

**LUTHER F. CARSON
FOUR RIVERS CENTER, INC.**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

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Independent Auditor's Report

The Board of Directors
Luther F. Carson Four Rivers
Center, Inc.
Paducah, Kentucky

We have audited the accompanying financial statements of Luther F. Carson Four Rivers Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 Luther F. Carson Four Rivers Center, Inc. as of June 30, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 15 and 16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams, Williams & Lentz, LLP

Paducah, Kentucky
September 29, 2017



WILLIAMS
WILLIAMS
& LENTZ

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30

ASSETS

	2017	2016
Cash and cash equivalents	\$ 393,849	\$ 408,486
Accounts receivable	120,153	64,325
Investment revenue receivable	17,386	15,954
Prepaid expenses	45,686	41,349
Inventory	18,274	19,379
Unconditional promises to give:		
Other purposes, net	27,594	34,146
Temporarily restricted purposes, net	15,178,222	15,882,802
Permanently restricted purposes, net	5,419,259	5,810,518
Investments, at fair value:		
Temporarily restricted	2,478,738	1,345,906
Permanently restricted	11,352,704	9,962,090
Property and equipment, net	23,470,249	24,195,596
TOTAL ASSETS	\$58,522,114	\$57,780,551

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 151,337	\$ 109,184
Accrued expenses	61,224	56,825
Deferred revenue	742,253	640,863
Total liabilities	954,814	806,872
Net Assets:		
Unrestricted	23,110,783	23,961,306
Temporarily restricted	17,684,554	17,262,854
Permanently restricted	16,771,963	15,749,519
Total net assets	57,567,300	56,973,679
TOTAL LIABILITIES AND NET ASSETS	\$58,522,114	\$57,780,551

See notes to financial statements.

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue:				
Performances	\$ 1,752,676	\$ -	\$ -	\$ 1,752,676
Facility rentals	388,280	-	-	388,280
Advertising	180,104	-	-	180,104
Ancillary	180,875	-	-	180,875
Total operating revenue	2,501,935	-	-	2,501,935
Operating Expenses:				
Program costs	2,267,529	-	-	2,267,529
Supporting services:				
General and administrative	1,225,159	-	-	1,225,159
Fundraising expenses	189,131	-	-	189,131
Total operating expenses	3,681,819	-	-	3,681,819
Loss from operations	(1,179,884)	-	-	(1,179,884)
Contributed Support:				
Individual and corporate contributions	258,317	-	-	258,317
Grants	349,533	-	-	349,533
Bad debts	(450)	-	-	(450)
Amortization of contribution discount	-	298,868	272,070	570,938
Net assets released from restrictions	111,193	(36,365)	(74,828)	-
Transfers from endowment to operating	403,182	-	(403,182)	-
Total contributed support	1,121,775	262,503	(205,940)	1,178,338
Gain (loss) from operations and support	(58,109)	262,503	(205,940)	(1,546)
Nonoperating Revenues:				
Investment revenue	1,598	69,481	293,984	365,063
Realized gains on investments	-	32,208	28,356	60,564
Net unrealized gains on investments	-	193,301	906,044	1,099,345
Gain on sale of assets	1,500	-	-	1,500
Non-monetary income	11,668	-	-	11,668
Total nonoperating revenues	14,766	294,990	1,228,384	1,538,140
Nonoperating Expenses:				
Depreciation	924,853	-	-	924,853
Non-monetary expenses	18,120	-	-	18,120
Total nonoperating expenses	942,973	-	-	942,973
Gain (loss) from nonoperating activities	(928,207)	294,990	1,228,384	595,167
Restrictions satisfied by payments	135,793	(135,793)	-	-
Changes in net assets	(850,523)	421,700	1,022,444	593,621
Net assets - beginning of year	23,961,306	17,262,854	15,749,519	56,973,679
NET ASSETS - END OF YEAR	\$23,110,783	\$17,684,554	\$16,771,963	\$57,567,300

See notes to financial statements.

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenue:				
Performances	\$ 1,323,820	\$ -	\$ -	\$ 1,323,820
Facility rentals	552,030	-	-	552,030
Advertising	200,383	-	-	200,383
Ancillary	146,592	-	-	146,592
Total operating revenue	<u>2,222,825</u>	<u>-</u>	<u>-</u>	<u>2,222,825</u>
Operating Expenses:				
Program costs	1,854,772	-	-	1,854,772
Supporting services:				
General and administrative	1,248,880	-	-	1,248,880
Fundraising expenses	483,802	-	-	483,802
Total operating expenses	<u>3,587,454</u>	<u>-</u>	<u>-</u>	<u>3,587,454</u>
Loss from operations	<u>(1,364,629)</u>	<u>-</u>	<u>-</u>	<u>(1,364,629)</u>
Contributed Support:				
Individual and corporate contributions	620,864	11,580,720	3,998,839	16,200,423
Grants	341,869	-	-	341,869
Bad debts	(1,319)	-	-	(1,319)
Amortization of contribution discount	-	-	3,069	3,069
Net assets released from restrictions	69,295	(43,425)	(25,870)	-
Transfers from endowment to operating	374,546	-	(374,546)	-
Total contributed support	<u>1,405,255</u>	<u>11,537,295</u>	<u>3,601,492</u>	<u>16,544,042</u>
Gain from operations and support	<u>40,626</u>	<u>11,537,295</u>	<u>3,601,492</u>	<u>15,179,413</u>
Nonoperating Revenue:				
Investment revenue	(7,043)	15,628	468,791	477,376
Realized losses on investments	-	-	(17,082)	(17,082)
Net unrealized gains (losses) on investments	-	4,070	(339,615)	(335,545)
Non-monetary income	10,687	-	-	10,687
Total nonoperating revenues	<u>3,644</u>	<u>19,698</u>	<u>112,094</u>	<u>135,436</u>
Nonoperating Expenses:				
Depreciation	901,122	-	-	901,122
Non-monetary expenses	18,120	-	-	18,120
Total nonoperating expenses	<u>919,242</u>	<u>-</u>	<u>-</u>	<u>919,242</u>
Gain (loss) from nonoperating activities	<u>(915,598)</u>	<u>19,698</u>	<u>112,094</u>	<u>(783,806)</u>
Restrictions satisfied by payments	<u>66,221</u>	<u>(66,221)</u>	<u>-</u>	<u>-</u>
Changes in net assets	<u>(808,751)</u>	<u>11,490,772</u>	<u>3,713,586</u>	<u>14,395,607</u>
Net assets - beginning of year	<u>24,770,057</u>	<u>5,772,082</u>	<u>12,035,933</u>	<u>42,578,072</u>
NET ASSETS - END OF YEAR	<u>\$23,961,306</u>	<u>\$17,262,854</u>	<u>\$15,749,519</u>	<u>\$56,973,679</u>

See notes to financial statements.

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 593,621	\$14,395,607
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	924,853	901,122
Realized (gains) losses on investments, restricted	(60,564)	17,082
Unrealized (gains) losses on investments, restricted	(1,099,345)	335,545
Bad debts	450	1,319
Contributions restricted for long-term purposes	-	(3,998,839)
Contributions restricted for temporary purposes	-	(11,580,720)
Net unconditional promises to give, other purposes	10,000	10,000
Net unconditional promises to give, temporarily restricted purposes	1,000,000	-
Amortization of discount:		
Unconditional promises to give, other purposes	(3,448)	-
Unconditional promises to give, temporarily restricted purposes	(295,420)	-
Unconditional promises to give, permanently restricted purposes	(272,070)	(3,069)
(Increase) decrease in:		
Accounts receivable	(56,278)	5,599
Investment revenue receivable	(1,432)	7,453
Prepaid expenses	(4,337)	(8,059)
Inventory	1,105	(5,038)
Increase (decrease) in:		
Accounts payable	(44,835)	52,896
Accrued expenses	4,399	4,646
Deferred revenues	101,390	120,472
	<u>798,089</u>	<u>256,016</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Property and equipment purchased	(112,518)	(75,598)
Proceeds from sale and maturity of investments	4,202,957	3,063,067
Purchases of investments	(5,566,494)	(3,080,513)
	<u>(1,476,055)</u>	<u>(93,044)</u>
Net cash used by investing activities		
Cash Flows from Financing Activities:		
Endowment contribution collections	663,329	10,000
	<u>663,329</u>	<u>10,000</u>
Net cash provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(14,637)	172,972
Cash and cash equivalents at beginning of year	408,486	235,514
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 393,849</u>	<u>\$ 408,486</u>

See notes to financial statements.

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies:

Organization and Nature of Activities

The Luther F. Carson Four Rivers Center, Inc. (the Center) is a Kentucky nonprofit organization located in Paducah, Kentucky, with the stated purpose of establishing a gathering place where people of the region celebrate creativity and diversity as they attend performances, participate in educational and outreach programs, and expand their horizons through arts. The 1,800 seat facility opened in February 2004. The Center's support comes primarily from admissions, rental fees, and contributions received from individuals and businesses in Western Kentucky and surrounding areas.

Financial Statement Presentation

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.

Basis of Accounting

The Center maintains its records on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of fair values of investment securities and the determination of the discounts on unconditional promises to give.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Center considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at unpaid balances. Management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, they will be written off when that determination is made.

Investments

Investments in marketable securities have readily determinable fair values (level I) and are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the changes in net assets.

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

(Continued)

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued):

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using discount rates ranging from 0.58% to 5.78%. The discount rates used are the applicable federal rates determined by the Internal Revenue Service at the date of the gift.

The Center uses the direct write-off method to charge off unconditional promises to give when management determines promises to be uncollectible. This method approximates the allowance method.

Property and Equipment

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost, less accumulated depreciation or, if donated, at the approximate fair value at the date of donation, less accumulated depreciation. Depreciation is computed using primarily the straight-line method of depreciation over the estimated useful lives of the assets.

Deferred Revenue

Income from program and performance revenues are deferred and recognized in the reporting period in which the event occurs.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with these skills, and would otherwise be purchased by the Center. For the years ended June 30, 2017 and 2016, the value of donated services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, during 2017 and 2016, individuals volunteered approximately 5,700 hours and 4,500 hours, respectively, of their time to perform a variety of tasks that assisted the Center but were not recognized in the financial statements because they did not meet the criteria for recognition.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, restricted net assets are reclassified to unrestricted net assets.

(Continued)

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued):

Investment Revenue and Gains

Revenue and gains on investments restricted by donors are reported as increases in temporarily restricted net assets and permanently restricted net assets. They are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the revenue and gains are recognized.

Functional Allocation of Expenses

The costs of providing the Center's programs and the administration of the Center have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Financial Instruments

Financial instruments which potentially subject the Center to significant concentrations of credit risk consist principally of cash and unconditional promises to give. The Center maintains cash with financial institutions which could exceed federally insured limits. Most of the Center's contributors are located in or around Western Kentucky, and at June 30, 2017 and 2016, one donor accounted for approximately 77 percent of the promises to give for temporarily restricted purposes and permanently restricted purposes.

Income Taxes

The Center is an exempt organization for federal and state income tax purposes under Internal Revenue Service Code Section 501(c)(3) and, accordingly, no provision has been made for income tax expense in the accompanying financial statements. The Center 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 believes that it has appropriate support for any tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements.

The Center's federal Returns of Organization Exempt from Income Tax (Form 990) and Exempt Organization Business Income Tax Returns (Form 990T) for years ended 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Subsequent Events

Management has evaluated subsequent events through September 29, 2017, the date the financial statements were available to be issued.

Note 2 - Restrictions on Net Assets:

Permanently restricted net assets consist of endowment fund assets to be held indefinitely and unconditional promises to give that have been permanently restricted. The income from the assets and a defined percentage of the assets can be used to support the Center's general activities. See Note 6 - Endowment Funds for further information.

Temporarily restricted net assets consist of amounts pledged or received that relate to the purchase, maintenance, or enhancement of the physical facility less any specific debt related to the building. The income generated from investing the restricted assets is also restricted for similar purposes.

(Continued)

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 3 - Promises to Give:

Unconditional promises to give consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Unconditional promises to give, other purposes	\$ 30,000	\$ 40,000
Less: unamortized discount	<u>2,406</u>	<u>5,854</u>
NET UNCONDITIONAL PROMISES TO GIVE, OTHER PURPOSES	<u>\$ 27,594</u>	<u>\$ 34,146</u>
Amounts due in:		
Less than one year	\$ 10,000	\$ 10,000
One to five years	<u>20,000</u>	<u>30,000</u>
TOTALS	<u>\$ 30,000</u>	<u>\$ 40,000</u>
Unconditional promises to give, temporarily restricted purposes	\$18,000,000	\$19,000,000
Less: unamortized discount	<u>2,821,778</u>	<u>3,177,198</u>
NET UNCONDITIONAL PROMISES TO GIVE, TEMPORARILY RESTRICTED PURPOSES	<u>\$15,178,222</u>	<u>\$15,882,802</u>
Amounts due in:		
Less than one year	\$ 1,000,000	\$ 1,000,000
One to five years	4,000,000	4,000,000
Six to ten years	5,000,000	5,000,000
Over ten years	<u>8,000,000</u>	<u>9,000,000</u>
TOTALS	<u>\$18,000,000</u>	<u>\$19,000,000</u>
Unconditional promises to give, permanently restricted purposes	\$ 7,743,520	\$ 8,406,849
Less: unamortized discount	<u>2,324,261</u>	<u>2,596,331</u>
NET UNCONDITIONAL PROMISES TO GIVE, PERMANENTLY RESTRICTED PURPOSES	<u>\$ 5,419,259</u>	<u>\$ 5,810,518</u>
Amounts due in:		
Less than one year	\$ 795,575	\$ 917,933
One to five years	1,839,354	2,078,542
Six to ten years	355,625	695,625
Over ten years	<u>4,752,966</u>	<u>4,714,749</u>
TOTALS	<u>\$ 7,743,520</u>	<u>\$ 8,406,849</u>

(Continued)

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 4 - Property and Equipment:

The following is a summary of property and equipment, less accumulated depreciation at June 30:

	<u>2017</u>	<u>2016</u>
Building	\$ 34,745,240	\$ 34,745,240
Furniture and equipment	1,814,315	1,754,504
Land improvements	<u>44,950</u>	<u>44,950</u>
	36,604,505	36,544,694
Less: accumulated depreciation	<u>13,134,256</u>	<u>12,349,098</u>
TOTALS	<u>\$ 23,470,249</u>	<u>\$ 24,195,596</u>

Note 5 - Investments:

Fair values for investments are determined by reference to quoted market prices on nationally recognized securities exchanges. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants.

Investments at June 30 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Cash and money market funds	\$ 645,189	\$ 927,486
Certificates of deposit	182,223	-
Equity mutual funds	8,871,046	6,656,519
Fixed income mutual funds	1,205,225	1,073,667
Corporate bonds	1,812,357	1,995,981
Pooled investments	35,414	36,541
U.S. government obligations	<u>1,079,988</u>	<u>617,802</u>
TOTALS	<u>\$ 13,831,442</u>	<u>\$ 11,307,996</u>

Note 6 - Endowment Funds:

The Center's endowment consists of two funds, which includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

(Continued)

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 6 - Endowment Funds (Continued):

The board of directors of the Center has interpreted the State of Kentucky's Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by SPMIFA. As of June 30, 2017, the temporarily restricted investments of \$2,478,738 are restricted for maintenance and enhancements of the facilities. In accordance with SPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Center, and (7) the Center's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Center has adopted investment and spending policies, approved by the board of directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve long-term returns that exceed the rate of inflation while considering market returns and risks and any special requirements of the fund. Endowment assets are invested in a well-diversified asset mix, which includes equity and fixed-income securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Therefore, the Center expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Center has a policy of appropriating for distribution an annual payout up to 4%. This is computed as 4% of the three-year rolling average of the market value of the endowment as of the three previous fiscal year ends. The distribution cannot exceed real investment returns without Board approval. In establishing this policy, the Center considered the long-term expected return on its investment assets, the nature and duration of the endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Center expects the current spending policy to allow its endowment funds to grow at a nominal average of 1% annually. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets as well as provide additional real growth through new gifts and endowment returns.

(Continued)

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 6 - Endowment Funds (Continued):

Donor-restricted endowment net asset composition by type of fund and the changes for the years ended June 30, 2017 and 2016 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Balance at June 30, 2015	<u>\$1,425,854</u>	<u>\$10,240,412</u>	<u>\$ 11,666,266</u>
Contributions and collections of promises to give	10,000	10,000	20,000
Investment income, net	15,628	451,709	467,337
Net unrealized gains (losses) on investments	4,070	(339,615)	(335,545)
Amounts appropriated for expenditure	<u>(109,646)</u>	<u>(400,416)</u>	<u>(510,062)</u>
Balance at June 30, 2016	<u>\$ 1,345,906</u>	<u>\$ 9,962,090</u>	<u>\$ 11,307,996</u>
Contributions and collections of promises to give	1,010,000	663,329	1,673,329
Investment income, net	101,689	322,340	424,029
Net unrealized gains (losses) on investments	193,301	906,044	1,099,345
Amounts appropriated for expenditure	<u>(172,158)</u>	<u>(501,099)</u>	<u>(673,257)</u>
Balance at June 30, 2017	<u>\$ 2,478,738</u>	<u>\$11,352,704</u>	<u>\$ 13,831,442</u>

Note 7 - Commitments:

The Center has a lease agreement with the City of Paducah, Kentucky for the lease of the land and facility where the Center operates. The primary term of the agreement expires in October 2100. The rental for the primary term of the lease was the construction of the performing arts center.

Note 8 - Line of Credit:

The Center maintains an operating line of credit with Regions Bank. All amounts drawn under the line of credit bear interest at a variable rate of prime plus 0.70% (4.7% at June 30, 2017). The line is subject to a minimum interest rate of 3.95%. The credit line is secured by the Center's permanently restricted funds. The maximum amount available under the line of credit is \$500,000 and matures November 12, 2017. The Center expects to extend the line for an additional year under similar terms and conditions.

There was \$0 outstanding under the line of credit at June 30, 2017 and 2016.

Note 9 - Advertising:

The Center uses advertising to promote its programs and fundraising events among the audiences it serves. The advertising is expensed as incurred. For the years ended June 30, 2017 and 2016, advertising costs totaled \$315,559 and \$285,091, respectively.

(Continued)

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

Note 10 - Profit Sharing Plan:

The Center has a profit sharing plan (the Plan) covering all employees that had completed 1,000 hours of service and were employed on the last day of the plan year. Each year, the board of directors set a matching percentage that is proportionate to the amount of employee contributions. For the year ended June 30 2017 and 2016, the Center contributed \$0 and \$3,440, respectively, to the profit sharing plan.

Note 11 - Interest Paid:

For the years ended June 30, 2017 and 2016, total operating interest paid was \$1,259 and \$211, respectively, and non-operating interest paid was \$0.

Note 12 - Supplemental Cash Flow Information:

Supplemental information for the statements of cash flows includes:

	<u>2017</u>	<u>2016</u>
Non-cash financing activities:		
Purchase of property and equipment through accounts payable	\$ 86,988	\$ -

Note 13 - Related Party Transactions:

The Center has investment accounts with The Paducah Bank and Trust Company. A board member of the Center is employed by The Paducah Bank and Trust Company. The Center has an investment account with UBS. A board member of the Center is employed by UBS. The Center obtains legal services from McMurry & Livingston, PLLC. A board member of the Center is employed by McMurry & Livingston, PLLC.

SUPPLEMENTARY INFORMATION

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	<u>Program Costs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Operating Expenses:				
Salaries, payroll taxes, and benefits	\$ 391,891	\$ 884,489	\$ 123,801	\$1,400,181
Artist and professional fees	1,057,374	-	-	1,057,374
Advertising expenses	308,752	3,795	3,012	315,559
Bank charges	-	100,717	-	100,717
Professional fees	-	14,750	-	14,750
Contract labor	34,248	-	-	34,248
Dues and subscriptions	-	7,416	-	7,416
Insurance	78,331	11,325	4,719	94,375
Equipment rent	6,003	7,077	1,926	15,006
Maintenance	31,231	65,820	100	97,151
Meals and entertainment	46,369	162	15,935	62,466
Travel	349	3,520	517	4,386
Utilities	202,899	29,335	12,223	244,457
Supplies	23,681	27,358	700	51,739
Printing	24,602	549	2,119	27,270
Postage	5,899	4,242	3,689	13,830
Licenses and fees	30,927	28,445	436	59,808
Interest	-	1,259	-	1,259
Miscellaneous	24,973	34,900	19,954	79,827
	<u>2,267,529</u>	<u>1,225,159</u>	<u>189,131</u>	<u>3,681,819</u>
Total operating expenses				
Nonoperating Expenses:				
Depreciation	786,125	92,485	46,243	924,853
Non-monetary expenses	-	18,120	-	18,120
	<u>786,125</u>	<u>110,605</u>	<u>46,243</u>	<u>942,973</u>
Total nonoperating expenses				
TOTAL FUNCTIONAL EXPENSES	<u><u>\$3,053,654</u></u>	<u><u>\$1,335,764</u></u>	<u><u>\$ 235,374</u></u>	<u><u>\$4,624,792</u></u>

LUTHER F. CARSON FOUR RIVERS CENTER, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	<u>Program Costs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Operating Expenses:				
Salaries, payroll taxes, and benefits	\$ 376,528	\$ 893,309	\$ 126,960	\$1,396,797
Artist and professional fees	709,205	-	-	709,205
Advertising expenses	269,761	6,590	8,740	285,091
Bank charges	-	83,276	-	83,276
Professional fees	-	32,460	212,000	244,460
Contract labor	50,301	-	-	50,301
Dues and subscriptions	-	9,836	-	9,836
Insurance	73,136	10,574	4,406	88,116
Equipment rent	3,719	6,625	8,140	18,484
Maintenance	31,063	74,760	-	105,823
Meals and entertainment	30,025	2,506	14,534	47,065
Travel	792	7,004	50,463	58,259
Utilities	204,068	29,886	12,453	246,407
Supplies	23,555	27,066	2,534	53,155
Printing	28,082	338	20,486	48,906
Postage	7,631	2,187	3,261	13,079
Licenses and fees	18,636	30,265	426	49,327
Interest	-	211	-	211
Miscellaneous	28,270	31,987	19,399	79,656
	<u>1,854,772</u>	<u>1,248,880</u>	<u>483,802</u>	<u>3,587,454</u>
Total operating expenses				
Nonoperating Expenses:				
Depreciation	765,954	90,112	45,056	901,122
Non-monetary expenses	-	18,120	-	18,120
	<u>765,954</u>	<u>108,232</u>	<u>45,056</u>	<u>919,242</u>
Total nonoperating expenses				
TOTAL FUNCTIONAL EXPENSES	<u><u>\$2,620,726</u></u>	<u><u>\$1,357,112</u></u>	<u><u>\$ 528,858</u></u>	<u><u>\$4,506,696</u></u>