

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

**Consolidated Financial Statements**

**June 30, 2014 and 2013**

**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, 2014 and 2013, 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, 2014 and 2013, and total revenues, gains, and other support constituting 2% and 1% of consolidated revenues, gains, and other support for the years then ended, respectively. 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, 2014 and 2013, 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.

A handwritten signature in black ink that reads "Mountjoy Chilton Medley LLP". The signature is written in a cursive, flowing style.

Mountjoy Chilton Medley LLP  
Louisville, Kentucky  
December 10, 2014

**The Community Foundation of Louisville, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash	\$ 3,965,716	\$ 1,298,673
Investments	421,443,788	368,155,798
Accounts receivable	7,189	22,360
Contributions receivable	1,690,149	2,420,147
Beneficial interests in charitable remainder trusts and real estate	8,643,580	5,462,469
Cash surrender value of life insurance	374,203	370,935
Property and equipment, net	386,957	402,159
Other assets	196,733	187,525
Total assets	<u>\$ 436,708,315</u>	<u>\$ 378,320,066</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 39,708	\$ 172,197
Grants payable	6,047,063	5,987,610
Accrued expenses	67,971	63,854
Depository liabilities		
Depository	13,637,119	12,088,752
Corporate Depository	8,920,889	8,130,681
Agency endowment liabilities	17,709,589	16,220,506
Deferred gift liabilities for split-interest agreements	7,629,599	7,032,160
Other liabilities	170,333	170,692
Total liabilities	<u>54,222,271</u>	<u>49,866,452</u>
<b>Net assets</b>		
Unrestricted		
Operations	621,879	581,089
Endowments	237,199,977	202,030,137
Depositories	158,382	131,445
Non-controlling interest in unrestricted net assets (see Note K)	965,359	(147,076)
Total unrestricted	<u>238,945,597</u>	<u>202,595,595</u>
Temporarily restricted	<u>134,694,754</u>	<u>117,002,483</u>
Permanently restricted		
Endowments	8,059,055	8,059,055
Non-controlling interest in permanently restricted net assets (see Note K)	786,638	796,481
Total permanently restricted	<u>8,845,693</u>	<u>8,855,536</u>
Total net assets	<u>382,486,044</u>	<u>328,453,614</u>
Total liabilities and net assets	<u>\$ 436,708,315</u>	<u>\$ 378,320,066</u>

See accompanying notes.

**The Community Foundation of Louisville, Inc.**  
**Consolidated Statements of Activities**  
**Years ended June 30, 2014 and 2013**

	<b>2014</b>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Contributions and bequests	\$ 1,550,785	\$ 30,219,220	\$ (9,843)	\$ 31,760,162
Less amounts received for agency endowments	-	(514,238)	-	(514,238)
Investment income	2,297,315	6,676,244	-	8,973,559
Net unrealized gains on investments	8,201,445	28,678,232	-	36,879,677
Net realized gains on sales of investments	3,807,641	8,286,097	-	12,093,738
Administered fund fees				
Depository and Corporate Depository	53,455	-	-	53,455
Endowment and deferred funds	40,986	-	-	40,986
Other income	61,300	-	-	61,300
	<u>16,012,927</u>	<u>73,345,555</u>	<u>(9,843)</u>	<u>89,348,639</u>
Net assets released from restrictions	<u>55,653,284</u>	<u>(55,653,284)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>71,666,211</u>	<u>17,692,271</u>	<u>(9,843)</u>	<u>89,348,639</u>
Expenses				
Program services				
Grants	30,778,961	-	-	30,778,961
Less amounts granted from agency endowments	(1,468,940)	-	-	(1,468,940)
Income distributions from Depositories to donors' funds	997,221	-	-	997,221
Distributions from deferred funds	756,793	-	-	756,793
Other program services expenses	998,256	-	-	998,256
	<u>32,062,291</u>	<u>-</u>	<u>-</u>	<u>32,062,291</u>
Management and general	2,710,680	-	-	2,710,680
Fundraising	543,238	-	-	543,238
Total expenses	<u>35,316,209</u>	<u>-</u>	<u>-</u>	<u>35,316,209</u>
Change in net assets	36,350,002	17,692,271	(9,843)	54,032,430
Net assets, beginning of year	<u>202,595,595</u>	<u>117,002,483</u>	<u>8,855,536</u>	<u>328,453,614</u>
Net assets, end of year	<u>\$ 238,945,597</u>	<u>\$ 134,694,754</u>	<u>\$ 8,845,693</u>	<u>\$ 382,486,044</u>

See accompanying notes.

**2013**

<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
\$ 650,461	\$ 25,866,387	\$ (10,016)	\$ 26,506,832
-	(234,529)	-	(234,529)
2,383,695	6,224,361	-	8,608,056
8,405,907	18,868,010	-	27,273,917
1,404,796	4,692,629	-	6,097,425
44,633	-	-	44,633
36,894	-	-	36,894
60,300	-	-	60,300
<u>12,986,686</u>	<u>55,416,858</u>	<u>(10,016)</u>	<u>68,393,528</u>
<u>52,488,129</u>	<u>(50,749,500)</u>	<u>(1,738,629)</u>	<u>-</u>
<u>65,474,815</u>	<u>4,667,358</u>	<u>(1,748,645)</u>	<u>68,393,528</u>
28,285,522	-	-	28,285,522
(946,213)	-	-	(946,213)
915,477	-	-	915,477
1,631,781	-	-	1,631,781
853,909	-	-	853,909
<u>30,740,476</u>	<u>-</u>	<u>-</u>	<u>30,740,476</u>
2,569,276	-	-	2,569,276
<u>572,637</u>	<u>-</u>	<u>-</u>	<u>572,637</u>
<u>33,882,389</u>	<u>-</u>	<u>-</u>	<u>33,882,389</u>
31,592,426	4,667,358	(1,748,645)	34,511,139
<u>171,003,169</u>	<u>112,335,125</u>	<u>10,604,181</u>	<u>293,942,475</u>
<u>\$ 202,595,595</u>	<u>\$ 117,002,483</u>	<u>\$ 8,855,536</u>	<u>\$ 328,453,614</u>

**The Community Foundation of Louisville, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 54,032,430	\$ 34,511,139
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Beneficial interest in contributed real estate	(2,200,000)	-
Net unrealized gains on investments	(36,879,677)	(27,273,917)
Net realized gains on sales of investments	(12,093,738)	(6,097,425)
Depreciation and amortization	72,930	52,508
Changes in assets and liabilities		
Accounts receivable	15,171	10,203
Contributions receivable	729,998	6,424,229
Beneficial interests in charitable remainder trusts and real estate	(981,111)	(483,429)
Cash surrender value of life insurance	(3,268)	(59,824)
Other assets	(9,208)	140,188
Accounts payable	(1,180)	30,148
Grants payable	59,453	(13,659,849)
Accrued expenses	4,117	(25,236)
Depository liabilities	2,338,575	1,512,597
Agency endowment liabilities	1,489,083	1,058,713
Deferred gift liabilities for split-interest agreements	597,439	(148,619)
Other liabilities	(359)	(70,046)
Net cash provided by (used in) operating activities	<u>7,170,655</u>	<u>(4,078,620)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	128,258,236	92,691,323
Net reduction of other receivable	-	179,358
Purchases of investments	(132,572,811)	(88,822,394)
Purchases of property and equipment	<u>(189,037)</u>	<u>(162,399)</u>
Net cash (used in) provided by investing activities	<u>(4,503,612)</u>	<u>3,885,888</u>
Change in cash	2,667,043	(192,732)
Cash, beginning of year	<u>1,298,673</u>	<u>1,491,405</u>
Cash, end of year	<u>\$ 3,965,716</u>	<u>\$ 1,298,673</u>
Supplemental disclosure of non-cash financing activities		
Purchases of property and equipment included in accounts payable	<u>\$ -</u>	<u>\$ 131,309</u>

See accompanying notes.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**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 Real Estate Asset Legacy Foundation of Kentucky, 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 can be made at any time during the donor's lifetime or the corporate depositor's existence. Within one year of the death of the donor (or surviving spouse) or dissolution of the corporate donor, any undistributed funds will be granted either to charitable organizations, if specified by the donor 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.

The Real Estate Asset Legacy Foundation of Kentucky, Inc. (REAL Foundation) was organized in 2008 to receive contributions of real estate and/or other personal property. The REAL Foundation holds such donated property until it is sold, the proceeds from which, depending on the nature of the arrangements made with the donor when the contribution was made, are either granted to the Community Foundation or to the Depositories.

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, 2014 and 2013, the fair value of the Fund's assets total \$2,184,317 and \$1,978,504, respectively, and are included with the Community Foundation's investments.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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.

**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.

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, 2014 and 2013**

**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. 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 amount 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.

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 Receivable

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.

No allowance for uncollectible contributions receivable is reflected in the accompanying consolidated financial statements as management considers all such receivables to be fully collectible.

7. Beneficial Interests in Charitable Remainder Trusts and Real Estate

Beneficial interests in charitable remainder trusts, under which the Community Foundation is not the trustee, are stated at fair value which has been estimated based on the calculated present value of the estimated future benefits expected to be received.

During 2014, the REAL Foundation received an irrevocable beneficial interest in residential real estate whereby the donor retains the right to use the property for life. Upon the donor's passing, the REAL Foundation has the ability to sell the property. The beneficial interest is stated at fair value which has been estimated based on the discounted appraised fair value of the respective property.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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

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, which is based upon 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.

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, 2014 and 2013**

**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 2010 through 2013 tax years remain open and subject to examination.

15. 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, 2014, uninsured balances, including invested certificates of deposit, total approximately \$4,500,000. 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, 2014 and 2013**

**Note D--Investments**

At June 30, 2014, investments consist of the following:

	Community Foundation	Depository	Corporate Depository	Martin Foundation	Orchestra Foundation	Consolidated
Cash equivalents	\$ 6,886,006	\$ 3,113,112	\$ 2,191,912	\$ 1,397,079	\$ 57,586	\$ 13,645,695
U.S. government and government agency obligations	939,510	2,033,097	361,304	4,363,181	-	7,697,092
Corporate bonds and notes	869,432	2,196,347	242,685	7,963,073	-	11,271,537
Municipal bonds	610,862	-	172,715	455,620	-	1,239,197
Mutual funds	250,635,546	4,460,286	2,318,853	23,950,501	8,693,480	290,058,666
Common stock	45,281,602	250,843	3,028,784	19,212,553	-	67,773,782
Alternative investments (see Note E)	27,621,047	1,559,406	-	-	577,366	29,757,819
	<u>\$ 332,844,005</u>	<u>\$ 13,613,091</u>	<u>\$ 8,316,253</u>	<u>\$ 57,342,007</u>	<u>\$ 9,328,432</u>	<u>\$ 421,443,788</u>

At June 30, 2013, investments consist of the following:

	Community Foundation	Depository	Corporate Depository	Martin Foundation	Orchestra Foundation	Consolidated
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)	26,927,930	1,339,883	-	-	1,997,205	30,265,018
	<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>

**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, closely-held corporations, and notes receivable.

*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.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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

*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.

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

*Notes receivable:* The note receivable at June 30, 2014 is pursuant to a promissory note between the Foundation and the borrower.

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, 2014 and 2013, net property and equipment consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 12,500	\$ 12,500
Building	116,772	116,772
Leasehold improvements	245,458	245,458
Office furniture and equipment	240,811	233,940
Computer hardware and software	<u>301,234</u>	<u>250,377</u>
	916,775	859,047
Less accumulated depreciation and amortization	<u>529,818</u>	<u>456,888</u>
	<u>\$ 386,957</u>	<u>\$ 402,159</u>

Depreciation and amortization expense totals \$72,930 and \$52,508 for the years ended June 30, 2014 and 2013, respectively.

**Note G--Depository Liabilities**

A progression of depository liabilities for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Depository</u>	<u>Corporate Depository</u>	<u>Depository</u>	<u>Corporate Depository</u>
Beginning of the year	\$ 12,088,752	\$ 8,130,681	\$ 10,850,241	\$ 7,856,595
Additions	11,428,918	3,817,160	9,511,037	3,938,347
Net investment income retained	2,284	111,168	3,861	105,002
Net unrealized and realized appreciation	225,188	658,581	107,313	699,301
Distributions	<u>(10,108,023)</u>	<u>(3,796,701)</u>	<u>(8,383,700)</u>	<u>(4,468,564)</u>
End of the year	<u>\$ 13,637,119</u>	<u>\$ 8,920,889</u>	<u>\$ 12,088,752</u>	<u>\$ 8,130,681</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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, 2014 and 2013:

2014				
	Charitable remainder trusts	Pooled income funds	Charitable gift annuities	Total
Assets	\$ 14,656,413	\$ 639,284	\$ 1,241,720	\$ 16,537,417
Liabilities	6,601,426	516,519	511,654	7,629,599
2013				
	Charitable remainder trusts	Pooled income funds	Charitable gift annuities	Total
Assets	\$ 12,706,702	\$ 624,094	\$ 1,238,542	\$ 14,569,338
Liabilities	5,994,308	509,462	528,390	7,032,160

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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, 2014 and 2013.

*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, 2014 and 2013**

**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 corporations:* 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.

*Notes receivable:* The estimated fair value of the note receivable is based on the undiscounted outstanding principal balance under the promissory note.

*Beneficial interests in charitable remainder trusts:* The estimated fair values of the beneficial interests 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 oil wells owned by the trust multiplied by a factor that is based on lease terms and industry averages.

*Beneficial interest in real estate:* The estimated fair value of the beneficial interest is based on the discounted appraised fair value of the respective property. The actuarial assumptions used in calculating the estimated fair value include the beneficiary's age, the date of the gift, the appraised fair value of the gifted property, and the discount rate.

*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, 2014 and 2013**

**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, 2014:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 13,645,695	\$ -	\$ -	\$ 13,645,695
U.S. government and government agency obligations				
Rated AAA	-	7,697,092	-	7,697,092
Corporate bonds and notes				
Rated AAA	-	504,621	-	504,621
Rated AA- to AA+	-	3,784,730	-	3,784,730
Rated A- to A+	-	4,108,054	-	4,108,054
Rated BB+ to BBB+	-	2,874,132	-	2,874,132
	<u>-</u>	<u>11,271,537</u>	<u>-</u>	<u>11,271,537</u>
Municipal bonds				
Rated AAA	-	304,267	-	304,267
Rated AA- to AA+	-	934,930	-	934,930
	<u>-</u>	<u>1,239,197</u>	<u>-</u>	<u>1,239,197</u>
Mutual funds				
Equity	86,539,926	-	-	86,539,926
Fixed income	94,568,201	-	-	94,568,201
Index and exchange traded funds	55,081,536	-	-	55,081,536
International	46,916,329	-	-	46,916,329
Other	6,952,674	-	-	6,952,674
	<u>290,058,666</u>	<u>-</u>	<u>-</u>	<u>290,058,666</u>
Common stock				
Consumer discretionary	10,237,701	-	-	10,237,701
Energy	4,892,746	-	-	4,892,746
Financial	12,570,919	-	-	12,570,919
Healthcare	8,996,203	-	-	8,996,203
Industrials	6,544,024	-	-	6,544,024
Information technology	10,251,318	-	-	10,251,318
Other	14,280,871	-	-	14,280,871
	<u>67,773,782</u>	<u>-</u>	<u>-</u>	<u>67,773,782</u>
Alternative investments				
Limited partnerships	-	-	6,936,265	6,936,265
Limited liability companies	-	-	22,504,554	22,504,554
Closely-held corporation	-	-	250,250	250,250
Note receivable	-	-	66,750	66,750
	<u>-</u>	<u>-</u>	<u>29,757,819</u>	<u>29,757,819</u>
Beneficial interests in charitable remainder trusts and real estate				
Unitrusts	-	-	6,227,934	6,227,934
Charitable trust	-	-	215,646	215,646
Real estate	-	-	2,200,000	2,200,000
	<u>-</u>	<u>-</u>	<u>8,643,580</u>	<u>8,643,580</u>
	<u>\$ 371,478,143</u>	<u>\$ 20,207,826</u>	<u>\$ 38,401,399</u>	<u>\$ 430,087,368</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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:

	Level 1	Level 2	Level 3	Total
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	58,875,192	-	-	58,875,192
Fixed income	87,549,220	-	-	87,549,220
Index and exchange traded 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
Healthcare	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	-	-	12,503,883	12,503,883
Limited liability companies	-	-	17,510,885	17,510,885
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 real estate				
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, 2014 and 2013**

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

The years ended June 30, 2014 and 2013 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 real estate per the previous two tables) is as follows:

	2014	2013
Beginning of the year	\$ 35,727,487	\$ 29,340,272
Purchases/contributions	6,765,766	1,342,880
Sales	(9,881,350)	(1,246,221)
Net unrealized and realized appreciation	4,824,356	5,807,974
Actuarial change	965,140	482,582
End of the year	<u>\$ 38,401,399</u>	<u>\$ 35,727,487</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, 2014:

	Level 1	Level 2	Level 3	Total
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 6,508,034	\$ 6,508,034
Gift annuity trusts	-	-	93,392	93,392
Pooled income funds	-	-	516,519	516,519
Charitable gift annuities	-	-	511,654	511,654
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,629,599</u>	<u>\$ 7,629,599</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:

	Level 1	Level 2	Level 3	Total
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	-	-	528,390	528,390
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,032,160</u>	<u>\$ 7,032,160</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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

The years ended June 30, 2014 and 2013 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:

	2014	2013
Beginning of the year	\$ 7,032,160	\$ 7,180,779
Actuarial change	1,354,232	1,483,162
Payment obligations	(756,793)	(1,631,781)
End of the year	<u>\$ 7,629,599</u>	<u>\$ 7,032,160</u>

The following table sets forth the fair values at June 30, 2014 of the alternative investments for which the fair values are determined using a net asset value per share or its equivalent:

	Fair value	Unfunded commitment	Redemption frequency	Redemption notice period
Limited partnerships - marketable securities	\$ 1,559,405	\$ -	quarterly	45 days
Limited partnerships - marketable securities	62,243	-	N/A	N/A
Limited partnerships - marketable securities and private equity	577,366	-	quarterly	65 days
Limited partnerships - private equity	1,463,913	2,275,000	N/A	N/A
Limited partnerships - commodities futures	3,273,338	-	monthly	15 days
Limited liability companies - marketable securities	12,386,170	-	N/A	N/A
Limited liability companies - private equity	9,618,384	-	monthly	14 days
Limited liability companies - commercial real estate	500,000	-	N/A	N/A

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:

	Fair value	Unfunded commitment	Redemption frequency	Redemption notice period
Limited partnerships - marketable securities	\$ 8,166,855	\$ -	quarterly	30 days
Limited partnerships - marketable securities	1,339,883	-	quarterly	45 days
Limited partnerships - marketable securities	59,108	-	N/A	N/A
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	9,199,324	-	N/A	N/A
Limited liability companies - private equity	8,311,561	-	monthly	14 days

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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 660 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.

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.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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

At June 30, 2014, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 71,938,098	\$ -	\$ -	\$ 71,938,098
Endowments subject to donor fund agreements	<u>165,261,879</u>	<u>134,694,754</u>	<u>8,059,055</u>	<u>308,015,688</u>
	<u>\$ 237,199,977</u>	<u>\$ 134,694,754</u>	<u>\$ 8,059,055</u>	<u>\$ 379,953,786</u>

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
Endowments subject to donor fund agreements	<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>

Changes in endowment net assets during the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 202,030,137	\$ 117,002,483	\$ 8,059,055	\$ 327,091,675
Contributions	1,236,955	29,704,982	-	30,941,937
Investment return				
Net investment income	1,693,233	6,676,244	-	8,369,477
Net unrealized and realized appreciation	9,794,084	36,964,329	-	46,758,413
Net assets released from restrictions	55,653,284	(55,653,284)	-	-
Appropriation of endowment assets for expenditure	<u>(33,207,716)</u>	<u>-</u>	<u>-</u>	<u>(33,207,716)</u>
End of the year	<u>\$ 237,199,977</u>	<u>\$ 134,694,754</u>	<u>\$ 8,059,055</u>	<u>\$ 379,953,786</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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

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	(31,817,183)	-	-	(31,817,183)
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.

*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, 2014 and 2013.

*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.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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

*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.

**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, 2014 and 2013.

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, 2014 and 2013:

	Remainder of the original transfer	Amount attributable to the non- controlling interest	Total Orchestra Foundation net assets
Balance, June 30, 2012	\$ 7,600,000	\$ 61,751	\$ 7,661,751
Net change for the year ended June 30, 2013	-	587,654	587,654
Balance, June 30, 2013	7,600,000	649,405	8,249,405
Net change for the year ended June 30, 2014	-	1,102,592	1,102,592
Balance, June 30, 2014	<u>\$ 7,600,000</u>	<u>\$ 1,751,997</u>	<u>\$ 9,351,997</u>

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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

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, 2014 and 2013 under the following captions:

	<u>2014</u>	<u>2013</u>
Non-controlling interest in unrestricted net assets	\$ 965,359	\$ (147,076)
Non-controlling interest in permanently restricted net assets	<u>786,638</u>	<u>796,481</u>
	<u>\$ 1,751,997</u>	<u>\$ 649,405</u>

For the years ended June 30, 2014 and 2013, the change in net assets attributable to the Community Foundation is as follows:

	<u>2014</u>	<u>2013</u>
Total change in net assets per the accompanying consolidated statement of activities	\$ 54,032,430	\$ 34,511,139
Less change in net assets attributable to the non-controlling interest	<u>1,102,592</u>	<u>587,654</u>
Change in net assets attributable to the Community Foundation	<u>\$ 52,929,838</u>	<u>\$ 33,923,485</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 \$165,000 and \$144,000 for the years ended June 30, 2014 and 2013, respectively.

**The Community Foundation of Louisville, Inc.**  
**Notes to the Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note L--Office Space Lease (Continued)**

At June 30, 2014, the future minimum lease payments under the existing operating lease are as follows:

<u>Year ending June 30</u>	
2015	\$ 164,616
2016	164,616
2017	164,616
2018	41,154
	<u>\$ 535,002</u>

**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, 2014 and 2013, investment management and other fees include approximately \$1,282,000 and \$1,105,000, 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 5.00% of the participant's compensation. Effective January 1, 2014, the employer contribution rate was reduced from 6.50% to 5.00%. Pension plan expense for the years ended June 30, 2014 and 2013 totals approximately \$75,000 and \$85,000, respectively.

**Note O--Revocable Beneficiary**

During 2006, the Community Foundation was notified that it is the revocable beneficiary of a charitable lead trust. During 2014 and 2013, the Community Foundation received distributions from the trust in the amount of approximately \$8,200,000 and \$8,100,000, 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, 2014 and 2013**

	<b>2014</b>			
	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 29,310,021	\$ -	\$ -	\$ 29,310,021
Special programs	274,313	-	-	274,313
Income distributions from Depositories to donors' funds	997,221	-	-	997,221
Distributions from deferred funds	756,793	-	-	756,793
Investment management and other fees	-	1,293,579	-	1,293,579
Salaries, payroll taxes, and benefits	523,199	977,722	337,303	1,838,224
Rent, utilities, and office expenses	69,692	149,459	34,898	254,049
Marketing and communications	11,308	-	63,466	74,774
Development and stewardship	-	-	60,024	60,024
Community leadership	23,023	-	-	23,023
Legal, audit, and other professional services	37,487	130,621	14,819	182,927
Travel, entertainment, and conference expenses	19,144	35,443	7,130	61,717
Software maintenance contracts and upgrades	13,604	29,727	7,054	50,385
Memberships and reference materials and continuing education	1,090	32,135	5,375	38,600
Postage, printing, and publications	4,914	10,739	2,548	18,201
Miscellaneous expenses	1,959	6,453	1,016	9,428
Depreciation and amortization	18,523	44,802	9,605	72,930
Totals	<u>\$ 32,062,291</u>	<u>\$ 2,710,680</u>	<u>\$ 543,238</u>	<u>\$ 35,316,209</u>

See accompanying independent  
auditor's report.

**2013**

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
\$	27,339,309	\$ -	\$ -	\$ 27,339,309
	137,132	-	-	137,132
	915,477	-	-	915,477
	1,631,781	-	-	1,631,781
	-	1,123,991	-	1,123,991
	523,845	978,940	337,717	1,840,502
	64,684	139,050	31,793	235,527
	1,733	-	113,294	115,027
	-	-	38,940	38,940
	4,495	-	-	4,495
	69,860	182,008	21,544	273,412
	17,274	31,117	6,056	54,447
	12,551	27,427	6,508	46,486
	1,819	36,181	6,148	44,148
	6,588	14,394	3,415	24,397
	919	3,415	476	4,810
	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>