

Lincoln Foundation

Financial Statements

Years Ended December 31, 2020 and 2019

Lincoln Foundation
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Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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.

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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 the Foundation as of December 31, 2020 and 2019, 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.

Other Matters

As described in Note T to the financial statements, Lincoln Foundation identified a misstatement in prior financial statements related to the misclassification of some contributions received. As a result, net assets with donor restrictions decreased and net assets without donor restrictions increased by \$532,261 as of January 1, 2019. Our opinion is not modified with respect to this matter.

MCM CPAs & Advisors LLP

Louisville, Kentucky
May 11, 2021

Lincoln Foundation
Statements of Financial Position
December 31, 2020 and 2019

	2020	(Restated) 2019
	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 784,002	\$ 749,612
Grants and pledges receivable, net	310,944	583,834
Other receivables	150,242	99,425
Prepaid expenses	11,892	7,916
Cash restricted for endowment purposes	480,245	37,358
Investments	9,182,594	8,624,148
Investments - deferred compensation	118,067	97,981
Beneficial interest in charitable trust	106,432	100,016
Other assets	13,417	20,158
Property and equipment, net	<u>2,124,792</u>	<u>2,189,938</u>
Total assets	<u>\$ 13,282,627</u>	<u>\$ 12,510,386</u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 22,852	\$ 17,095
Accrued expenses	98,079	108,784
Unearned revenue	41,586	46,795
Long-term debt	522,464	540,018
Deferred compensation liability	<u>148,216</u>	<u>145,281</u>
Total liabilities	833,197	857,973
Net assets		
Net assets without donor restrictions		
Undesignated	4,388,582	4,414,016
Board designated, endowment	267,000	267,000
Board designated, other	<u>214,205</u>	<u>219,597</u>
Total net assets without donor restrictions	4,869,787	4,900,613
Net assets with donor restrictions		
Restricted by purpose or time	4,317,619	3,502,605
Restricted in perpetuity	<u>3,262,024</u>	<u>3,249,195</u>
Total net assets with donor restrictions	<u>7,579,643</u>	<u>6,751,800</u>
Total net assets	<u>12,449,430</u>	<u>11,652,413</u>
Total liabilities and net assets	<u>\$ 13,282,627</u>	<u>\$ 12,510,386</u>

See accompanying notes.

Lincoln Foundation
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2020 and 2019

	2020			(Restated) 2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
	Revenues, gains and other support					
Contributions	\$ 157,131	\$ 42,926	\$ 200,057	\$ 122,899	\$ 59,569	\$ 182,468
Rental income	528,947	-	528,947	498,232	-	498,232
Grants	224,700	363,034	587,734	-	166,377	166,377
Program fees	3,750	-	3,750	6,425	-	6,425
In-kind contributions	2,962	66,004	68,966	2,141	151,597	153,738
Special events, net	49,055	-	49,055	16,771	32,166	48,937
Investment income, net	63,192	191,993	255,185	96,396	181,009	277,405
Net realized and unrealized investment gains (losses)	163,660	480,364	644,024	409,333	743,264	1,152,597
Change in fair value of investments						
held in trust by others	-	6,417	6,417	-	13,948	13,948
Miscellaneous	25,357	-	25,357	345	-	345
Net assets released from restrictions	322,895	(322,895)	-	493,162	(493,162)	-
Total revenues, gains and other support	1,541,649	827,843	2,369,492	1,645,704	854,768	2,500,472
Expenses						
Educational programs	1,139,455	-	1,139,455	1,271,651	-	1,271,651
Supporting services						
Management and general	217,338	-	217,338	300,673	-	300,673
Fundraising expenses	215,682	-	215,682	237,653	-	237,653
Total expenses	1,572,475	-	1,572,475	1,809,977	-	1,809,977
Changes in net assets	(30,826)	827,843	797,017	(164,273)	854,768	690,495
Net assets at beginning of year	4,900,613	6,751,800	11,652,413	5,064,886	5,897,032	10,961,918
Net assets at end of year	\$ 4,869,787	\$ 7,579,643	\$ 12,449,430	\$ 4,900,613	\$ 6,751,800	\$ 11,652,413

See accompanying notes.

Lincoln Foundation
Statement of Functional Expenses
Year Ended December 31, 2020

	<u>Educational programs</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Expenses				
Advertising and marketing	\$ 15,297	\$ 422	\$ 10,723	\$ 26,442
Bad debt	2,000	3,525	-	5,525
Bank and credit card fees	1,798	2,637	-	4,435
Banquets and receptions	246	-	-	246
Computer expenses	20,762	10,602	-	31,364
Depreciation	64,180	16,719	-	80,899
Dues and subscriptions	4,749	2,715	834	8,298
Field trips/transportation	1,900	-	-	1,900
Grants and scholarships	107,741	-	-	107,741
In-kind expense	66,004	2,803	159	68,966
Insurance	17,221	13,156	-	30,377
Interest expense	9,821	14,466	-	24,287
Miscellaneous	4,945	1,828	595	7,368
New hire expenses	19,034	175	-	19,209
Occupancy	17,591	9,871	166	27,628
Outside services	15,438	23,273	-	38,711
Program evaluations	5,175	-	-	5,175
Repairs and maintenance	8,722	6,715	-	15,437
Salary and benefits	729,573	100,130	202,511	1,032,214
Summer institutes	11,266	-	-	11,266
Supplies and postage	5,264	1,621	769	7,654
Telephone	8,320	6,350	-	14,670
Training and development	1,320	178	-	1,498
Travel and meals	1,088	152	-	1,240
	<u>1,139,455</u>	<u>217,338</u>	<u>215,757</u>	<u>1,572,550</u>
Less: special event expense included in revenue	<u>-</u>	<u>-</u>	<u>(75)</u>	<u>(75)</u>
Total expenses	<u>\$ 1,139,455</u>	<u>\$ 217,338</u>	<u>\$ 215,682</u>	<u>\$ 1,572,475</u>

See accompanying notes.

Lincoln Foundation
Statement of Functional Expenses
Year Ended December 31, 2019

	<u>Educational programs</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Expenses				
Advertising and marketing	\$ 16,197	\$ 5,394	\$ -	\$ 21,591
Bad debt	57,608	-	-	57,608
Bank and credit card fees	3,392	549	-	3,941
Banquets and receptions	8,311	-	-	8,311
Computer expenses	17,515	17,044	-	34,559
Depreciation	67,068	12,438	-	79,506
Dues and subscriptions	1,633	2,365	-	3,998
Events	-	-	13,414	13,414
Field trips/transportation	16,639	-	-	16,639
Grants and scholarships	84,056	-	-	84,056
In-kind expense	151,597	2,141	10,475	164,213
Insurance	17,446	12,331	-	29,777
Interest expense	9,835	14,753	-	24,588
Miscellaneous	2,351	2,560	-	4,911
New hire expenses	5,860	4,079	-	9,939
Occupancy	20,129	10,140	-	30,269
Outside services	21,932	14,371	-	36,303
Program evaluations	1,820	-	-	1,820
Repairs and maintenance	13,128	4,345	-	17,473
Salary and benefits	680,057	183,766	237,160	1,100,983
Summer institutes	49,872	-	-	49,872
Supplies and postage	9,556	3,304	-	12,860
Telephone	8,645	7,411	-	16,056
Travel and meals	7,004	3,682	-	10,686
	<u>1,271,651</u>	<u>300,673</u>	<u>261,049</u>	<u>1,833,373</u>
Less: events expense included in revenue	<u>-</u>	<u>-</u>	<u>(23,396)</u>	<u>(23,396)</u>
Total expenses	<u>\$ 1,271,651</u>	<u>\$ 300,673</u>	<u>\$ 237,653</u>	<u>\$ 1,809,977</u>

See accompanying notes.

Lincoln Foundation
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Changes in net assets	\$ 797,017	\$ 690,495
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Net realized and unrealized investment gain	(644,024)	(1,152,597)
Appreciation of investments held in trust by others	(6,417)	(13,948)
Depreciation	80,899	79,506
Bad debt	-	57,608
Contributions restricted for endowment purposes	(6,413)	(25,842)
Changes in		
Grants, pledges and other receivables	171,687	115,086
Prepaid expenses	(3,976)	5,659
Other assets	6,741	(800)
Accounts payable and accrued expenses	(4,948)	(13,851)
Unearned revenue	(5,209)	7,966
Deferred compensation liability	<u>2,935</u>	<u>(170,022)</u>
Net cash provided by (used in) operating activities	388,292	(420,740)
Cash flows from investing activities		
Change in investments, net	65,492	89,914
Purchase of property and equipment	<u>(15,753)</u>	<u>(100,650)</u>
Net cash provided by (used in) investing activities	49,739	(10,736)

See accompanying notes.

Lincoln Foundation
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities		
Line of credit, net	\$ -	\$ 25,306
Payments on long-term debt	(17,554)	(8,482)
Proceeds from contributions restricted for endowment purposes	<u>56,800</u>	<u>301,475</u>
Net cash provided by financing activities	<u>39,246</u>	<u>318,299</u>
Increase (decrease) in cash, cash equivalents, and restricted cash	477,277	(113,177)
Cash, cash equivalents, and restricted cash beginning of year	<u>786,970</u>	<u>900,147</u>
Cash, cash equivalents, and restricted cash end of year	<u><u>\$ 1,264,247</u></u>	<u><u>\$ 786,970</u></u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 24,287	\$ 24,588
Supplemental disclosure of non-cash investing and financing transactions		
Debt refinance	\$ -	\$ 548,500
Statements of financial position and statements of cash flow cash, cash equivalent, and restricted cash reconciliation		
Cash and cash equivalents	\$ 784,002	\$ 749,612
Cash restricted for long-term purposes	<u>480,245</u>	<u>37,358</u>
Total cash, cash equivalents, and restricted cash	<u><u>\$ 1,264,247</u></u>	<u><u>\$ 786,970</u></u>

See accompanying notes.

Lincoln Foundation
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

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 remains in operation and aligns with the historical legacy of Lincoln Institute.

Today, Lincoln Foundation provides college attainment programs for promising students from underserved communities in the metro Louisville area. Students make a commitment to participate in Saturday morning and summer outside of school academic enrichment programs designed to enhance the in-school curriculum and strengthen college readiness. Emphasis is placed on closing the learning gap through student academic achievement irrespective of social or economic status leading to high school graduation and ultimately a college degree. Programming is also provided for parents and guardians to help them become better advocates for their students and assist in the college selection process. Lincoln Foundation serves over 500 students annually.

The signature program of Lincoln Foundation is the Whitney M. YOUNG Scholars Program® for students in grades 8 through the college freshman year. The acronym YOUNG stands for Youth Organized to Understand New Goals. The 31 graduating Scholars in 2020 received scholarship awards of approximately \$2,870,000. The 45 graduating Scholars in 2019 received scholarship awards of approximately \$5,569,000. Lincoln Foundation also serves multicultural students in the Louisville Metro area through the following educational programs: Math & Science Program, Project BUILD 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 and Frazier History Museum. In 2020, the Whitney M. YOUNG Scholars Program® Summer Institutes were held virtually with University of Kentucky, Berea College and Georgetown College. In 2019, the Whitney M. YOUNG Scholars Program® Summer Institutes were held at Center College, University of Kentucky, Murry 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.
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.

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note B - Summary of Significant Accounting Policies (Continued)

4. Revenue Recognition: The Foundation recognizes contributions when cash, securities, or other assets, or an unconditional promise to give is received. The Foundation recognizes rental income in accordance with the specific agreement.

The Foundation records special events revenue equal to the fair value of the direct benefits to donors, and contribution income for the excess received when the event takes place.

5. 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, whereby 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.

6. 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. Cash held for restricted purposes represents contributions received from donors restricted for a specific use.
7. 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.
8. 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 \$41,431 and \$40,350 for the years ended December 31, 2020 and 2019, respectively.

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note B - Summary of Significant Accounting Policies (Continued)

8. Investments (Continued): 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.
9. 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.
10. 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 \$80,899 and \$79,506 for the years ended December 31, 2020 and 2019, respectively. The Foundation capitalizes property and equipment with a value of \$1,000 or greater. Lesser amounts are expensed.
11. Unearned Revenue: Unearned revenue primarily represents rental income received in advance.
12. 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.

13. 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.
14. Reclassification: Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation, with no effect on net asset or the changes in net assets.
15. 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, with the most significant cost being salaries and benefits and depreciation.

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note B - Summary of Significant Accounting Policies (Continued)

16. Recent Accounting Pronouncements: In September 2020, the FASB issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires contributed nonfinancial assets be shown separate from contributions of cash and other financial assets and provides qualitative disclosure regarding valuation techniques, categories of contributed nonfinancial assets, and their use. This standard will be effective for the year ending December 31, 2022.

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, 2022.

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, 2023.

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

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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 784,002	\$ 749,612
Grants and pledges receivable, net	310,944	583,834
Other receivables	150,242	99,425
Investments	9,182,594	8,624,148
Investments - deferred compensation	118,067	97,981
Beneficial interest in charitable trust	<u>106,432</u>	<u>100,016</u>
Total financial assets	11,132,526	10,292,374
Less Board designated reserves	(481,205)	(486,597)
Less amounts not available to be used within one year due to		
Restricted by purpose or time	(4,317,619)	(3,502,605)
Restricted in perpetuity	(3,262,024)	(3,249,195)
Add endowment fund appropriations for following year	<u>117,817</u>	<u>254,889</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,189,495</u>	<u>\$ 3,308,866</u>

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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, 2020 is approximately \$3,596,000 of which approximately \$3,333,000 has been collected. In the first quarter of 2020, the capital campaign was officially terminated.

Grants and pledges receivable at December 31, 2020 and 2019 include the following:

	<u>2020</u>	<u>2019</u>
Total gross grants and pledges receivable		
Endowment	\$ 263,100	\$ 521,300
Operating	<u>53,400</u>	<u>74,525</u>
	316,500	595,825
Less: unamortized discount	<u>(5,556)</u>	<u>(11,991)</u>
	<u>\$ 310,944</u>	<u>\$ 583,834</u>

Contributions receivable in future periods are discounted using a rate of 2.25%.

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 approximately \$1,800 and \$2,500 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019

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

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, 2020 and 2019.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2020:

	Investments at fair value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 648,231	\$ -	\$ -	\$ 648,231
Mutual funds/exchange traded funds	8,652,430	-	-	8,652,430
	<u>\$ 9,300,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,300,661</u>
	Other assets at fair value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Funds held in trust by others	\$ -	\$ 106,432	\$ -	\$ 106,432

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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, 2019:

	Investments at fair value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 405,576	\$ -	\$ -	\$ 405,576
Mutual funds/exchange traded funds	8,316,553	-	-	8,316,553
	<u>\$ 8,722,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,722,129</u>
	Other assets at fair value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Funds held in trust by others	\$ -	\$ 100,016	\$ -	\$ 100,016

Note G - Property and Equipment

Property and equipment consist of the following at December 31, 2020 and 2019:

	2020	2019
Land and improvements *	\$ 810,748	\$ 810,748
Buildings and improvements	3,065,611	3,064,435
Office equipment	108,740	108,740
Computers, software and telephone	220,898	206,321
	4,205,997	4,190,244
Less accumulated depreciation	2,081,205	2,000,306
	<u>\$ 2,124,792</u>	<u>\$ 2,189,938</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, 2020 and 2019

Note H - Debt

In August of 2018, the Foundation entered into a line of credit (the "Line") which contained a maximum principal amount of \$548,500. The Line was used to finance the construction on the new Bishop Lane location and was secured by investments held by the Foundation. The Line was scheduled to mature in August of 2019.

Prior to the maturity of the Line, the Foundation refinanced the Line with proceeds of \$548,500 from a 2019 note payable issuance. Monthly installment payments of \$3,487, including interest at 4.49%, commenced in August of 2019 with a balloon payment of \$455,840 due June of 2024. The note payable is secured by liens on real estate. The note payable has an outstanding balance at December 31, 2020 and 2019 of \$522,464 and \$540,018, respectively.

In April 2020, the Foundation received a Paycheck Protection Program loan under the CARES Act of approximately \$150,000. This loan bears interest at approximately 1%, is due in 24 months and is unsecured. Under the CARES Act, subject to limitations, as defined, this loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the 8-week period following receipt of loan proceeds. The Foundation's debt was forgiven by the Small Business Administration in November 2020. The forgiveness is included in grant income on the statement of activities and changes in net assets.

Expected maturities of the note payable are as follows:

<u>Year ending December 31,</u>	<u>Amounts</u>
2021	\$ 18,440
2022	19,297
2023	20,194
2024	<u>464,533</u>
	<u>\$ 522,464</u>

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.

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note I - Endowment Fund (Continued)

Changes in the endowment net assets for the year ended December 31, 2020 are as follows:

	December 31, 2020		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 267,000	\$ 6,669,651	\$ 6,936,651
Investment return			
Investment income (net of fees)	7,787	191,610	199,397
Net appreciation	<u>19,484</u>	<u>485,822</u>	<u>505,306</u>
Total investment return	27,271	677,432	704,703
Contributions	-	6,413	6,413
Appropriation for expenditures	<u>(27,271)</u>	<u>(124,336)</u>	<u>(151,607)</u>
Endowment net assets, end of year	<u>\$ 267,000</u>	<u>\$ 7,229,160</u>	<u>\$ 7,496,160</u>

Changes in the endowment net assets for the year ended December 31, 2019 are as follows:

	December 31, 2019		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 267,000	\$ 5,839,114	\$ 6,106,114
Investment return			
Investment income (net of fees)	16,997	181,009	198,006
Net appreciation	<u>-</u>	<u>756,138</u>	<u>756,138</u>
Total investment return	16,997	937,147	954,144
Contributions	-	25,842	25,842
Appropriation for expenditures	<u>(16,997)</u>	<u>(132,452)</u>	<u>(149,449)</u>
Endowment net assets, end of year	<u>\$ 267,000</u>	<u>\$ 6,669,651</u>	<u>\$ 6,936,651</u>

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note I - Endowment Fund (Continued)

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.

The Foundation borrowed approximately \$736,971 from the Endowment Fund in 2019. At December 31, 2020, the borrowed from Endowment Fund balance was approximately \$226,381.

Note J - Net Assets Restricted by Purpose or Time

Net assets restricted by purpose or time at December 31, 2020 and 2019 are available for the following:

	<u>2020</u>	<u>2019</u>
J. Graham Brown Foundation Challenge		
Endowment and Foundation's Match	\$ 3,200,078	\$ 2,900,973
Whitney M. YOUNG Scholars Program® Endowment	397,275	201,322
Whitney M. YOUNG Scholars Program®	340,000	50,000
Mae Street Kidd Scholarship Endowment	191,855	168,791
Whitney M. Young, Jr. Memorial House	152,247	140,666
Dr. Samuel Robinson Scholarship Endowment	25,680	8,704
Angie V. McDonald Scholarship Fund	7,535	8,652
John Baxter Hitt	2,949	4,490
Administrative	-	19,007
	<u>\$ 4,317,619</u>	<u>\$ 3,502,605</u>

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note J - Net Assets Restricted by Purpose or Time (Continued)

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 \$3,200,078 over the years, net of approximately \$989,447 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 House endowment is for the maintenance and upkeep of the Whitney M. Young, Jr. Birthplace which is a National Historic Landmark. The Whitney M. YOUNG Scholars Program® Endowment is to sustain the signature educational program of Lincoln Foundation. The Dr. Samuel Robinson Scholarship Endowment is restricted for scholarships to be paid to students from this endowment. The Mae Street Kidd Scholarship Endowment, the Angie V. McDonald Scholarship Fund, and the John Baxter Hitt Fund are restricted for scholarships and education programs. The administrative restriction is primarily restricted for the purchase of computers for the Foundation.

Note K - Net Assets Restricted in Perpetuity

Net assets restricted in perpetuity at December 31, 2020 and 2019, represent the following:

	<u>2020</u>	<u>2019</u>
Whitney M. Young Scholars Program® Endowment	\$ 1,714,358	\$ 1,708,394
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	264,634	264,185
Beneficial Interest in Charitable Trust	106,432	100,016
Whitney M. Young Memorial Endowment	100,000	100,000
Mae Street Kidd Scholarship Endowment	<u>76,600</u>	<u>76,600</u>
	<u>\$ 3,262,024</u>	<u>\$ 3,249,195</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.

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note L - Concentrations

Approximately 21% of the Foundation contributions were from one donor in 2020. Approximately 73% of the Foundation's grants and pledges receivable at December 31, 2020 are from two donors.

Approximately 30% of the Foundation contributions were from one donor in 2019. Approximately 81% of the Foundation's grants and pledges receivable at December 31, 2019 are from two donors.

Note M - 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, 2020 and 2019, were \$19,740 and \$24,192, respectively.

Note N - Deferred Compensation Plans

The Foundation has a deferred compensation plan set up by the Board of Trustees for selected key management employees. The Foundation designated approximately \$214,205 of unrestricted net assets to fund these payments.

One former employee was paid \$2,000 monthly through December 31, 2020. During 2007, the Foundation began additional non-qualified tax deferred compensation plans for key employees. The contributions from the Foundation total \$69,370 over thirteen years, of which \$13,074 was contributed in 2020 and \$4,989 was contributed in 2019. 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 O - 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, 2020 and 2019, \$462,739 and \$455,452, respectively, was received in annual rental income.

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note O - Rental Income (Continued)

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. 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. Prior the expiration of the agreement in 2019, Penrod renewed the lease for an additional five-year term. Annual rental income received was \$11,509 and \$10,953 for the years ended December 31, 2020 and 2019, respectively.

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. In January of 2020, the lease was amended adding ten five-year renewable terms at an annual rent of \$24,000 which commenced on August 1, 2020. The amount of rent increases by three percent annually. Upon expiration of the renewable terms, the agreement automatically renews on an annual basis. The amounts received in 2020 and 2019 were \$32,699 and \$10,494, respectively. This lease is for land used by AT&T for a communications tower.

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 last year of the lease was renegotiated to \$20,000 per annum. During 2019, the lease was renewed for 160.29 acres, singled cropped, for an additional five years at \$22,000 per annum for single cropped fields. The lease includes a two-year option from 2024 - 2026 at \$25,600 per annum. During the years ended December 31, 2020 and 2019, \$22,000 and \$21,333, respectively, was received in rental income.

Minimum future rental income on these leases as of December 31, 2020 is as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2021	\$ 57,809
2022	58,538
2023	59,289
2024	44,437
2025	27,350
Thereafter	16,230
	<u>\$ 263,653</u>

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note P - Special Events

Revenues and expenses for fundraising events during the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Lionel Hampton Tribute Concert		
Revenues	\$ -	\$ 53,415
Expenses	-	(21,249)
	<u>\$ -</u>	<u>\$ 32,166</u>
Breakfast fundraiser		
Revenues	\$ -	\$ 8,705
Expenses	-	(2,098)
	<u>\$ -</u>	<u>\$ 6,607</u>
Give 4 Good		
Revenues	\$ 41,640	\$ 10,213
Expenses	(75)	(49)
	<u>\$ 41,565</u>	<u>\$ 10,164</u>
KY Gives Day		
Revenues	<u>\$ 7,490</u>	<u>\$ -</u>
	<u>\$ 49,055</u>	<u>\$ 48,937</u>

Note Q - Educational Programs

The Foundation's educational programs' expenses for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Whitney M. YOUNG Scholars Program	\$ 986,170	\$ 829,570
Project BUILD	64,886	33,746
Math & Science Program	39,184	76,421
Portland Library Reading Program	35,309	46,237
Educational Opportunity Scholarship	13,906	14,136
Western Library Reading Program	-	20,580
	<u>\$ 1,139,455</u>	<u>\$ 1,020,690</u>

Lincoln Foundation
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note R - 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.

Note S - Risks and Uncertainties

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 ("COVID-19") outbreak a pandemic. The Foundation's operations have generally been impacted by the outbreak of COVID-19. Since the situation surrounding the pandemic is ongoing, the duration, nature, and extent of the ultimate direct or indirect impact on the Foundation's financial condition, liquidity, and/or future operations cannot be reasonably determined at this time.

Note T - Prior Period Adjustment

During the year ended December 31, 2020, the Foundation identified some contributions made in prior years that were incorrectly classified. The prior period adjustment to correctly classify these contributions resulted in a decrease in net assets with donor restrictions and an increase in net assets without donor restrictions of \$532,261 as of January 1, 2019. This adjustment had no impact on total net assets or the total change in net assets for the years ended December 31, 2020 and 2019.