

**Lincoln Foundation**

**Financial Statements**

**Years Ended December 31, 2018 and 2017**

**Lincoln Foundation**

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Years Ended December 31, 2018 and 2017

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## **Independent Auditor's Report**

To the Board of Trustees  
**Lincoln Foundation**

We have audited the accompanying financial statements of Lincoln Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, 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.

### **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.

**Kentucky**  
**Indiana**  
**Ohio**

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## Independent Auditor's Report (Continued)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Foundation as of December 31, 2018 and 2017, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note B1, the Foundation has adopted Financial Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter

MCM CPAs & Advisors LLP

Louisville, Kentucky  
May 9, 2019

**Lincoln Foundation**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 331,647	\$ 568,959
Grants and pledges receivable, net	983,931	1,104,998
Other receivables	147,655	138,394
Prepaid expenses	13,575	15,409
Cash restricted for endowment purposes	568,500	425,481
Investments	7,412,965	8,605,922
Investments - deferred compensation	246,481	243,506
Beneficial interest in charitable trust	86,068	94,870
Other assets	19,358	17,812
Property and equipment, net	<u>2,217,005</u>	<u>1,112,574</u>
Total Assets	<u>\$ 12,027,185</u>	<u>\$ 12,327,925</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 23,767	\$ 16,614
Accrued expenses	164,174	102,586
Unearned revenue	38,829	875
Line of credit	523,194	-
Deferred compensation liability	<u>315,303</u>	<u>333,941</u>
Total Liabilities	1,065,267	454,016
<b>Commitments and Contingencies</b>		
<b>Net Assets</b>		
<b>Net Assets Without Donor Restrictions</b>		
Undesignated	3,917,124	4,492,352
Board designated, endowment	267,000	267,000
Board designated, other	<u>348,501</u>	<u>382,717</u>
Total Net Assets Without Donor Restrictions	4,532,625	5,142,069
<b>Net Assets With Donor Restrictions</b>		
Restricted by purpose or time	2,638,429	3,256,998
Restricted in perpetuity	<u>3,790,864</u>	<u>3,474,842</u>
Total Net Assets With Donor Restrictions	<u>6,429,293</u>	<u>6,731,840</u>
Total Net Assets	<u>10,961,918</u>	<u>11,873,909</u>
Total Liabilities and Net Assets	<u>\$ 12,027,185</u>	<u>\$ 12,327,925</u>

See accompanying notes.

**Lincoln Foundation**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended December 31, 2018 and 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Contributions	\$ 118,742	\$ 342,460	\$ 461,202	\$ 124,573	\$ 523,275	\$ 647,848
Rental income	488,814	-	488,814	476,686	-	476,686
Grants	-	176,450	176,450	-	134,954	134,954
Program fees	8,800	-	8,800	9,340	-	9,340
In-kind contributions	4,231	145,003	149,234	6,191	144,067	150,258
Special events, net	3,867	48,785	52,652	-	(971)	(971)
Investment income, net	81,943	98,162	180,105	42,395	55,587	97,982
Net realized and unrealized investment (losses) gains	(245,439)	(429,409)	(674,848)	515,391	580,760	1,096,151
Change in fair value of investments held in trust by others	-	(8,802)	(8,802)	-	8,330	8,330
Miscellaneous	11,937	3,296	15,233	92,171	-	92,171
Net assets released from restrictions	678,492	(678,492)	-	714,995	(714,995)	-
<b>Total Revenues, Gains and Other Support</b>	<b>1,151,387</b>	<b>(302,547)</b>	<b>848,840</b>	<b>1,981,742</b>	<b>731,007</b>	<b>2,712,749</b>
Expenses						
Program services						
Educational programs	1,004,648	-	1,004,648	930,854	-	930,854
Grants and scholarships	102,402	-	102,402	91,196	-	91,196
Other	168,098	-	168,098	167,763	-	167,763
	1,275,148	-	1,275,148	1,189,813	-	1,189,813
Supporting Services						
Management and general	242,485	-	242,485	206,413	-	206,413
Fundraising expenses	243,198	-	243,198	200,726	-	200,726
	485,683	-	485,683	407,139	-	407,139
<b>Total Expenses</b>	<b>1,760,831</b>	<b>-</b>	<b>1,760,831</b>	<b>1,596,952</b>	<b>-</b>	<b>1,596,952</b>
Changes in Net Assets	(609,444)	(302,547)	(911,991)	384,790	731,007	1,115,797
Net Assets at Beginning of Year	5,142,069	6,731,840	11,873,909	4,757,279	6,000,833	10,758,112
<b>Net Assets at End of Year</b>	<b>\$ 4,532,625</b>	<b>\$ 6,429,293</b>	<b>\$ 10,961,918</b>	<b>\$ 5,142,069</b>	<b>\$ 6,731,840</b>	<b>\$ 11,873,909</b>

See accompanying notes.

**Lincoln Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	Program			Supporting Services			Total	
	Educational programs	Grants and scholarships	Other	Total	Management and General	Fundraising		Total
Expenses:								
Advertising and marketing	\$ 26,291	\$ -	\$ -	\$ 26,291	\$ 6,787	\$ -	\$ 6,787	\$ 33,078
Bank and credit card fees	1,381	-	43	1,424	4,024	-	4,024	5,448
Banquets and receptions	7,284	-	-	7,284	-	-	-	7,284
Computer expenses	15,975	-	619	16,594	16,229	-	16,229	32,823
Depreciation	11,614	-	10,261	21,875	4,211	-	4,211	26,086
Dues and subscriptions	1,116	-	117	1,233	1,771	-	1,771	3,004
Events	-	-	-	-	-	21,410	21,410	21,410
Field trips/transportation	15,591	-	-	15,591	-	-	-	15,591
Grants and scholarships	-	102,402	-	102,402	-	-	-	102,402
In-kind expense	143,461	-	1,542	145,003	4,231	18,339	22,570	167,573
Insurance	7,050	-	11,557	18,607	10,597	-	10,597	29,204
Miscellaneous	668	-	561	1,229	6,246	-	6,246	7,475
New hire expenses	10,739	-	306	11,045	12,454	-	12,454	23,499
Occupancy	27,982	-	4,996	32,978	33,124	-	33,124	66,102
Outside services	16,915	-	4,300	21,215	12,866	-	12,866	34,081
Program evaluations	6,405	-	-	6,405	-	-	-	6,405
Repairs and maintenance	2,153	-	13,593	15,746	1,491	-	1,491	17,237
Salary and benefits	643,608	-	117,322	760,930	120,864	237,774	358,638	1,119,568
Summer institutes	45,719	-	-	45,719	-	-	-	45,719
Supplies and postage	12,023	-	696	12,719	2,857	-	2,857	15,576
Telephone	4,182	-	1,570	5,752	4,393	-	4,393	10,145
Travel and meals	4,491	-	615	5,106	340	-	340	5,446
	<u>1,004,648</u>	<u>102,402</u>	<u>168,098</u>	<u>1,275,148</u>	<u>242,485</u>	<u>277,523</u>	<u>520,008</u>	<u>1,795,156</u>
Less: special event expense included in revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,325)</u>	<u>(34,325)</u>	<u>(34,325)</u>
Total Expenses	<u>\$ 1,004,648</u>	<u>\$ 102,402</u>	<u>\$ 168,098</u>	<u>\$ 1,275,148</u>	<u>\$ 242,485</u>	<u>\$ 243,198</u>	<u>\$ 485,683</u>	<u>\$ 1,760,831</u>

See accompanying notes.

**Lincoln Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2017**

	Program			Supporting Services			Total	
	Educational programs	Grants and scholarships	Other	Total	Management and General	Fundraising		Total
Expenses:								
Advertising and marketing	\$ 15,944	\$ -	\$ 950	\$ 16,894	\$ 4,626	\$ -	\$ 4,626	\$ 21,520
Bank and credit card fees	907	-	48	955	1,597	-	1,597	2,552
Banquets and receptions	8,670	-	-	8,670	-	-	-	8,670
Computer expenses	11,316	-	1,682	12,998	6,424	-	6,424	19,422
Consultant	-	-	-	-	188	-	188	188
Depreciation	8,124	-	5,919	14,043	2,812	-	2,812	16,855
Dues and subscriptions	1,279	-	142	1,421	2,085	-	2,085	3,506
Events	-	-	-	-	-	31,425	31,425	31,425
Field trips/transportation	11,476	-	-	11,476	-	-	-	11,476
Grants and scholarships	-	91,196	-	91,196	-	-	-	91,196
In-kind expense	142,956	-	1,112	144,068	6,191	12,998	19,189	163,257
Insurance	6,823	-	7,546	14,369	9,947	-	9,947	24,316
Miscellaneous	435	-	15	450	404	-	404	854
New hire expenses	2,911	-	33	2,944	1,053	-	1,053	3,997
Occupancy	25,614	-	3,328	28,942	30,559	-	30,559	59,501
Outside services	21,762	-	3,733	25,495	14,072	-	14,072	39,567
Program evaluations	6,470	-	-	6,470	-	-	-	6,470
Repairs and maintenance	225	-	18,354	18,579	107	-	107	18,686
Salary and benefits	620,669	-	123,496	744,165	117,409	238,545	355,954	1,100,119
Summer institutes	22,948	-	-	22,948	-	-	-	22,948
Supplies and postage	14,688	-	271	14,959	4,368	-	4,368	19,327
Telephone	3,434	-	384	3,818	3,800	-	3,800	7,618
Training and development	319	-	11	330	-	-	-	330
Travel and meals	3,884	-	739	4,623	771	-	771	5,394
	<u>930,854</u>	<u>91,196</u>	<u>167,763</u>	<u>1,189,813</u>	<u>206,413</u>	<u>282,968</u>	<u>489,381</u>	<u>1,679,194</u>
Less: events expense included in revenue	-	-	-	-	-	(82,242)	(82,242)	(82,242)
Total Expenses	<u>\$ 930,854</u>	<u>\$ 91,196</u>	<u>\$ 167,763</u>	<u>\$ 1,189,813</u>	<u>\$ 206,413</u>	<u>\$ 200,726</u>	<u>\$ 407,139</u>	<u>\$ 1,596,952</u>

See accompanying notes.



**Lincoln Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (911,991)	\$ 1,115,797
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Net realized and unrealized investment loss (gain)	674,848	(1,096,151)
Depreciation (appreciation) of investments held in trust by others	8,802	(8,330)
Depreciation	26,086	16,855
Loss on disposal of property and equipment	5,532	-
Contributions restricted for endowment purposes	(461,202)	(460,325)
Changes in		
Grants, pledges and other receivables	53,545	41,675
Prepaid expenses	1,834	4,801
Other assets	(1,546)	(2,008)
Accounts payable and accrued expenses	20,530	(15,176)
Unearned revenue	37,954	114
Deferred compensation liability	(18,638)	29,310
	<u>(564,246)</u>	<u>(373,438)</u>
Net Cash Used in Operating Activities	(564,246)	(373,438)
Cash Flows from Investing Activities		
Change in investments, net	515,134	(410,514)
Change in restricted cash	(143,019)	210,356
Purchase of property and equipment	(1,087,838)	(181,536)
	<u>(715,723)</u>	<u>(381,694)</u>
Net Cash Used in Investing Activities	(715,723)	(381,694)
Cash Flows from Financing Activities		
Line of credit, net	523,194	-
Proceeds from contributions restricted for endowment purposes	519,463	463,133
	<u>1,042,657</u>	<u>463,133</u>
Cash Provided by Financing Activities	1,042,657	463,133
Decrease in Cash and Cash Equivalents	(237,312)	(291,999)
Cash and Cash Equivalents at Beginning of Year	<u>568,959</u>	<u>860,958</u>
Cash and Cash Equivalents at End of Year	<u>\$ 331,647</u>	<u>\$ 568,959</u>
Noncash Investing Activities		
Property and equipment in accruals	\$ 48,211	\$ -
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 2,057	\$ -

See accompanying notes.

**Lincoln Foundation**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**Note A - Nature of Organization and Operations**

Lincoln Foundation ("the Foundation") has enabled disadvantaged youth to overcome adversity through education since its inception by Berea College over 100 years ago. After the Civil War, black and white students attended Berea College together. In the early 1900's, this desegregated educational environment was outlawed by the efforts of a Kentucky legislator named Carl Day. The Day Law, as it was named, required separate education for black and white students, therefore outlawing the Berea model. In response to this unfortunate turn of events, the Berea College Board of Trustees established Lincoln Foundation in 1910 in Simpsonville, Kentucky (also known as Lincoln Ridge). The Trustees facilitated the purchase of a 444.4 acre parcel of land to be the site for a new school, named the Lincoln Institute in honor of President Abraham Lincoln.

Lincoln Foundation served as the fiscal agent for Lincoln Institute, a prominent boarding school for black students from 1912-1966. The Lincoln School, an integrated school for the gifted, was operated from 1966-1970. The Lincoln School closed in 1970 and in 1972 part of the campus was leased to the United States Department of Labor for the purpose of operating the Whitney M. Young, Jr. Job Corps Center. This vocational rehabilitation training center is currently still in operation and aligns with the historical legacy of Lincoln Institute.

The mission of Lincoln Foundation is to provide educational enrichment programs that develop and support youth in overcoming barriers to achievement. Educational program outcomes demonstrate that socioeconomically disadvantaged students can break the cycle of poverty in their families through higher education. Students are holistically developed in an educational culture that stresses academic achievement and graduation from college. Lincoln Foundation annually serves approximately 600 students from two years of age through college with its year-round, nontraditional educational enrichment programs.

The signature program of Lincoln Foundation is the Whitney M. YOUNG Scholars Program® for students in grades 7 through 12. The acronym YOUNG stands for Youth Organized to Understand New Goals. The 39 graduating Scholars in 2018 received scholarship awards of approximately \$6,496,000. The 33 graduating Scholars in 2017 received scholarship awards of approximately \$2,725,000. Lincoln Foundation also serves multicultural students in the Louisville Metro area through the following educational programs: Math & Science Program, Project BUILD, Portland Library Reading Program, Western Library Reading Program and the Educational Opportunity Scholarship Fund. A strategic component of the Whitney M. YOUNG Scholars Program® is Lincoln Foundation's educational partnerships with the University of Louisville, Bellarmine University, Jefferson Community & Technical College, Jefferson County Public Schools, Kentucky Science Center, Frazier History Museum and Spalding University. In 2018, the Whitney M. YOUNG Scholars Program® Summer Institutes were held at Centre College, University of Kentucky, Murray State University, Berea College, and Georgetown College.

**Note B - Summary of Significant Accounting Policies**

1. **Basis of Accounting:** The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative GAAP.

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note B - Summary of Significant Accounting Policies (Continued)**

2. Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.
3. Subsequent Events: Subsequent events for the Foundation have been considered through the date of the Independent Auditor's Report which represents the date which the financial statements were available to be issued.
4. Donor-imposed Restrictions: The Foundation records and reports its assets, liabilities, net assets, revenues, gains and losses, and other support based on the existence or absence of donor-imposed restrictions. The Foundation reports information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

*Net assets with donor restrictions*: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

5. Cash and Cash Equivalents: The Foundation considers all short-term investments with original maturities of three months or less when purchased, that are not designated for a specific purpose, to be cash equivalents. The Foundation maintains balances with its bank in excess of federally insured limits.
6. Grants and Pledges Receivable: Grants and pledges receivable represent commitments from individuals and local organizations for educational program support and endowments. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using the risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. No allowance for uncollectible pledges or grants has been included as management considers all amounts collectible.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note B - Summary of Significant Accounting Policies (Continued)**

7. Investments: Investments in marketable securities are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Net realized and unrealized gains and losses are reflected in the statements of activities and changes in net assets. Receipt of donated investments is recorded at the quoted market value of the investment at the time of donation. Investment fees are netted with investment income in the statement of activities. These fees totaled \$39,773 and \$41,521 for the years ended December 31, 2018 and 2017, respectively.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Foundation.

8. Other Assets: The Foundation elected, effective January 1, 2007, the option to finance unemployment insurance by reimbursing the State of Kentucky for benefits paid instead of paying unemployment insurance tax. The Foundation is a member of First Nonprofit and participates in an unemployment savings program. As such, the Foundation makes required periodic contributions to the savings program, which are held in a custodial account.
9. Property and Equipment: Assets acquired are stated at cost, or in the case of donated assets, at fair value on the date of donation. Depreciation is computed using primarily the straight-line method based on the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or their estimated useful life. Depreciation expense was \$26,086 and \$16,855 for the years ended December 31, 2018 and 2017, respectively. The Foundation capitalizes property and equipment with a value of \$1,000 or greater. Lesser amounts are expensed.
10. Unearned Revenue: Unearned revenue primarily represents rental income received in advance.
11. Income Taxes: The Foundation is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

The Foundation recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

12. In-kind Contributions: The Foundation receives donated goods and services primarily in connection with partnering colleges and universities for Summer Institutes including room, board, teachers and activities for Whitney M. YOUNG Scholars Program® as well as classroom space from local colleges and universities for the Educational Clinics during the school year. The summer Math and Science Program and Project BUILD receive classroom space from the University of Louisville. Project BUILD receives in-kind donations from the University of Louisville for professors who teach the classes and local corporations for the students to visit their companies on field trips. The amount of donated goods and services is recorded as revenue with the same amount included in expenses.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note B - Summary of Significant Accounting Policies (Continued)**

13. Reclassification: Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation, with no effect on net asset or the changes in net assets.
14. Functional Expenses: The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on time and effort, usage, or square footage. Accordingly, certain costs have been allocated among program and supporting services benefited.
15. Recent Accounting Pronouncements: In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Consequently, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. This standard will be effective for the Foundation's year ending December 31, 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. This standard will be effective for contributions received for the year ending December 31, 2019 and for contributions made for the year ending December 31, 2020.

In February 2016, the FASB issued ASU Update No. 2016-02, *Leases*, to improve financial reporting with respect to leasing transactions. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the Foundation's year ending December 31, 2020.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the Foundation's year ending December 31, 2022.

The Foundation is currently in the process of evaluating the impact of the adoption of these ASU's on the financial statements.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note B - Summary of Significant Accounting Policies (Continued)**

15. Recent Accounting Pronouncements (Continued): In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled for these goods and services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows from the entity's contracts with customers. This standard will be effective for the Foundation's year ending December 31, 2019. The Foundation has evaluated the impact of the adoption of ASU 2014-09 on the financial statements and did not record a material impact from the adoption of ASU 2014-09 as of January 1, 2019.

**Note C - Liquidity and Availability of Resources**

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation's financial assets available within one year of the statements of financial position date for general expenditures, liabilities, and other obligations as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 331,647	\$ 568,959
Cash restricted for endowment purposes	568,500	425,481
Grants and pledges receivable, net	983,931	1,104,998
Other receivables	147,655	138,394
Investments	7,412,965	8,605,922
Investments - deferred compensation	246,481	243,506
Beneficial interest in charitable trust	<u>86,068</u>	<u>94,870</u>
 Total financial assets	 9,777,247	 11,182,130
 Less beneficial interest in charitable trust	 (86,068)	 (94,870)
Less investments restricted by line of credit	(523,194)	-
Less Board designated reserves	(615,501)	(649,717)
Less amounts not available to be used within one year due to:		
Restricted by purpose or time	(2,638,429)	(3,256,998)
Restricted in perpetuity	(3,790,864)	(3,474,842)
Add endowment fund appropriations for following year	<u>330,111</u>	<u>102,189</u>
 Total financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 2,453,302</u>	 <u>\$ 3,807,892</u>

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note D - Grants and Pledges Receivable**

During 2016, the Foundation initiated a capital campaign. The campaign funds are to be used toward the establishment of endowments to support the Whitney Young Scholars Program® and the Dr. Samuel Robinson scholarships. The amount raised through December 31, 2018 is approximately \$3,595,000 of which approximately \$2,726,000 has been collected.

Grants and pledges receivable at December 31, 2018 and 2017 include the following:

	<u>2018</u>	<u>2017</u>
Total gross grants and pledges receivable		
Endowment	\$ 868,958	\$ 1,110,878
Operating	<u>152,051</u>	<u>31,828</u>
	1,021,009	1,142,706
Less: unamortized discount	<u>(37,078)</u>	<u>(37,708)</u>
	<u>\$ 983,931</u>	<u>\$ 1,104,998</u>

Contributions receivable in future periods are discounted using rates between 2.58% and 2.87%.

**Note E - Beneficial Interest in Charitable Trust**

The Foundation is a beneficiary of a perpetual trust in memory of Charles Haggard in appreciation of what the Foundation meant to him in his lifetime. The investments within the trust are recorded on the Foundation's financial statements at fair value. These investments are permanently restricted assets subject to the restriction of the donor with principal and any gains or losses invested in perpetuity and only the income to be distributed to the Foundation based on the Foundation's interest in the trust.

Under the Charles Haggard Trust, the Foundation receives 25% of the annual income of the trust. The Foundation records its beneficial interest in this trust at the present value of the estimated future cash flows which approximates 25% of the fair value of the trust. Distributions from the trust totaled \$2,390 and \$2,402 for the years ended December 31, 2018 and 2017, respectively.

**Note F - Fair Value Measurements**

FASB ASC defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements. FASB ASC also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest to lowest priority are described below:

- 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 in markets that are not active; 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.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note F - Fair Value Measurements (Continued)**

Following is a description of the valuation methodologies for assets measured at fair value:

*Money Market Fund:* Valued using cost which approximates fair value.

*Mutual Funds, Exchange Traded Funds, and Equity Securities:* Valued at the closing price reported on the active market in which the individual security is traded.

*Debt Securities:* Valued using a yield curve matrix derived from quoted prices for similar securities in active markets.

*Funds held in trust by others:* The underlying assets of the fund are valued at the closing price reported on the active market on which the individual securities are traded. The fund is valued at the net asset value of the underlying assets.

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, while 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. There have been no changes in the methodologies used at December 31, 2018 and 2017.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018:

	Investments at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Money Market Fund	\$ -	\$ 401,320	\$ -	\$ 401,320
Mutual Funds/Exchange Traded Funds	7,258,126	-	-	7,258,126
	<u>\$ 7,258,126</u>	<u>\$ 401,320</u>	<u>\$ -</u>	<u>\$ 7,659,446</u>
	Other Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by Others	\$ -	\$ 86,068	\$ -	\$ 86,068
	<u>\$ -</u>	<u>\$ 86,068</u>	<u>\$ -</u>	<u>\$ 86,068</u>



**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note F - Fair Value Measurements (Continued)**

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2017:

	Investments at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Money Market Fund	\$ -	\$ 116,737	\$ -	\$ 116,737
Mutual Funds	1,957,113	-	-	1,957,113
Debt Securities	-	2,459,175	-	2,459,175
Equity Securities	4,316,403	-	-	4,316,403
	<u>\$ 6,273,516</u>	<u>\$ 2,575,912</u>	<u>\$ -</u>	<u>\$ 8,849,428</u>

	Other Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Funds Held in Trust by Others	\$ -	\$ 94,870	\$ -	\$ 94,870

**Note G - Property and Equipment**

Property and equipment consists of the following at December 31, 2018 and 2017:

	2018	2017
Land and improvements *	\$ 807,448	\$ 772,028
Buildings and improvements	3,022,479	2,110,753
Office equipment	109,537	106,765
Computers, software and telephone	199,139	215,964
	<u>4,138,603</u>	<u>3,205,510</u>
Less accumulated depreciation	<u>1,921,598</u>	<u>2,092,936</u>
	<u>\$ 2,217,005</u>	<u>\$ 1,112,574</u>

\* - Included in land and improvements noted above is a 408 acre parcel of land owned by the Foundation located in Simpsonville Kentucky. This parcel of land was originally 444.4 acres but was reduced to 408.4 acres due to eminent domain from the construction of Interstate 64. The campus ownership was deeded to the Commonwealth of Kentucky in 1946 and title transferred back to Lincoln Foundation in 1972. Consistent with the Foundation's accounting policy (as described in Note B), this parcel of land is valued at fair market value at the time of the donation which was \$256,639. It is the Foundation's understanding that the current market value is significantly greater than the amount reflected in the financial statements.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note H - Line of Credit**

In August of 2018, the Foundation entered into a line of credit ("the Line") which contains a maximum principal amount of \$548,500. The Line was used to finance the construction on the new Bishop Lane location and is secured by investments held by the Foundation. The borrowings on the Line bear interest at LIBOR plus 1.75% (4.27% as of December 31, 2018) and have an outstanding balance at December 31, 2018 of \$523,194. The line matures on August 9, 2019 and the Foundation intends to refinance the Line into a long-term note.

**Note I - Endowment Fund**

The Foundation's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor restricted funds and a fund designated by the board of trustees to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation classifies net assets restricted in perpetuity as the original value of gifts donated to the endowment and accumulations to the 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 that is not classified as restricted in perpetuity is classified as restricted by purpose or time until appropriated for expenditure by the Foundation.

Changes in the endowment net assets for the year ended December 31, 2018 are as follows:

	December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 267,000	\$ 6,483,372	\$ 6,750,372
Investment Return:			
Investment income (net of fees)	20,659	98,012	118,671
Net depreciation	-	(437,560)	(437,560)
Total Investment Return	20,659	(339,548)	(318,889)
Contributions	-	324,922	324,922
Appropriation for expenditures	(20,659)	(92,881)	(113,540)
Endowment Net Assets, End of Year	<u>\$ 267,000</u>	<u>\$ 6,375,865</u>	<u>\$ 6,642,865</u>

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note I - Endowment Fund (Continued)**

Changes in the endowment net assets for the year ended December 31, 2017 are as follows:

	December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 267,000	\$ 5,474,001	\$ 5,741,001
Investment Return:			
Investment income (net of fees)	8,384	55,480	63,864
Net appreciation	-	587,937	587,937
Total Investment Return	8,384	643,417	651,801
Contributions	-	460,325	460,325
Appropriation for expenditures	(8,384)	(94,371)	(102,755)
Endowment Net Assets, End of Year	<u>\$ 267,000</u>	<u>\$ 6,483,372</u>	<u>\$ 6,750,372</u>

The investment objectives of the endowment funds are (1) to assure a relatively stable and predictable earnings stream to meet the spending policy, which will, over time, increase at a rate that keeps pace with inflation, and (2) to optimize investment returns such that the total returns (income plus appreciation in market value) equals or exceeds the blended or balanced index, which mirrors the allocation of the portfolio. This objective is measured quarterly over one, three, and five year periods, with the goal to meet or exceed the benchmark over a multi-year period.

To achieve its investment objective, the Foundation's endowment funds are allocated among several asset classes. These asset classes may include: domestic equity, international equity, fixed income securities, and cash/short-term.

The Foundation uses a total return approach in calculating distributions. The total return ranges from 3% to 5% of the unrestricted endowment balance at the discretion of the Finance Committee. New investment distributions are recalculated on a quarterly basis. The Foundation uses a rolling three-year average of the 12 previous quarterly market values.

The Charles Haggard Trust is held and administered by an independent trustee (See Note E). The investment and distribution policies for this trust are determined by the independent trustee, not the Foundation.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note J - Net Assets Restricted by Purpose or Time**

Net assets restricted by purpose or time at December 31, 2018 and 2017 are available for the following:

	<u>2018</u>	<u>2017</u>
J. Graham Brown Foundation Challenge		
Endowment and Foundation's Match	\$ 2,348,512	\$ 2,664,738
Mae Street Kidd Scholarship Endowment	128,899	144,635
Whitney M. Young Memorial Endowment	105,556	127,230
Whitney M. YOUNG Scholars Program®	50,000	282,382
Math and Science Program	3,226	-
Dr. Samuel Robinson Scholarship Endowment	2,034	6,212
Angie V. McDonald Scholarship Fund	202	1,432
Whitney M. Young Memorial House	-	25,000
Lincoln Institute Alumni Center	-	5,350
J.B. Hitt Scholarship Fund	-	19
	<u>\$ 2,638,429</u>	<u>\$ 3,256,998</u>

The J. Graham Brown Foundation Challenge Endowment and the Foundation's match of the Brown Challenge are restricted for scholarships and education programs. The J. Graham Brown Foundation Challenge Endowment of \$500,000 and the Foundation's match of the Brown Challenge of \$500,000 were received in 1995. The original \$1,000,000 is restricted and has earned \$2,348,511 over the years, net of approximately \$890,111 in scholarships, which have been paid to students from this endowment. The Whitney M. Young Scholars Program® is restricted for education programs for grades 7-12. The Whitney M. Young Memorial Endowment and the Whitney M. Young Memorial House are restricted for the maintenance and upkeep of the birthplace of Whitney M. Young, the Memorial House. The Dr. Samuel Robinson Scholarship Endowment is restricted for scholarships to be paid to students from this endowment. The Mae Street Kidd Scholarship Endowment, Angie V. McDonald Scholarship Fund, and the J.B. Hitt Scholarship Fund are restricted for scholarships and education programs. The Lincoln Institute Alumni Center are restricted for the renovation of the Lincoln Institute Alumni Center. The Math and Science Program is restricted for education programs.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note K - Net Assets Restricted in Perpetuity**

Net assets restricted in perpetuity at December 31, 2018 and 2017, represent the following:

	<u>2018</u>	<u>2017</u>
Whitney M. Young Scholars Program® Endowment	\$ 2,253,631	\$ 1,941,425
J. Graham Brown Foundation Challenge Endowment	500,000	500,000
Foundation's Match of Brown Challenge	500,000	500,000
Dr. Samuel Robinson Scholarship Endowment	254,565	241,947
Whitney M. Young Memorial Endowment	100,000	100,000
Beneficial Interest in Charitable Trust	86,068	94,870
Mae Street Kidd Scholarship Endowment	76,600	76,600
Hilliard Lyons Endowment	<u>20,000</u>	<u>20,000</u>
	<u>\$ 3,790,864</u>	<u>\$ 3,474,842</u>

Net investment income, as well as realized and unrealized gains and losses, attributable to the Whitney M. YOUNG Scholars Program® Endowment are restricted by purpose for the advancement of the Whitney M. YOUNG Scholars® Program. Net investment income, as well as realized and unrealized gains and losses, attributable to the Dr. Samuel Robinson Scholarship Endowment are restricted for a scholarship fund named in the honor of Dr. Samuel Robinson, President Emeritus. Net investment income, as well as realized and unrealized gains and losses, attributable to the J. Graham Brown Foundation Challenge Endowment, the Foundation's match of the Brown Challenge, Hilliard Lyons Endowment and Mae Street Kidd Scholarship Endowment are restricted for scholarships and education. Net investment income, including realized and unrealized gains and losses, attributable to the Whitney M. Young Memorial Endowment are restricted for the maintenance and upkeep of the birthplace of Whitney M. Young, Jr. Birthplace. Distributions of income related to the Foundation's Beneficial Interest in Charitable Trust are available for operations.

**Note L - Concentrations**

Approximately 75% and 56% of the Foundations contributions were from two donors in 2018 and 2017, respectively. Approximately 80% and 88% of the Foundation grants and pledges receivable were from three donors in 2018 and 2017, respectively.

**Note M - Operating Leases**

The Foundation leases office space and equipment under several leases that expired on December 31, 2018. Rent expense, excluding real estate taxes, insurance and repair costs were \$52,953 and \$52,121 for the years ended December 31, 2018 and 2017, respectively.

**Note N - Retirement Plan**

A Savings Incentive Match Plan for Employees Individual Retirement Account (SIMPLE IRA) is available to all regular, full-time employees. Eligible employees may contribute up to the maximum allowed by the Internal Revenue Service. The Foundation will match employee contributions up to 3% of eligible compensation. The Foundation's matching contributions for the years ended December 31, 2018 and 2017, were \$20,177 and \$17,494, respectively.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note O - Deferred Compensation Plans**

The Foundation has a deferred compensation plan set up by the Board of Trustees for selected key management employees. Currently, one former employee is being paid \$2,000 monthly through December 31, 2020. The Foundation designated approximately \$160,000 of unrestricted net assets to fund these payments.

During 2007, the Foundation began two additional non-qualified tax-deferred compensation plans. Under one plan, contributions from the Foundation total \$115,550 over eleven years, of which \$12,347 was contributed in 2018 and \$12,759 was contributed in 2017. Under the second plan, contributions from the Foundation total \$54,409 over eleven years, of which \$4,898 was contributed in 2018 and \$4,799 was contributed in 2017. Amounts related to the non-qualified tax-deferred compensation plans are carried at fair value and are included in investments and deferred compensation liability on the statements of financial position.

**Note P - Rental Income**

The following property is being leased from the Foundation as indicated:

Whitney M. Young, Jr. Job Corps Center Campus

On January 1, 1985, the Foundation entered into a lease with the United States Department of Labor (DOL) for a portion of the Lincoln Institute property located in Simpsonville, Kentucky. On February 12, 2003, a new lease was signed, retroactive to January 1, 2001, for the use of 54.4 acres with a one-year term and an automatic renewal for forty-nine (49) years. Over the life of the lease, increases in the annual lease payments are based upon the change in the Consumer Price Index (CPI). In addition to the annual CPI increase, there is a lease provision for the rental income to be renegotiated every five years based on appraised fair market rent for the leased premises. A renegotiated rental increase was entered into effective January 1, 2012, which increased the basic rent per annum from the original lease of \$323,000 to \$350,000. During the years ended December 31, 2018 and 2017, \$446,084 and \$435,204, respectively, was received in annual rental income.

Penrod Land Rental Income

In December 1994, the Foundation signed an agreement with a lumber company to lease six acres of land at an annual rental of \$5,750. The amount of the rent increases every five years based upon the Chicago Consumer Price Index. Annual rental income received was \$10,903 for the years ended December 31, 2018 and 2017. The agreement is effective until 2019, with the Lessee having the option to renew. This lease is for land used by Penrod for lumber storage. In 2009, the lease was amended to reflect an additional 1.4 acres that Penrod had encroached upon since 2005.

AT&T Land Rental Income

In 2012, the Foundation renewed a five year renewable agreement with a phone company to lease approximately 6,400 square feet of land, together with a right of way for access to the parcel, at an annual rental of \$7,935. The agreement may be renewed for one additional five-year term, and thereafter on an annual basis. The amounts received in 2018 and 2017 were \$10,494 and \$9,629, respectively. This lease is for land used by AT&T for a communications tower.

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note P - Rental Income (Continued)**

Agricultural Rental Income

In February 2009, the Foundation signed a three year agreement with a farmer to lease two hundred acres of land for single cropped fields and twenty five acres of land for double cropped fields. During 2015, the lease was renewed for 190.50 acres, single cropped, for an additional five years at \$28,575 per annum for single cropped fields. The lease includes a two-year option from 2021-2022 at \$30,480 per annum. During the years ended December 31, 2018 and 2017, \$21,333 and \$20,950, respectively, was received in rental income.

Minimum future rental income on these leases as of December 31, 2018 is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 34,494
2020	34,494
2021	10,494
2022	<u>6,559</u>
	<u>\$ 86,041</u>

**Note Q - Special Events**

Revenues and expenses for fundraising events during the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Lionel Hampton Tribute Concert:		
Revenues	\$ 80,707	\$ 17,013
Expenses	<u>(31,922)</u>	<u>(19,553)</u>
	<u>\$ 48,785</u>	<u>\$ (2,540)</u>
Breakfast Fundraiser:		
Revenues	\$ 6,270	\$ -
Expenses	<u>(2,403)</u>	<u>-</u>
	<u>\$ 3,867</u>	<u>\$ -</u>
Evening of Jazz:		
Revenues	\$ -	\$ 64,258
Expenses	<u>-</u>	<u>(62,689)</u>
	<u>\$ -</u>	<u>\$ 1,569</u>

**Lincoln Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**Note R - Educational Programs**

The Foundation's educational programs' expenses for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Whitney M. YOUNG Scholars Program	\$ 789,944	\$ 725,461
Math & Science Program	77,958	76,977
Western Library Reading Program	48,102	45,830
Project BUILD	36,622	36,576
Portland Library Reading Program	38,464	33,719
Educational Opportunity Scholarship	<u>13,558</u>	<u>12,291</u>
	<u>\$ 1,004,648</u>	<u>\$ 930,854</u>

**Note S - Asset Retirement Obligation**

ASC requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Foundation's conditional AROs primarily relate to asbestos contained in buildings that the Foundation owns on the Whitney M. Young, Jr. Job Corps Center campus. Environmental regulations exist that require the Foundation to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

No liability has been recorded in relation to the AROs because the fair value cannot be reasonably determined. Much of the asbestos in the Foundation's facilities has been removed but absent any plans to do major renovation to or demolish the facilities there is an indeterminate settlement date for the asset retirement obligation because the range of time over which the Foundation may settle the obligation is unknown or cannot be estimated.