, of LVA. The terms provide that LVA is to receive all or a portion of the income earned by the funds that are held in trust. The fair values of the trusts are recognized as assets. Distributions from the trusts are recorded as income and the carrying value of the assets is adjusted annually for changes in the fair value of the trusts.

Investments

The ASC establishes a framework for measuring fair value and expands disclosures required for fair value measurements. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. These levels, in order of lowest to highest priority are described 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 LVA'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 LVA 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.

Deferred Revenue

Revenues from advanced receipts for registration for workshops are deferred until completion of the workshop performance. Deferred revenue was $107,085 and $16,055 for the years ended May 31, 2017 and 2016, respectively.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated Services

No amounts have been reflected in the financial statements for donated services. LVA pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist LVA with programs, solicitations and various assignments.

Expense Allocation

Expenses are allocated based on estimated time allocation to programs and supporting services.

Income Tax Status

LVA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not 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 in the 2016 financial statements to conform to the classifications used in the 2017 financial statements. The reclassifications have no effect on the overall net assets.

Note 2 - Concentrations of Credit Risk

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

Note 3 - Promises to Give

Promises to give consist of the following at May 31:

	2017	2016
Programs	$ 26,000	$ 41,800
Receivable in one year	$ 15,500	$ 41,800
Receivable in two to five years	10,500	-
	$ 26,000	$ 41,800

Note 4 - Investments

Investments consist of common stock received as a donation and sold in the following fiscal year. The stock was valued at its fair market value when received and is considered a level 1 investment.

Note 5 - Land, Building, and Equipment

Land, building and equipment consists of the following:

	2017	2016
Land and building	$ 522,484	$ 518,839
Furniture and equipment	129,640	50,646
Less accumulated depreciation	(66,463)	(50,239)
Land, building and equipment, net	$ 585,661	$ 519,246
Depreciation expense	$ 18,371	$ 18,862

Note 6 - Beneficial Interest in Perpetual Trusts

LVA is the income beneficiary of perpetual trusts held and administered by third party investment companies that set the investment and distribution policies. LVA records its beneficial interest in these trusts at the fair value of the assets. The beneficial interest comprises elements of LVA's permanently restricted net assets. Fair values (considered level 3) of the trusts at May 31, 2017 and 2016 are as follows:

	2017	2016
PNC Charitable Trust	570,355	532,821
Weisberg Fund - Louisville Community Fd	23,933	21,198
Bright Fund - Louisville Community Fd.	12,070	11,792
	$ 606,358	$ 565,811

Investment income and changes in the value of the beneficial interests are recognized in the change in permanently restricted net assets in the statements of activities. Distributions received from the trusts are recorded as decreases in the beneficial interest and recognized as investment income in the statements of activities. The changes in the value of the assets are as follows:

	2017	2016
Beginning balance	$ 565,811	$ 605,873
Change in value of perpetual trusts	69,401	(12,182)
Distributions	(28,854)	(27,880)
Ending balance	$ 606,358	$ 565,811

Note 7 - Line of Credit

LVA has a line of credit expiring June 11, 2018 with a borrowing limit up to $30,000 and interest payable at prime plus 1% (5% at May 31, 2017). The outstanding balance at May 31, 2017 and 2016 was $0 and $0, respectively.

Note 8 - Fiscal Sponsorship Payable

The fiscal sponsorship activity was as follows:

	2017	2016
Beginning balance	$ 12,272	$ 68,168
Grants	14,100	10,845
Administrative fee	(3,642)	(1,801)
Expenses	(22,730)	(64,940)
Ending balance	$ -	$ 12,272

Note 9 - Note Payable / Related Party

The note payable consists of promissory note to a board member, secured by the property at 1538 Lytle Street, with an annual interest rate of 1.47%. LVA is required to make annual interest payments at the end of each calendar year and a balloon payment due in March 2020. The outstanding balance at May 31, 2017 and 2016 was $45,000 and $45,000, respectively.

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Programs	$ 26,000	$ 55,050

Note 11 - Permanently Restricted Net Assets

Permanently restricted net assets consist of the beneficial interest in a perpetual trust and two funds at the Community Foundation of Louisville. All are administered by third party investment companies that set the investment and spending policies. The fair market value of the trust and funds, which are level 3 assets, are as follows as of May 31:

	2017	2016
Beneficial interest in perpetual trusts	$ 570,355	$ 532,821
Weisberg Fund - Louisville Community Fd	23,933	21,198
Bright Fund - Louisville Community Fd.	12,070	11,792
	$ 606,358	$ 565,811

Changes in permanently restricted net assets are reported on the statements of activities and are included in investment income for the years ended May 31 as follows:

	2017	2016
Beginning balance	$ 565,811	$ 605,873
Change in value	69,401	(12,182)
Distribution	(28,854)	(27,880)
Ending balance	$ 606,358	$ 565,811

Note 12 - Employee Benefit Plan

LVA provides a SIMPLE IRA, which matches participants' salary deferrals dollar for dollar, up to 3% of the employee's salary. LVA's expense related to the plan was $6,483 and $5,162 for the years ended May 31, 2017 and 2016, respectively.

Note 13 – Correction of an Error

During 2017, LVA determined that a fund that has been treated as an investment should be a beneficial interest in a perpetual trust. This correction has increased permanently restricted net assets and decreased unrestricted net assets as of May 31, 2015 by $21,202. Change in total net assets did not change.

Note 14 - Accounting Standards Updates

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year. The updated standard will be effective for the year ending May 31, 2020. The Organization has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its combined financial statements.

Accounting Standards Update 2016-02, Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on the Organization's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Organization will recognize: 1) a lease liability for Organization's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Organization's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Organization will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach.

ASU 2016-02 will be effective for the Organization for the year ending May 31, 2021, with early adoption permitted. The Organization is currently evaluating the effect that the new standard will have on its combined financial statements.

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

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The ASU will be effective for the Organization for the year ending May 31, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the new standard will have on its combined financial statements.

Note 15 – Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through October 19, 2017 which was the date at which the financial statements were available to be issued.