

**The Community Foundation of Louisville, Inc.**

**Consolidated Financial Statements**

**June 30, 2013 and 2012**

**The Community Foundation of Louisville, Inc.**  
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## **Independent Auditor's Report**

To the Board of Directors  
The Community Foundation of Louisville, Inc.  
Louisville, Kentucky

We have audited the accompanying consolidated financial statements of The Community Foundation of Louisville, Inc. (a not-for-profit organization), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We did not audit the financial statements of The Louisville Orchestra Foundation, Inc., which statements reflect total assets constituting 2% of consolidated assets as of June 30, 2013 and 2012, and total revenues, gains, and other support constituting 1% of consolidated revenues, gains, and other support for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Louisville Orchestra Foundation Inc., is based solely on the report of the other auditors. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Independent Auditor's Report (Continued)**

### **Opinion**

In our opinion, based on our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Louisville, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedules of functional expenses on page 26 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidated schedules of functional expenses have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedules of functional expenses are fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Mountjoy Chilton Medley LLP  
Louisville, Kentucky  
January 27, 2014

**The Community Foundation of Louisville, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash	\$ 1,298,673	\$ 1,491,405
Investments	368,155,798	338,653,385
Accounts receivable	22,360	32,563
Contributions receivable	2,420,147	8,844,376
Other receivable	-	179,358
Beneficial interests in charitable remainder trusts and other deferred funds	5,462,469	4,979,040
Cash surrender value of life insurance	370,935	311,111
Property and equipment, net	402,159	160,959
Other assets	187,525	327,713
	<u>378,320,066</u>	<u>354,979,910</u>
Total assets	<u>\$ 378,320,066</u>	<u>\$ 354,979,910</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 172,197	\$ 10,740
Grants payable	5,987,610	19,647,459
Accrued expenses	63,854	89,090
Depository liabilities		
Depository	12,088,752	10,850,241
Corporate Depository	8,130,681	7,856,595
Agency endowment liabilities	16,220,506	15,161,793
Deferred gift liabilities for split-interest agreements	7,032,160	7,180,779
Other liabilities	170,692	240,738
	<u>49,866,452</u>	<u>61,037,435</u>
Total liabilities	<u>49,866,452</u>	<u>61,037,435</u>
<b>Net assets</b>		
<b>Unrestricted</b>		
Operations	581,089	599,651
Endowments	202,030,137	170,863,961
Depositories	131,445	284,303
Non-controlling interest in unrestricted net assets (see Note K)	(147,076)	(744,746)
Total unrestricted	<u>202,595,595</u>	<u>171,003,169</u>
Temporarily restricted	<u>117,002,483</u>	<u>112,335,125</u>
<b>Permanently restricted</b>		
Endowments	8,059,055	9,797,684
Non-controlling interest in permanently restricted net assets (see Note K)	796,481	806,497
Total permanently restricted	<u>8,855,536</u>	<u>10,604,181</u>
Total net assets	<u>328,453,614</u>	<u>293,942,475</u>
Total liabilities and net assets	<u>\$ 378,320,066</u>	<u>\$ 354,979,910</u>

See accompanying notes.

**The Community Foundation of Louisville, Inc.**  
**Consolidated Statements of Activities**  
**Years ended June 30, 2013 and 2012**

	<b>2013</b>			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support				
Contributions and bequests	\$ 650,461	\$ 25,866,387	\$ (10,016)	\$ 26,506,832
Less amounts received for agency endowments	-	(234,529)	-	(234,529)
Investment income	2,383,695	6,224,361	-	8,608,056
Net unrealized gains on investments	8,405,907	18,868,010	-	27,273,917
Net realized gains on sales of investments	1,404,796	4,692,629	-	6,097,425
Administered fund fees				
Depository and Corporate Depository	44,633	-	-	44,633
Endowment and deferred funds	36,894	-	-	36,894
Other income	60,300	-	-	60,300
	<u>12,986,686</u>	<u>55,416,858</u>	<u>(10,016)</u>	<u>68,393,528</u>
Net assets released from restrictions	<u>52,488,129</u>	<u>(50,749,500)</u>	<u>(1,738,629)</u>	<u>-</u>
Total revenues, gains, and other support	<u>65,474,815</u>	<u>4,667,358</u>	<u>(1,748,645)</u>	<u>68,393,528</u>
Expenses and losses				
Program services				
Grants	28,285,522	-	-	28,285,522
Less amounts granted from agency endowments	(946,213)	-	-	(946,213)
Income distributions from Depositories to donors' funds	915,477	-	-	915,477
Distributions from deferred funds	1,631,781	-	-	1,631,781
Other program services expenses	853,909	-	-	853,909
	<u>30,740,476</u>	<u>-</u>	<u>-</u>	<u>30,740,476</u>
Management and general	2,569,276	-	-	2,569,276
Fundraising	572,637	-	-	572,637
	<u>33,882,389</u>	<u>-</u>	<u>-</u>	<u>33,882,389</u>
Net unrealized losses on investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses and losses	<u>33,882,389</u>	<u>-</u>	<u>-</u>	<u>33,882,389</u>
Change in net assets	31,592,426	4,667,358	(1,748,645)	34,511,139
Net assets, beginning of year	<u>171,003,169</u>	<u>112,335,125</u>	<u>10,604,181</u>	<u>293,942,475</u>
Net assets, end of year	<u>\$ 202,595,595</u>	<u>\$ 117,002,483</u>	<u>\$ 8,855,536</u>	<u>\$ 328,453,614</u>

See accompanying notes.

**2012**

Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 206,972	\$ 19,774,761	\$ (57,561)	\$ 19,924,172
-	(135,299)	-	(135,299)
2,334,279	4,820,350	-	7,154,629
-	-	-	-
228,747	1,281,800	-	1,510,547
42,254	-	-	42,254
36,007	-	-	36,007
57,750	-	-	57,750
<u>2,906,009</u>	<u>25,741,612</u>	<u>(57,561)</u>	<u>28,590,060</u>
<u>17,266,118</u>	<u>(17,266,118)</u>	<u>-</u>	<u>-</u>
<u>20,172,127</u>	<u>8,475,494</u>	<u>(57,561)</u>	<u>28,590,060</u>
36,612,890	-	-	36,612,890
(1,034,317)	-	-	(1,034,317)
492,887	-	-	492,887
787,033	-	-	787,033
823,696	-	-	823,696
<u>37,682,189</u>	<u>-</u>	<u>-</u>	<u>37,682,189</u>
2,194,547	-	-	2,194,547
576,600	-	-	576,600
<u>40,453,336</u>	<u>-</u>	<u>-</u>	<u>40,453,336</u>
<u>766,315</u>	<u>2,040,574</u>	<u>-</u>	<u>2,806,889</u>
<u>41,219,651</u>	<u>2,040,574</u>	<u>-</u>	<u>43,260,225</u>
(21,047,524)	6,434,920	(57,561)	(14,670,165)
<u>192,050,693</u>	<u>105,900,205</u>	<u>10,661,742</u>	<u>308,612,640</u>
<u>\$ 171,003,169</u>	<u>\$ 112,335,125</u>	<u>\$ 10,604,181</u>	<u>\$ 293,942,475</u>

**The Community Foundation of Louisville, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 34,511,139	\$ (14,670,165)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	52,508	25,936
Net unrealized (gains) losses on investments	(27,273,917)	2,806,889
Net realized gains on sales of investments	(6,097,425)	(1,510,547)
Changes in assets and liabilities		
Accounts receivable	10,203	(19,698)
Contributions receivable	6,424,229	3,670,495
Beneficial interests in charitable remainder trusts and other deferred funds	(483,429)	(91,938)
Cash surrender value of life insurance	(59,824)	711
Other assets	140,188	52,081
Accounts payable	30,148	(1,859)
Grants payable	(13,659,849)	15,461,942
Accrued expenses	(25,236)	11,589
Depository liabilities	1,512,597	(3,042,856)
Agency endowment liabilities	1,058,713	(682,652)
Deferred gift liabilities for split-interest agreements	(148,619)	(516,671)
Other liabilities	(70,046)	15,279
Net cash (used in) provided by operating activities	<u>(4,078,620)</u>	<u>1,508,536</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	92,691,323	89,107,183
Net reduction of other receivable	179,358	13,414
Purchases of investments	(88,822,394)	(89,986,149)
Purchases of property and equipment	(162,399)	(138,126)
Net cash provided by (used in) investing activities	<u>3,885,888</u>	<u>(1,003,678)</u>
Change in cash	(192,732)	504,858
Cash, beginning of year	<u>1,491,405</u>	<u>986,547</u>
Cash, end of year	<u>\$ 1,298,673</u>	<u>\$ 1,491,405</u>
Supplemental disclosure of non-cash financing activities		
Purchases of property and equipment included in accounts payable	<u>\$ 131,309</u>	<u>\$ -</u>

See accompanying notes.



**The Community Foundation of Louisville, Inc.  
Notes to the Consolidated Financial Statements  
June 30, 2013 and 2012**

**Note A--Nature of Organization/Consolidated Financial Statements**

The accompanying consolidated financial statements include the accounts of The Community Foundation of Louisville, Inc., The Community Foundation of Louisville Depository, Inc., The Community Foundation of Louisville Corporate Depository, Inc., the Felix E. Martin, Jr. Foundation, Inc., the John B. and Mary Bell Pirtle Endowment Fund, and The Louisville Orchestra Foundation, Inc. (collectively, the Foundation). All significant inter-organization accounts and transactions have been eliminated in consolidation.

The Community Foundation of Louisville, Inc. (Community Foundation) was organized in 1980 as a successor to the Louisville Foundation (which was established in 1916). The Community Foundation's primary purpose is to receive contributions and bequests, most of which are placed into endowment funds. The distribution of grants to meet community needs is made in accordance with the Community Foundation's spending policies, as approved by the Community Foundation's Board of Directors.

The Community Foundation of Louisville Depository, Inc. (Depository) and The Community Foundation of Louisville Corporate Depository, Inc. (Corporate Depository) consist of pooled funds which are designed to receive assets contributed from multiple donors. Both the Depository and the Corporate Depository (collectively, the Depositories) distribute grants, in accordance with the individual or corporate depositor's direction, to not-for-profit organizations throughout the United States. Distributions of depository funds can be made at any time during the depositor's lifetime or the corporate depositor's existence. Within one year of the death of the depositor (or surviving spouse) or liquidation of the corporate depositor, any undistributed funds will be granted either to charitable organizations, if specified by the depositor agreement, or to the general endowment of the Community Foundation. The Boards of Directors of the Depositories are comprised of the members of the Executive Committee of the Community Foundation.

In 2008, the Felix E. Martin, Jr. Foundation, Inc. (Martin Foundation) was established as a Type I supporting organization (as described in Section 509(a)(3) of the Internal Revenue Code) to the Community Foundation. The Martin Foundation was formed to receive and maintain the funds bequeathed by Felix E. Martin, Jr. to be used exclusively for charitable, scientific, literary, or educational purposes for the benefit of the residents of Muhlenberg County, Kentucky, either directly or by contributions to organizations that qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

In 1937, the John B. and Mary Bell Pirtle Endowment Fund (Fund) was established to benefit the Louisville Foundation, which, as noted above, was the precursor to the Community Foundation. In 1992, the Internal Revenue Service approved the designation of the Fund as a Type I supporting organization to the Community Foundation. The Fund's assets consist of an investment account comprised of marketable securities. The terms of the related agreement specify that all income generated by such assets be distributed to the Community Foundation. At June 30, 2013 and 2012, the fair value of the Fund's assets total \$1,978,504 and \$1,858,747, respectively, and are included with the Community Foundation's investments (see Note D).

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note A--Nature of Organization/Consolidated Financial Statements (Continued)**

The Louisville Orchestra Foundation, Inc. (Orchestra Foundation) is a not-for-profit organization formed for the specific purpose of supporting orchestral music in Louisville, Kentucky. The Community Foundation transferred certain assets to the Orchestra Foundation to provide its initial funding. Subsequent to its formation, resources for the Orchestra Foundation's activities are primarily provided by contributions and income from its investments. The Orchestra Foundation's articles of incorporation state that in the event of the Orchestra Foundation's dissolution, the lesser of its net assets or an amount equal to the remainder of the Community Foundation's initial transfer to the Orchestra Foundation will be distributed to the Community Foundation with the restriction that the funds be used to support orchestral music. The Orchestra Foundation's bylaws require its Board of Directors be comprised entirely of individuals nominated by the Community Foundation. The applicable provisions of the Financial Accounting Standards Board Accounting Standards Codification require the consolidation of an entity when both elements of economic interest and control as described above exist. Accordingly, the accounts of the Orchestra Foundation have been included in the accompanying consolidated financial statements. See Note K.

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

1. Basis of Accounting

The accompanying consolidated financial statements 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 for non-governmental entities.

2. Basis of Presentation

Financial statement presentation follows the recommendations of the FASB specifically as it pertains to financial statements of not-for-profit organizations. As such, the Foundation is required to report information regarding its financial position and activities according to the three classes of net assets as follows:

- Unrestricted net assets--Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets also include net assets which have been designated by the Community Foundation's Board of Directors.
- Temporarily restricted net assets--Net assets subject to donor-imposed stipulations that may be fulfilled by actions of the Foundation pursuant to those stipulations and/or that will expire through the passage of time.
- Permanently restricted net assets--Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

3. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

4. Cash

Cash consists of funds not otherwise held in custodial investment accounts or certificates of deposit.

5. Investments

The Foundation invests in a combination of cash equivalent funds, publicly-traded common stocks, mutual funds, fixed-income securities, and alternative investments (see Note D). All investment securities are subject to the risks common to financial markets, including interest rate risk, credit risk, and overall market risk. Due to the level of risk associated with all investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated statements of financial position.

The Foundation's investments are stated 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. See Note I for a discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade-date basis. Investment income includes both interest and dividend income. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized gains (losses) represent the gains (losses) on investments sold during the year. Net unrealized gains (losses) represent the gains (losses) on investments held throughout the year and are included in the change in net assets in the accompanying consolidated statements of activities.

6. Contributions and Other Receivables

Contributions receivable consist principally of assets which have been bequeathed to the Community Foundation. When contribution receivable amounts are expected to have collection periods in excess of a year, such amounts have been recorded after discounting them to the present value of future cash flows using a risk free interest rate. Management expects all contributions receivable to be collected within the next fiscal year.

The other receivable amount at June 30, 2012 is stated at the unpaid principal balance and is pursuant to a promissory note between the Foundation and the respective other party. During 2013, the note was paid in full.

No allowance for uncollectible contributions or other receivables is currently reflected in the accompanying consolidated financial statements. Management considers all receivables to be fully collectible.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

7. Beneficial Interests in Charitable Remainder Trusts and Other Deferred Funds

Beneficial interests in charitable remainder trusts, under which the Community Foundation is not the trustee, and other deferred funds are stated at fair value which has been estimated based on the calculated present value of the estimated future benefits expected to be received. See Note I for a description of the methodology to determine fair value.

8. Property and Equipment, Net

Property and equipment is stated at cost at the date of acquisition or fair value at the date of donation in the case of donated items. Property and equipment is presented in the accompanying consolidated statements of financial position net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the depreciable assets, which range from three to ten years.

The Foundation capitalizes all expenditures for property and equipment which are in excess of \$1,000. Repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed as incurred.

9. Depository Liabilities

Depository liabilities represent the unexpended portion of funds contributed by donors (individual or corporate) who direct the distribution of such funds for specified charitable purposes.

10. Agency Endowment Liabilities

Agency endowment liabilities represent the unexpended portion of funds received from various not-for-profit organizations which have designated themselves the beneficiary of grants made from the distributable portion of the funds transferred to the Community Foundation. Under the applicable provisions of the ASC, the unexpended portion of such funds is reported as a liability instead of as a net asset of the Community Foundation.

11. Deferred Gift Liabilities for Split-Interest Agreements

Deferred gift liabilities for split-interest agreements are stated at estimated fair value, the calculated present value of the income distributions or other payments to the donor or other designated beneficiaries during the terms of the split-interest agreements. See Note I for a description of the methodology to determine fair value.

12. Contributions and Bequests

Contributions and bequests, including unconditional promises to give (contributions receivable), are recognized as revenue in the period when they are received or unconditionally pledged and are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

13. Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the accompanying consolidated statements of activities. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited based on management's time and service estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

14. Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Additionally, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the context of Section 509(a) of the Code.

When applicable, 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 reflected in the accompanying consolidated financial statements. The Foundation's 2009 through 2012 tax years remain open and subject to examination.

15. Reclassifications

Certain amounts for 2012 have been reclassified to conform with the 2013 presentation. Such reclassifications had no effect on the previously reported 2012 total change in net assets or total net assets as of June 30, 2012.

16. Subsequent Events

The Foundation has evaluated events occurring subsequent to year-end through the date of the Independent Auditor's Report, the date the accompanying consolidated financial statements were available to be issued.

**Note C--Concentration of Credit Risk**

The Foundation maintains its deposits (cash and cash equivalents and certificates of deposit included as investments) with several financial institutions. The federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) currently amounts to \$250,000 per depositor at each FDIC insured U.S. depository institution.

At June 30, 2013, uninsured balances, including invested certificates of deposit, total approximately \$1,357,000. The balances of the Foundation's money market funds included in investments are uninsured.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note D--Investments**

At June 30, 2013, investments consist of the following (see Note I):

	<u>Community Foundation</u>	<u>Depository</u>	<u>Corporate Depository</u>	<u>Martin Foundation</u>	<u>Orchestra Foundation</u>	<u>Consolidated</u>
Cash equivalents	\$ 13,841,512	\$ 4,074,860	\$ 2,157,168	\$ 278,107	\$ 20,943	\$ 20,372,590
U.S. government and government agency obligations	2,046,080	1,561,663	353,149	4,609,646	-	8,570,538
Corporate bonds and notes	534,285	767,929	263,769	6,519,380	-	8,085,363
Municipal bonds	1,288,274	-	86,102	247,363	-	1,621,739
Mutual funds	202,827,155	4,370,461	2,053,327	28,305,885	6,197,848	243,754,676
Common stock	35,705,302	-	2,957,053	16,823,519	-	55,485,874
Alternative investments (see Note E)	<u>26,927,930</u>	<u>1,339,883</u>	<u>-</u>	<u>-</u>	<u>1,997,205</u>	<u>30,265,018</u>
	<u>\$ 283,170,538</u>	<u>\$ 12,114,796</u>	<u>\$ 7,870,568</u>	<u>\$ 56,783,900</u>	<u>\$ 8,215,996</u>	<u>\$ 368,155,798</u>

At June 30, 2012, investments consist of the following (see Note I):

	<u>Community Foundation</u>	<u>Depository</u>	<u>Corporate Depository</u>	<u>Martin Foundation</u>	<u>Orchestra Foundation</u>	<u>Consolidated</u>
Cash equivalents	\$ 12,997,657	\$ 1,220,111	\$ 1,867,649	\$ 324,579	\$ 990,391	\$ 17,400,387
U.S. government and government agency obligations	3,926,150	2,406,541	478,981	5,340,745	-	12,152,417
Corporate bonds and notes	523,217	1,347,016	245,284	6,846,519	-	8,962,036
Municipal bonds	1,356,972	-	-	251,392	-	1,608,364
Mutual funds	191,667,410	4,432,067	1,938,040	24,634,107	4,765,874	227,437,498
Common stock	30,356,845	96,600	2,642,234	13,635,772	-	46,731,451
Alternative investments (see Note E)	<u>21,002,122</u>	<u>1,532,876</u>	<u>-</u>	<u>-</u>	<u>1,826,234</u>	<u>24,361,232</u>
	<u>\$ 261,830,373</u>	<u>\$ 11,035,211</u>	<u>\$ 7,172,188</u>	<u>\$ 51,033,114</u>	<u>\$ 7,582,499</u>	<u>\$ 338,653,385</u>

**Note E--Alternative Investments**

The Foundation invests in various types of alternative investments, investments which result from direct purchases as well as contributions from donors. Such alternative investments include limited partnerships, limited liability companies, and closely-held corporations.

*Limited partnerships:* The Foundation's limited partnership investments consist of entities which invest in marketable securities with a readily determinable fair value, as well as entities which invest in securities for which there is no public market or readily determinable fair value. The Foundation is a limited partner in each of these investments. Under the terms of the respective limited partnership agreements, the limited partners are only liable for losses to the extent of their invested capital.

*Limited liability companies:* The Foundation's limited liability company investments consist of entities which invest in marketable securities with a readily determinable fair value, as well as entities which invest in securities for which there is no public market or readily determinable fair value. The Foundation is only liable for losses to the extent of its invested capital.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note E--Alternative Investments (Continued)**

*Closely-held corporation:* The Foundation is a shareholder in a bank holding company for which there is no public market or readily determinable fair value.

The Foundation's methodologies for determining the fair values of its investments in each of these alternative investments are described in Note I.

**Note F--Property and Equipment, Net**

At June 30, 2013 and 2012, net property and equipment consists of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 12,500	\$ 12,500
Building	116,772	116,772
Leasehold improvements	245,458	59,840
Office furniture and equipment	233,940	151,876
Computer hardware and software	<u>250,377</u>	<u>231,092</u>
	859,047	572,080
Less accumulated depreciation and amortization	<u>456,888</u>	<u>411,121</u>
	<u>\$ 402,159</u>	<u>\$ 160,959</u>

Depreciation and amortization expense totals \$52,508 and \$25,936 for the years ended June 30, 2013 and 2012, respectively.

**Note G--Depository Liabilities**

A progression of depository liabilities for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Depository</u>	<u>Corporate Depository</u>	<u>Depository</u>	<u>Corporate Depository</u>
Beginning of the year	\$ 10,850,241	\$ 7,856,595	\$ 14,402,835	\$ 7,346,857
Additions	9,511,037	3,938,347	6,483,868	3,525,381
Net investment income retained	3,861	105,002	15,090	100,056
Net unrealized and realized appreciation	107,313	699,301	1,244	376,497
Distributions	<u>(8,383,700)</u>	<u>(4,468,564)</u>	<u>(10,052,796)</u>	<u>(3,492,196)</u>
End of the year	<u>\$ 12,088,752</u>	<u>\$ 8,130,681</u>	<u>\$ 10,850,241</u>	<u>\$ 7,856,595</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note H--Split-interest Agreements**

The Community Foundation is party to various irrevocable split-interest agreements. A split-interest agreement is a gift that is partially for the Community Foundation's benefit and partially for an individual's benefit. Upon acceptance of a split-interest agreement, the Community Foundation records the contributed asset and the present value of the liability payable to the beneficiary. These agreements include charitable remainder trusts, pooled income funds, and charitable gift annuities.

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to designated beneficiaries over the trust's term. Upon termination of the trust, the Community Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets.

The Community Foundation also manages a pooled income fund in which contributions of multiple donors' life income gifts are pooled and invested as a group. Each donor is assigned a specific number of units based on the proportion of the fair value of the contributions to the total fair value of the pooled income fund on the date of the donor's gift. Until the beneficiary's death, the beneficiary (either the donor or the donor's designated beneficiary) is paid the actual income earned on the donor's assigned units. Upon the beneficiary's death, the value of these assigned units reverts to the Community Foundation. Obligations to the beneficiaries are limited to the income earned by the pooled income fund.

A charitable gift annuity is an arrangement between a donor and the Community Foundation in which the donor contributes assets to the Community Foundation in exchange for a contractual commitment by the Community Foundation to pay a fixed amount to the beneficiary (either the donor or to others designated by the donor) until the beneficiary's death. Upon the beneficiary's death, the remaining amount of assets, if any, reverts to the Community Foundation.

These assets are reported at fair value in the same manner as all Foundation investments. The income or loss recognized under these trusts is included in temporarily restricted net assets. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date of the contribution. The actuarial assumptions used in calculating the present values of the related liabilities include the beneficiary's age, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

Amounts subject to split-interest agreements include the following as of June 30, 2013 and 2012 (see Note I):

	2013			
	Charitable remainder <u>trusts</u>	Pooled income <u>funds</u>	Charitable gift <u>annuities</u>	<u>Total</u>
Assets	\$ 12,706,702	\$ 624,094	\$ 1,238,542	\$ 14,569,338
Liabilities	5,994,308	509,462	528,390	7,032,160

	2012			
	Charitable remainder <u>trusts</u>	Pooled income <u>funds</u>	Charitable gift <u>annuities</u>	<u>Total</u>
Assets	\$ 12,605,946	\$ 706,187	\$ 1,319,380	\$ 14,631,513
Liabilities	6,051,363	582,188	547,228	7,180,779



**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note I--Fair Value Measurements**

The ASC provides a framework for measuring fair value. This framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as described below:

- Level 1--Quoted prices in active markets for identical assets or liabilities.
- Level 2--Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data. If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3--Unobservable inputs that are based on the Foundation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value at June 30, 2013 and 2012.

*Cash equivalents:* Valued at the net asset value of the units held by the Foundation at year-end.

*U.S. government and government agency obligations:* Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

*Corporate bonds and notes:* Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

*Municipal bonds:* Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

*Mutual funds:* Valued at the net asset value of the shares held by the Foundation at year-end.

*Common stock:* Valued at the quoted market price of the shares held by the Foundation at year-end.

*Limited partnerships:* The estimated fair values are based on information provided by the general partner of each of the limited partnerships. The fair values of the limited partnerships which invest primarily in publicly traded securities with readily determinable fair values are determined by allocating the aggregate fair values of the underlying securities to each limited partner based on the number of units held by the partner, and are equivalent to net asset value. The fair values of the limited partnerships which invest primarily in securities for which there are no readily available market quotations are estimated based on the initial cost of the investment adjusted for changes in the general partners' estimates of the fair values of the underlying assets, and are equivalent to net asset value.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

*Limited liability companies:* The estimated fair values are based on information provided by the managing member of each of the limited liability companies. The fair values of the limited liability companies which invest primarily in publicly traded securities with readily determinable fair values are determined by allocating the aggregate fair values of the underlying securities to each member based on the number of units held by the member, and are equivalent to net asset value. The fair values of the limited liability companies which invest primarily in securities for which there are no readily available market quotations are estimated based on the initial cost of the investment adjusted for changes in the managing members' estimates of the fair values of the underlying assets, and are equivalent to net asset value.

*Closely-held corporation:* The estimated fair value of the investment in the common stock of a closely-held bank holding company is based on the initial cost of the investment, adjusted for changes in the fair values of the underlying assets, if any, as reported to the shareholders by the holding company's management.

*Beneficial interests in charitable remainder trusts and other deferred funds:* The estimated fair values of unitrusts are based on the calculated present value of the estimated future benefits expected to be received. The actuarial assumptions used in calculating the present values include the beneficiary's age, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate. The Community Foundation is also the sole beneficiary of a trust which holds mineral rights. The estimated fair value of this charitable trust is based on information provided by the trustee and is determined based on aggregate historical production from the wells multiplied by a factor that is based on lease terms and industry averages.

*Deferred gift liabilities for split-interest agreements:* The estimated fair value is based on the calculated present value of the income distributions or other payments to the donor or other designated beneficiaries during the terms of the split-interest agreements. The actuarial assumptions used in calculating the present values include the beneficiary's age, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

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.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

The following table sets forth by level within the fair value hierarchy, the Foundation's assets at fair value at June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 20,372,590	\$ -	\$ -	\$ 20,372,590
U.S. government and government agency obligations				
Rated AAA	-	8,570,538	-	8,570,538
Corporate bonds and notes				
Rated AAA	-	30,111	-	30,111
Rated AA- to AA+	-	1,895,499	-	1,895,499
Rated A- to A+	-	4,574,954	-	4,574,954
Rated BB+ to BBB+	-	1,584,799	-	1,584,799
	<u>-</u>	<u>8,085,363</u>	<u>-</u>	<u>8,085,363</u>
Municipal bonds				
Rated AAA	-	296,343	-	296,343
Rated AA- to AA+	-	1,310,231	-	1,310,231
Rated A- to A+	-	15,165	-	15,165
	<u>-</u>	<u>1,621,739</u>	<u>-</u>	<u>1,621,739</u>
Mutual funds				
Equity	58,875,191	-	-	58,875,191
Fixed income	87,549,219	-	-	87,549,219
Index and exchange trade funds	56,840,340	-	-	56,840,340
International	37,821,185	-	-	37,821,185
Other	2,668,739	-	-	2,668,739
	<u>243,754,676</u>	<u>-</u>	<u>-</u>	<u>243,754,676</u>
Common stock				
Consumer discretionary	9,720,310	-	-	9,720,310
Energy	4,732,226	-	-	4,732,226
Financial	10,671,359	-	-	10,671,359
Health care	6,217,017	-	-	6,217,017
Industrials	5,929,876	-	-	5,929,876
Information technology	8,012,767	-	-	8,012,767
Other	10,202,319	-	-	10,202,319
	<u>55,485,874</u>	<u>-</u>	<u>-</u>	<u>55,485,874</u>
Alternative investments				
Limited partnerships	-	-	20,040,873	20,040,873
Limited liability companies	-	-	9,973,895	9,973,895
Closely-held corporation	-	-	250,250	250,250
	<u>-</u>	<u>-</u>	<u>30,265,018</u>	<u>30,265,018</u>
Beneficial interests in charitable remainder trusts and other deferred funds				
Unitrusts	-	-	5,262,795	5,262,795
Charitable trust	-	-	199,674	199,674
	<u>-</u>	<u>-</u>	<u>5,462,469</u>	<u>5,462,469</u>
	<u>\$ 319,613,140</u>	<u>\$ 18,277,640</u>	<u>\$ 35,727,487</u>	<u>\$ 373,618,267</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

The following table sets forth by level within the fair value hierarchy, the Foundation's assets at fair value at June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 17,400,387	\$ -	\$ -	\$ 17,400,387
U.S. government and government agency obligations				
Rated AAA	-	12,114,105	-	12,114,105
Rated AA- to AA+	<u>-</u>	<u>38,312</u>	<u>-</u>	<u>38,312</u>
	<u>-</u>	<u>12,152,417</u>	<u>-</u>	<u>12,152,417</u>
Corporate bonds and notes				
Rated AAA	-	30,321	-	30,321
Rated AA- to AA+	-	2,014,033	-	2,014,033
Rated A- to A+	-	5,290,042	-	5,290,042
Rated BB+ to BBB+	<u>-</u>	<u>1,627,640</u>	<u>-</u>	<u>1,627,640</u>
	<u>-</u>	<u>8,962,036</u>	<u>-</u>	<u>8,962,036</u>
Municipal bonds				
Rated AAA	-	251,392	-	251,392
Rated AA- to AA+	-	1,341,672	-	1,341,672
Rated A- to A+	<u>-</u>	<u>15,300</u>	<u>-</u>	<u>15,300</u>
	<u>-</u>	<u>1,608,364</u>	<u>-</u>	<u>1,608,364</u>
Mutual funds				
Equity	86,943,695	-	-	86,943,695
Fixed income	83,135,132	-	-	83,135,132
Index and exchange trade funds	32,108,788	-	-	32,108,788
International	24,174,218	-	-	24,174,218
Other	<u>1,075,665</u>	<u>-</u>	<u>-</u>	<u>1,075,665</u>
	<u>227,437,498</u>	<u>-</u>	<u>-</u>	<u>227,437,498</u>
Common stock				
Consumer discretionary	8,076,846	-	-	8,076,846
Energy	4,298,721	-	-	4,298,721
Financial	8,207,099	-	-	8,207,099
Health care	5,077,015	-	-	5,077,015
Industrials	4,423,102	-	-	4,423,102
Information technology	7,056,151	-	-	7,056,151
Other	<u>9,592,517</u>	<u>-</u>	<u>-</u>	<u>9,592,517</u>
	<u>46,731,451</u>	<u>-</u>	<u>-</u>	<u>46,731,451</u>
Alternative investments				
Limited partnerships	-	-	11,292,465	11,292,465
Limited liability companies	-	-	12,818,517	12,818,517
Closely-held corporation	<u>-</u>	<u>-</u>	<u>250,250</u>	<u>250,250</u>
	<u>-</u>	<u>-</u>	<u>24,361,232</u>	<u>24,361,232</u>
Beneficial interests in charitable remainder trusts and other deferred funds				
Unitrusts	-	-	4,780,213	4,780,213
Charitable trust	<u>-</u>	<u>-</u>	<u>198,827</u>	<u>198,827</u>
	<u>-</u>	<u>-</u>	<u>4,979,040</u>	<u>4,979,040</u>
	<u>\$ 291,569,336</u>	<u>\$ 22,722,817</u>	<u>\$ 29,340,272</u>	<u>\$ 343,632,425</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

The years ended June 30, 2013 and 2012 activity of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 investments and beneficial interests in charitable remainder trusts and other deferred funds per the previous two tables) is as follows:

	<u>2013</u>	<u>2012</u>
Beginning of the year	\$ 29,340,272	\$ 31,467,238
Purchases/contributions	1,342,880	785,511
Sales	(1,246,221)	(3,977,711)
Net unrealized and realized appreciation	5,807,974	983,114
Actuarial change	<u>482,582</u>	<u>82,120</u>
End of the year	<u>\$ 35,727,487</u>	<u>\$ 29,340,272</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities for split-interest agreements) at fair value at June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 5,892,025	\$ 5,892,025
Gift annuity trusts	-	-	102,283	102,283
Pooled income funds	-	-	509,462	509,462
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>528,390</u>	<u>528,390</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,032,160</u>	<u>\$ 7,032,160</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities for split-interest agreements) at fair value at June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 5,940,630	\$ 5,940,630
Gift annuity trusts	-	-	110,733	110,733
Pooled income funds	-	-	582,188	582,188
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>547,228</u>	<u>547,228</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,180,779</u>	<u>\$ 7,180,779</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

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

The years ended June 30, 2013 and 2012 activity of the liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 deferred gift liabilities per the previous two tables) is as follows:

	<u>2013</u>	<u>2012</u>
Beginning of the year	\$ 7,180,779	\$ 7,697,450
Actuarial change	1,483,162	269,915
Payment obligations	<u>(1,631,781)</u>	<u>(786,586)</u>
End of the year	<u>\$ 7,032,160</u>	<u>\$ 7,180,779</u>

The following table sets forth the fair values at June 30, 2013 of the alternative investments for which the fair values are determined using a net asset value per share or its equivalent:

	<u>Fair Value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Limited partnerships - marketable securities	\$ 8,166,855	\$ -	quarterly	30 days
Limited partnerships - marketable securities	7,596,098	-	N/A	N/A
Limited partnerships - marketable securities	1,339,883	-	quarterly	45 days
Limited partnerships - marketable securities and private equity	820,140	-	quarterly	65 days
Limited partnerships - private equity	2,117,897	1,653,200	N/A	N/A
Limited liability companies - marketable securities	1,662,334	-	N/A	N/A
Limited liability companies - private equity	8,311,561	-	monthly	14 days

The following table sets forth the fair values at June 30, 2012 of the alternative investments for which the fair values are determined using a net asset value per share or its equivalent:

	<u>Fair Value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Limited partnerships - marketable securities	\$ 7,288,130	\$ -	quarterly	30 days
Limited partnerships - marketable securities	54,409	-	N/A	N/A
Limited partnerships - marketable securities	1,532,876	-	quarterly	45 days
Limited partnerships - marketable securities and private equity	782,770	-	quarterly	65 days
Limited partnerships - private equity	1,634,280	1,764,500	N/A	N/A
Limited liability companies - marketable securities	5,951,339	-	N/A	N/A
Limited liability companies - marketable securities	6,867,178	-	monthly	14 days

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note J--Endowment Funds**

The ASC provides guidance on the net asset classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

The Foundation's endowments consist of approximately 530 funds established for a variety of purposes. Such endowments include both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. These endowment funds also include various charitable gift annuities, unitrusts, and remainder trusts, some of which are administered by outside parties. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of relevant law:*

Management and the Board, on the advice of legal counsel, have determined that the majority of the Foundation's net assets meet the definition of endowment funds under UPMIFA. The Foundation is governed subject to its bylaws and most contributions are received subject to the terms of fund agreements.

Under the terms of the Foundation's standard fund agreements, the Board has the ability to distribute as much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) the purposes of the organization and the respective endowment fund
- 2) other resources of the organization
- 3) the investment policies of the organization
- 4) the duration and preservation of the endowment fund
- 5) the expected total return from income and the appreciation of investments
- 6) general economic conditions
- 7) the possible effect of inflation and deflation

As a result of the ability to distribute corpus, management has determined that all contributions received subject to the standard fund agreements, and subject to UPMIFA, are classified as temporarily restricted until appropriated, at which time the appropriation is reclassified to unrestricted net assets. Contributions that are subject to fund agreements which are modified may be recorded as permanently restricted, temporarily restricted, or unrestricted, depending on the specific terms of the respective fund agreement.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note J--Endowment Funds (Continued)**

*Interpretation of relevant law (continued):*

Generally if the corpus of a contribution can at some point in the future become available for spending it is recorded as temporarily restricted. If the corpus never becomes available for spending it is reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are received.

At June 30, 2013, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 68,962,848	\$ -	\$ -	\$ 68,962,848
Donor restricted	<u>133,067,289</u>	<u>117,002,483</u>	<u>8,059,055</u>	<u>258,128,827</u>
	<u>\$ 202,030,137</u>	<u>\$ 117,002,483</u>	<u>\$ 8,059,055</u>	<u>\$ 327,091,675</u>

At June 30, 2012, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 63,128,601	\$ -	\$ -	\$ 63,128,601
Donor restricted	<u>107,735,360</u>	<u>112,335,125</u>	<u>9,797,684</u>	<u>229,868,169</u>
	<u>\$ 170,863,961</u>	<u>\$ 112,335,125</u>	<u>\$ 9,797,684</u>	<u>\$ 292,996,770</u>

Changes in endowment net assets during the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 170,863,961	\$ 112,335,125	\$ 9,797,684	\$ 292,996,770
Contributions	282,043	25,631,858	-	25,913,901
Investment return				
Net investment income	1,764,436	6,224,361	-	7,988,797
Net unrealized and realized appreciation	8,448,751	23,560,639	-	32,009,390
Net assets released from restrictions	52,488,129	(50,749,500)	(1,738,629)	-
Appropriation of endowment assets for expenditure	<u>(31,817,183)</u>	<u>-</u>	<u>-</u>	<u>(31,817,183)</u>
End of the year	<u>\$ 202,030,137</u>	<u>\$ 117,002,483</u>	<u>\$ 8,059,055</u>	<u>\$ 327,091,675</u>

During 2013, at the direction of the donors who had originally gifted such funds, the Community Foundation distributed approximately \$5,700,000 to a newly formed separate (independent of the Community Foundation) community foundation. Such amount is included in grants expense in the accompanying 2013 consolidated statement of activities. The portion of such net assets (approximately \$1,700,000) previously classified as permanently restricted net assets is reflected as being released from permanently restricted net assets (see also the above table) in the accompanying 2013 consolidated statement of activities.



**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note J--Endowment Funds (Continued)**

Changes in endowment net assets during the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 191,488,446	\$ 105,900,205	\$ 9,797,684	\$ 307,186,335
Contributions	104,821	19,639,462	-	19,744,283
Investment return				
Net investment income	1,686,274	4,820,350	-	6,506,624
Net unrealized and realized depreciation	(652,942)	(758,774)	-	(1,411,716)
Net assets released from restrictions	17,266,118	(17,266,118)	-	-
Appropriation of endowment assets for expenditure	<u>(39,028,756)</u>	<u>-</u>	<u>-</u>	<u>(39,028,756)</u>
End of the year	<u>\$ 170,863,961</u>	<u>\$ 112,335,125</u>	<u>\$ 9,797,684</u>	<u>\$ 292,996,770</u>

*Funds with deficiencies:*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. There are no such deficiencies as of June 30, 2013 and 2012.

*Return objectives and risk parameters:*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 8% net of related investment management fees. Actual returns in any given year may vary from this objective.

*Strategies employed for achieving return objectives:*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

*Spending policy and how the investment objectives relate to the spending policy:*

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current spending policy is to distribute an amount equal to 5% of a rolling twelve quarter average of the fair values of the endowment assets. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note K--Non-controlling Interest**

As indicated in Note A, management has included the accounts of the Orchestra Foundation in the accompanying consolidated financial statements. As stated in the Orchestra Foundation's articles of incorporation, should the Orchestra Foundation dissolve, the Orchestra Foundation shall distribute the lesser of its net assets or an amount equal to the remainder of the Community Foundation's initial transfer to the Orchestra Foundation. The remainder of the Community Foundation's initial transfer is \$7,600,000 at June 30, 2013 and 2012.

The limitation stated in the Orchestra Foundation's articles of incorporation resulted in management of the Community Foundation determining the Community Foundation has less than an entire interest in the net assets of the Orchestra Foundation. As a result, the difference between the Orchestra Foundation's net assets and the amount to which the Community Foundation is entitled is reported as a non-controlling interest.

The following table summarizes the change in the remainder of the Community Foundation's initial transfer amount and the non-controlling interest for the years ended June 30, 2013 and 2012:

	Remainder of the original <u>transfer</u>	Amount attributable to the non- controlling <u>interest</u>	Total Orchestra Foundation <u>net assets</u>
Balance, June 30, 2011	\$ 7,600,000	\$ 482,948	\$ 8,082,948
Net change for the year ended June 30, 2012	<u>-</u>	<u>(421,197)</u>	<u>(421,197)</u>
Balance, June 30, 2012	7,600,000	61,751	7,661,751
Net change for the year ended June 30, 2013	<u>-</u>	<u>587,654</u>	<u>587,654</u>
Balance, June 30, 2013	<u>\$ 7,600,000</u>	<u>\$ 649,405</u>	<u>\$ 8,249,405</u>

The Community Foundation's non-controlling interest in the net assets of the Orchestra Foundation is presented in the accompanying consolidated statements of financial position as of June 30, 2013 and 2012 under the following captions:

	<u>2013</u>	<u>2012</u>
Non-controlling interest in unrestricted net assets	\$ (147,076)	\$ (744,746)
Non-controlling interest in permanently restricted net assets	<u>796,481</u>	<u>806,497</u>
	<u>\$ 649,405</u>	<u>\$ 61,751</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note K--Non-controlling Interest (Continued)**

For the years ended June 30, 2013 and 2012, the change in net assets attributable to the Community Foundation is as follows:

	<u>2013</u>	<u>2012</u>
Total change in net assets per the accompanying consolidated statements of activities	\$ 34,511,139	\$(14,670,165)
Less change in net assets attributable to the non-controlling interest	<u>587,654</u>	<u>(421,197)</u>
Change in net assets attributable to the Community Foundation	<u>\$ 33,923,485</u>	<u>\$(14,248,968)</u>

**Note L--Office Space Lease**

The Community Foundation leases its office space under an operating lease.

The lease agreement, under which the Community Foundation paid rent in the amount of \$6,995 per month plus its monthly pro-rata share of utilities, expired in September 2012.

Effective October 2012, the Community Foundation expanded its office space and thus entered into a new lease agreement. This lease agreement requires the Community Foundation to pay rent in the amount of \$13,718 per month inclusive of utilities. The lease expires in September 2018 and is thereafter renewable for an additional five-year term.

Rent expense totals approximately \$144,000 and \$84,000 in 2013 and 2012, respectively.

At June 30, 2013, the future minimum lease payments under the existing operating lease are as follows:

<u>Year ending June 30</u>	
2014	\$ 164,616
2015	164,616
2016	164,616
2017	164,616
2018	<u>41,154</u>
	<u>\$ 699,618</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2013 and 2012**

**Note M--Investment Management and Custodial Fees**

As previously indicated, invested funds are primarily held in custodial investment accounts and are managed by professional investment advisors. Accordingly, the Foundation has entered into agreements with several professional investment advisors. Generally, such agreements are cancelable by either party upon written notice.

For the years ended June 30, 2013 and 2012, investment management and other fees include approximately \$1,105,000 and \$891,000, respectively, of investment management and custodial fees.

**Note N--Pension Plan**

The Community Foundation has a defined contribution pension plan covering all employees who are at least twenty-one years old and have at least one year of service. Participants become fully vested upon completion of two years of service. Currently, the monthly employer contributions are based on 6.50% of the participant's compensation. Pension plan expense for the years ended June 30, 2013 and 2012 totals approximately \$85,000 and \$77,000, respectively. Effective January 1, 2014, the employer contribution rate was reduced from 6.50% to 5.00%.

**Note O--Revocable Beneficiary**

During 2006, the Community Foundation was notified that it is the revocable beneficiary of a charitable lead trust. During 2013 and 2012, the Community Foundation received distributions from the trust in the amount of approximately \$8,100,000 and \$7,400,000, respectively. The Community Foundation may continue to receive such significant distributions over an extended period of time. The donor has the right to change the beneficiary of the trust at any time.

## **Supplementary Information**

**The Community Foundation of Louisville, Inc.**  
**Consolidated Schedules of Functional Expenses**  
**Years ended June 30, 2013 and 2012**

	<b>2013</b>			
	Program services	Management and general	Fundraising	Total
Grants	\$ 27,339,309	\$ -	\$ -	\$ 27,339,309
Special programs	137,132	-	-	137,132
Income distributions from Depositories to donors' funds	915,477	-	-	915,477
Distributions from deferred funds	1,631,781	-	-	1,631,781
Investment management and other fees	-	1,123,991	-	1,123,991
Salaries, payroll taxes, and benefits	523,845	978,940	337,717	1,840,502
Rent, utilities, and office expenses	64,684	139,050	31,793	235,527
Marketing and communications	1,733	-	113,294	115,027
Development and stewardship	-	-	38,940	38,940
Community leadership	4,495	-	-	4,495
Legal, audit, and other professional services	69,860	182,008	21,544	273,412
Travel, entertainment, and conference expenses	17,274	31,117	6,056	54,447
Software maintenance contracts and upgrades	12,551	27,427	6,508	46,486
Memberships and reference materials and continuing education	1,819	36,181	6,148	44,148
Postage, printing, and publications	6,588	14,394	3,415	24,397
Miscellaneous expenses	919	3,415	476	4,810
Depreciation and amortization	13,009	32,753	6,746	52,508
	<u>30,740,476</u>	<u>2,569,276</u>	<u>572,637</u>	<u>33,882,389</u>
Totals	\$ <u>30,740,476</u>	\$ <u>2,569,276</u>	\$ <u>572,637</u>	\$ <u>33,882,389</u>

See accompanying independent  
auditor's report.

**2012**

	Program services	Management and general	Fundraising	Total
\$	35,578,573	\$ -	\$ -	\$ 35,578,573
	157,164	-	-	157,164
	492,887	-	-	492,887
	787,033	-	-	787,033
	-	904,079	-	904,079
	490,062	915,796	315,939	1,721,797
	49,975	100,001	21,886	171,862
	3,126	-	171,064	174,190
	-	-	25,080	25,080
	5,161	-	-	5,161
	61,090	142,369	15,506	218,965
	30,175	40,423	8,279	78,877
	12,136	26,519	6,293	44,948
	1,368	33,120	5,585	40,073
	6,211	13,571	3,221	23,003
	809	2,480	419	3,708
	6,419	16,189	3,328	25,936
\$	<u>37,682,189</u>	\$ <u>2,194,547</u>	\$ <u>576,600</u>	\$ <u>40,453,336</u>