

The Community Foundation of Louisville, Inc.
Consolidated Financial Statements
Years Ended June 30, 2018 and 2017

The Community Foundation of Louisville, Inc.
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Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

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, 2018 and 2017, 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, 2018 and 2017, 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.

Kentucky
Indiana
Ohio

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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, 2018 and 2017, 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.

Emphasis of Matter - Restatements

In our report dated November 26, 2018, we expressed an unmodified opinion on the consolidated financial statements as of and for the years ended June 30, 2018 and 2017. As described in Note Q to the consolidated financial statements, management subsequently identified misstatements in the 2018 and 2017 consolidated financial statements related to investments, temporarily restricted unrealized gains (losses) on investments, and temporarily restricted net assets. Accordingly, the accompanying 2018 and 2017 consolidated financial statements have been restated, including the restatement of temporarily restricted net assets as of July 1, 2016.

Report on the 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 pages 31 and 32 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 audits 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.



MCM CPAs & Advisors LLP
Louisville, Kentucky
December 6, 2018

The Community Foundation of Louisville, Inc.
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	<u>(restated)</u> <u>2018</u>	<u>(restated)</u> <u>2017</u>
Assets		
Cash	\$ 4,551,959	\$ 3,789,196
Investments	499,523,180	465,287,640
Accounts receivable	69,029	59,297
Contributions receivable	10,560,288	5,904,863
Notes receivable	3,893,507	1,066,165
Other receivable	3,600,000	-
Beneficial interests in charitable remainder trusts and real estate	2,991,088	11,345,946
Cash surrender value of life insurance	439,245	433,182
Property and equipment, net	297,546	239,823
Other assets	1,141,252	1,186,325
Total assets	<u>\$ 527,067,094</u>	<u>\$ 489,312,437</u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 191,325	\$ 23,074
Grants payable	2,786,460	2,684,451
Accrued expenses and other current liabilities	37,275	62,436
Depository liabilities		
Depository	18,738,132	17,956,355
Corporate Depository	14,782,825	12,921,205
Agency endowment liabilities	20,754,142	19,467,024
Deferred gift liabilities for split-interest agreements	7,467,790	6,680,486
Other liabilities	44,244	80,850
Total liabilities	<u>64,802,193</u>	<u>59,875,881</u>
Net assets		
Unrestricted		
Operations	1,990,580	836,599
Depositories	(200,568)	136,558
Endowments	281,691,659	263,031,367
Non-controlling interest in unrestricted net assets (see Note L)	1,672,545	1,320,872
Total unrestricted	<u>285,154,216</u>	<u>265,325,396</u>
Temporarily restricted		
Donor restricted other assets	1,050,000	1,050,000
Endowments	167,189,992	154,215,467
Total temporarily restricted	<u>168,239,992</u>	<u>155,265,467</u>
Permanently restricted		
Endowments	8,059,055	8,059,055
Non-controlling interest in permanently restricted net assets (see Note L)	811,638	786,638
Total permanently restricted	<u>8,870,693</u>	<u>8,845,693</u>
Total net assets	<u>462,264,901</u>	<u>429,436,556</u>
Total liabilities and net assets	<u>\$ 527,067,094</u>	<u>\$ 489,312,437</u>

See accompanying notes.

The Community Foundation of Louisville, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2018

	Unrestricted	(restated) Temporarily restricted	Permanently restricted	(restated) Total
Revenues, gains, and other support				
Contributions and bequests	\$ 2,756,281	\$ 28,155,077	\$ 25,000	\$ 30,936,358
Less amounts received for agency endowments	-	(296,632)	-	(296,632)
Investment income	3,215,497	9,739,802	-	12,955,299
Net realized gains on sales of investments	5,240,623	21,596,069	-	26,836,692
Realized gain on beneficial interest in real estate	-	200,000	-	200,000
Administered fund fees				
Depository and Corporate Depository	62,406	-	-	62,406
Endowment and deferred funds	72,988	-	-	72,988
Other income	87,863	-	-	87,863
	<u>11,435,658</u>	<u>59,394,316</u>	<u>25,000</u>	<u>70,854,974</u>
Net assets released from restrictions	<u>47,294,605</u>	<u>(47,294,605)</u>	<u>-</u>	<u>-</u>
	<u>58,730,263</u>	<u>12,099,711</u>	<u>25,000</u>	<u>70,854,974</u>
Expenses and losses				
Program services				
Grants	31,851,564	-	-	31,851,564
Less amounts granted from agency endowments	(382,735)	-	-	(382,735)
Income distributions from Depositories to donors' funds	523,369	-	-	523,369
Distributions from deferred funds	787,443	-	-	787,443
Other program services expenses	1,097,635	-	-	1,097,635
	<u>33,877,276</u>	<u>-</u>	<u>-</u>	<u>33,877,276</u>
Management and general	3,426,426	-	-	3,426,426
Fundraising	714,765	-	-	714,765
	<u>38,018,467</u>	<u>-</u>	<u>-</u>	<u>38,018,467</u>
Net unrealized losses (gains) on investments	<u>882,976</u>	<u>(874,814)</u>	<u>-</u>	<u>8,162</u>
	<u>38,901,443</u>	<u>(874,814)</u>	<u>-</u>	<u>38,026,629</u>
Change in net assets	19,828,820	12,974,525	25,000	32,828,345
Net assets, beginning of year	<u>265,325,396</u>	<u>155,265,467</u>	<u>8,845,693</u>	<u>429,436,556</u>
Net assets, end of year	<u>\$ 285,154,216</u>	<u>\$ 168,239,992</u>	<u>\$ 8,870,693</u>	<u>\$ 462,264,901</u>

See accompanying notes.

The Community Foundation of Louisville, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>(restated) Temporarily restricted</u>	<u>Permanently restricted</u>	<u>(restated) Total</u>
Revenues, gains, and other support				
Contributions and bequests	\$ 3,408,620	\$ 47,340,675	\$ -	\$ 50,749,295
Less amounts received for agency endowments	-	(828,709)	-	(828,709)
Investment income	2,911,741	8,018,684	-	10,930,425
Net unrealized gains on investments	7,490,568	24,939,898	-	32,430,466
Net realized gains on sales of investments	2,054,535	7,333,233	-	9,387,768
Administered fund fees				
Depository and Corporate Depository	64,372	-	-	64,372
Endowment and deferred funds	54,753	-	-	54,753
Other income	74,915	-	-	74,915
	<u>16,059,504</u>	<u>86,803,781</u>	<u>-</u>	<u>102,863,285</u>
Net assets released from restrictions	<u>63,823,356</u>	<u>(63,823,356)</u>	<u>-</u>	<u>-</u>
	<u>79,882,860</u>	<u>22,980,425</u>	<u>-</u>	<u>102,863,285</u>
Total revenues, gains, and other support				
Expenses				
Program services				
Grants	52,808,653	-	-	52,808,653
Less amounts granted from agency endowments	(635,440)	-	-	(635,440)
Income distributions from Depositories to donors' funds	689,848	-	-	689,848
Distributions from deferred funds	688,709	-	-	688,709
Other program services expenses	1,103,106	-	-	1,103,106
	<u>54,654,876</u>	<u>-</u>	<u>-</u>	<u>54,654,876</u>
Management and general	2,942,902	-	-	2,942,902
Fundraising	676,551	-	-	676,551
	<u>58,274,329</u>	<u>-</u>	<u>-</u>	<u>58,274,329</u>
Total expenses				
Change in net assets	21,608,531	22,980,425	-	44,588,956
Net assets, beginning of year	<u>243,716,865</u>	<u>132,285,042</u>	<u>8,845,693</u>	<u>384,847,600</u>
Net assets, end of year	<u>\$ 265,325,396</u>	<u>\$ 155,265,467</u>	<u>\$ 8,845,693</u>	<u>\$ 429,436,556</u>

See accompanying notes.

The Community Foundation of Louisville, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>(restated)</u> <u>2018</u>	<u>(restated)</u> <u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 32,828,345	\$ 44,588,956
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net unrealized (gains) losses on investments	8,162	(32,430,466)
Net realized (gains) on sales of investments	(26,836,692)	(9,387,768)
Realized (gain) on beneficial interest in real estate	(200,000)	-
Depreciation and amortization	59,653	80,995
Changes in assets and liabilities		
Accounts receivable	(9,732)	(28,559)
Contributions receivable	392,353	(1,652,363)
Beneficial interests in charitable remainder trusts and real estate	(92,920)	(1,812,181)
Cash surrender value of life insurance	(6,063)	(43,660)
Other assets	45,073	16,998
Accounts payable	168,251	(61,343)
Grants payable	102,009	(2,194,233)
Accrued expenses and other current liabilities	(25,161)	27,242
Depository liabilities	2,643,397	1,210,953
Agency endowment liabilities	1,287,118	2,619,245
Deferred gift liabilities for split-interest agreements	787,304	(4,335)
Other liabilities	(36,606)	(24,489)
Net cash provided by operating activities	<u>11,114,491</u>	<u>904,992</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	173,749,476	139,582,977
Principal payments received on notes receivable	630,067	140,289
Purchases of investments	(181,156,486)	(143,335,592)
Additional notes receivable	(3,457,409)	(250,000)
Purchases of property and equipment	(117,376)	(19,632)
Net cash used in investing activities	<u>(10,351,728)</u>	<u>(3,881,958)</u>
Change in cash	762,763	(2,976,966)
Cash, beginning of year	<u>3,789,196</u>	<u>6,766,162</u>
Cash, end of year	<u>\$ 4,551,959</u>	<u>\$ 3,789,196</u>
Supplemental disclosure of non-cash investing activities		
Increase in contributions receivable associated with the decrease in beneficial interests in charitable remainder trusts	<u>\$ 5,047,778</u>	<u>\$ -</u>
Other receivable attributable to the liquidation of the beneficial interest in real estate	<u>\$ 3,600,000</u>	<u>\$ -</u>

See accompanying notes.

**The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements
Years Ended June 30, 2018 and 2017**

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, the Louisville Preservation Fund, Inc., Finzer Street 2015, LLC, 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 distributions of grants to meet community needs are 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 Real Estate Asset Legacy Foundation of Kentucky, Inc. (REAL Foundation) was organized in 2008 to receive contributions of real estate. 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 (Pirtle Endowment 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 Pirtle Endowment Fund as a Type I supporting organization to the Community Foundation. The Pirtle Endowment 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, 2018 and 2017, the fair value of the Pirtle Endowment Fund's assets total \$2,109,038 and \$2,063,473, respectively, and are included with the Community Foundation's investments.

In 2013, the Louisville Preservation Fund (LPF) was established to revitalize historic places through direct real estate action and partnerships to enhance community and promote economic development. Effective with the year ended June 30, 2018, the LPF is a Type I supporting organization to the Community Foundation. LPF's assets primarily consist of a total of \$1,000,000 due under the terms of two separate notes receivable (see also Note F).

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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

Finzer Street 2015, LLC (Finzer), a single member limited liability company of which the REAL Foundation is the single member, was formed in 2015 solely to receive the contributions of a specific parcel of real estate (\$1,050,000 included in other assets at June 30, 2018 and 2017). Explicit donor stipulations specify how the property must be used, therefore the contributions are reflected in temporarily restricted net assets at June 30, 2018 and 2017.

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 (see also Note R), 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 also Note L.

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.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

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.

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 generally been recorded after discounting them to the present value of future cash flows using a risk-free interest rate. At June 30, 2018 and 2017, management expects all contribution receivable amounts to be collected within the subsequent fiscal year.

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

7. Notes Receivable

The estimated fair values of notes receivable represent the outstanding principal balances under the terms of the respective loan agreements. Interest income is recognized over the terms of the notes receivable as calculated on the outstanding principal amounts. Notes receivable generally bear interest at interest rates ranging from 1% to 8%.

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

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

8. 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.

At June 30, 2017, the REAL Foundation had an irrevocable beneficial interest in residential real estate whereby the donor retained the right to use the property for life. Upon the donor's passing, the REAL Foundation had the right to sell the property. The REAL Foundation also had the right to sell the remainder interest during the donor's lifetime. The \$3,400,000 beneficial interest at June 30, 2017 was stated at an estimate of fair value based upon the discounted appraised fair value of the property. During 2018, the REAL foundation liquidated its beneficial interest for which a \$3,600,000 other receivable was recorded as of June 30, 2018. The other receivable amount was collected upon in-full subsequent to year-end.

9. 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 real estate or other assets. Property and equipment is presented in the accompanying consolidated statements of financial position net of accumulated depreciation and amortization. Depreciation and amortization are 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.

10. 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.

11. 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.

12. 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.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

13. 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. Gifts of donated real estate or other assets are reported as unrestricted contribution revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the contribution is reported as temporarily or permanently restricted contribution revenue and net assets.

14. 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.

15. 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 recorded in the accompanying consolidated financial statements.

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. See also Note R.

17. Recently Issued Accounting Standards Updates

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 changes presentation and disclosure requirements for not-for-profit organizations to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users of the financial statements. This standard includes qualitative and quantitative requirements in the following areas: 1) net asset classes, 2) investment return, 3) expenses, 4) liquidity and the availability of resources, and 5) presentation of operating cash flows. The provisions of ASU 2016-14 will be effective for the fiscal year ending June 30, 2019.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

17. Recently Issued Accounting Standards Updates (Continued)

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 should assist entities in 1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. The provisions of ASU 2018-08 will be effective for the fiscal year ending June 30, 2020. Early adoption is permitted.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), to improve financial reporting with respect to leasing transactions. ASU 2016-02 requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the consolidated statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the consolidated statement of activities. The provisions of ASU 2016-02 will be effective for the fiscal year ending June 30, 2021. Early adoption is permitted.

The Foundation is currently evaluating these three ASUs and the impact thereof on the Foundation's consolidated financial statements.

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, 2018, uninsured balances, including invested certificates of deposit, total approximately \$5,500,000. The balances of the Foundation's money market funds included in investments are uninsured.

Note D - Investments

At June 30, 2018, investments consist of the following:

	Community Foundation	Depository	Corporate Depository	Martin Foundation	Orchestra Foundation	Consolidated
Cash equivalents	\$ 6,676,290	8,197,067	2,850,937	275,229	8,262	\$ 18,007,785
U.S. government and government agency obligations	3,021,732	204	227,786	1,559,850	-	4,809,572
Corporate bonds and notes	2,693,821	-	896,555	13,232,839	-	16,823,215
Municipal bonds	358,291	-	66,173	733,785	-	1,158,249
Mutual funds	272,503,627	11,695,827	2,056,755	17,256,900	9,993,696	313,506,805
Common stock	88,457,778	134,199	3,413,164	27,368,421	-	119,373,562
Alternative investments (see Note E)	25,135,929	625,838	-	-	82,225	25,843,992
	<u>\$ 398,847,468</u>	<u>\$ 20,653,135</u>	<u>\$ 9,511,370</u>	<u>\$ 60,427,024</u>	<u>\$ 10,084,183</u>	<u>\$ 499,523,180</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note D - Investments (Continued)

At June 30, 2017, investments consist of the following:

	Community Foundation	Depository	Corporate Depository	Martin Foundation	Orchestra Foundation	Consolidated
Cash equivalents	\$ 6,078,130	6,934,548	2,640,385	661,634	19,867	\$ 16,334,564
U.S. government and government agency obligations	1,653,098	-	310,025	1,831,427	-	3,794,550
Corporate bonds and notes	1,423,902	-	327,627	7,858,852	-	9,610,381
Municipal bonds	576,643	-	138,361	3,235,717	-	3,950,721
Mutual funds	252,306,390	11,657,615	2,160,444	19,321,964	9,564,832	295,011,245
Common stock	89,494,511	472,869	3,726,225	25,384,116	-	119,077,721
Alternative investments (see Note E)	16,775,290	615,355	-	-	117,813	17,508,458
	<u>\$ 368,307,964</u>	<u>\$ 19,680,387</u>	<u>\$ 9,303,067</u>	<u>\$ 58,293,710</u>	<u>\$ 9,702,512</u>	<u>\$ 465,287,640</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 liability companies, limited partnerships, and closely-held corporations.

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.

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.

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.

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

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note F - Notes Receivable

At June 30, 2018 and 2017, notes receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Community Foundation - Impact Investing program loans (see Note 1 below)	\$ 1,919,107	\$ 851,165
Community Foundation - uncollateralized/unsecured note attributable to the liquidation of an investment	869,400	-
Louisville Preservation Fund - uncollateralized/unsecured program loans	1,000,000	-
Martin Foundation - uncollateralized/unsecured program loan	105,000	215,000
	<u>\$ 3,893,507</u>	<u>\$ 1,066,165</u>

Note 1 - At June 30, 2018, \$946,812 of the total amount outstanding under the Impact Investing program loans (\$407,677 at June 30, 2017) are collateralized/secured principally with mortgages. The remaining portion, \$972,295 at June 30, 2018 (\$443,488 at June 30, 2017), is uncollateralized/unsecured.

At June 30, 2018, the estimated aggregate maturities required under notes receivable are as follows:

<u>Year ending June 30</u>	
2019	\$ 327,870
2020	309,935
2021	122,595
2022	119,299
2023	984,424
Thereafter	<u>2,029,384</u>
	<u>\$ 3,893,507</u>

Note G - Property and Equipment, Net

At June 30, 2018 and 2017, net property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 12,500	\$ 12,500
Building	116,772	116,772
Leasehold improvements	248,563	248,563
Office furniture and equipment	278,263	265,033
Computer hardware and software	467,142	362,996
	<u>1,123,240</u>	<u>1,005,864</u>
Less accumulated depreciation and amortization	<u>825,694</u>	<u>766,041</u>
	<u>\$ 297,546</u>	<u>\$ 239,823</u>

Depreciation and amortization expense totals \$59,653 and \$80,995 for the years ended June 30, 2018 and 2017, respectively.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note H - Depository Liabilities

A progression of depository liabilities for the years ended June 30, 2018 and 2017 is as follows:

	2018		2017	
	<u>Depository</u>	<u>Corporate Depository</u>	<u>Depository</u>	<u>Corporate Depository</u>
Beginning of the year	\$ 17,956,355	\$ 12,921,205	\$ 16,524,755	\$ 13,141,852
Additions	13,076,806	8,937,354	13,031,485	8,074,391
Investment income (loss) retained	(23,692)	113,008	4,595	113,611
Net unrealized and realized appreciation	108,270	325,784	75,052	496,589
Distributions	<u>(12,379,607)</u>	<u>(7,514,526)</u>	<u>(11,679,532)</u>	<u>(8,905,238)</u>
End of the year	<u>\$ 18,738,132</u>	<u>\$ 14,782,825</u>	<u>\$ 17,956,355</u>	<u>\$ 12,921,205</u>

Note I - 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, a pooled income fund, 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 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.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note I - Split-interest Agreements (Continued)

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 at June 30, 2018 and 2017:

	2018			
	Charitable remainder trusts	Pooled income fund	Charitable gift annuities	Total
Assets	\$ 14,156,548	\$ 668,924	\$ 1,770,939	\$ 16,596,411
Liabilities	6,252,914	518,902	695,974	7,467,790
	2017			
	Charitable remainder trusts	Pooled income fund	Charitable gift annuities	Total
Assets	\$ 12,410,792	\$ 690,753	\$ 1,845,880	\$ 14,947,425
Liabilities	5,419,210	539,619	721,657	6,680,486

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note J - 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, 2018 and 2017.

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 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.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note J - Fair Value Measurements (Continued)

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.

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 values of notes receivable represent the outstanding principal balances under the terms of the respective loan agreements.

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 remainder trust is based on information provided by the trustee and is determined based on production from the mineral producing properties owned by the trust multiplied by a factor that is based on related lease terms and/or 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)
Years Ended June 30, 2018 and 2017

Note J - 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, 2018:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 18,007,785	\$ -	\$ -	\$ 18,007,785
U.S. government and government agency obligations				
Rated AAA	-	3,739,609	-	3,739,609
Rated AA- to AA+	-	567,505	-	567,505
Rated BB+ to BBB+	-	502,458	-	502,458
	<u>-</u>	<u>4,809,572</u>	<u>-</u>	<u>4,809,572</u>
Corporate bonds and notes				
Rated AAA	-	1,194,948	-	1,194,948
Rated AA- to AA+	-	2,603,283	-	2,603,283
Rated A- to A+	-	8,526,832	-	8,526,832
Rated BB+ to BBB+	-	4,498,152	-	4,498,152
	<u>-</u>	<u>16,823,215</u>	<u>-</u>	<u>16,823,215</u>
Municipal bonds				
Rated AA- to AA+	-	608,081	-	608,081
Rated A- to A+	-	550,168	-	550,168
	<u>-</u>	<u>1,158,249</u>	<u>-</u>	<u>1,158,249</u>
Mutual funds				
Equity	69,799,727	-	-	69,799,727
Fixed income	100,019,129	-	-	100,019,129
Index and exchange traded funds	58,430,658	-	-	58,430,658
International	74,248,061	-	-	74,248,061
Other	11,009,230	-	-	11,009,230
	<u>313,506,805</u>	<u>-</u>	<u>-</u>	<u>313,506,805</u>
Common stock				
Consumer discretionary	19,636,306	-	-	19,636,306
Consumer staples	8,750,266	-	-	8,750,266
Energy	2,847,396	-	-	2,847,396
Financial	21,188,388	-	-	21,188,388
Healthcare	14,245,500	-	-	14,245,500
Industrials	15,644,600	-	-	15,644,600
Information technology	29,643,245	-	-	29,643,245
Other	7,417,861	-	-	7,417,861
	<u>119,373,562</u>	<u>-</u>	<u>-</u>	<u>119,373,562</u>
Alternative investments				
Limited liability companies	-	-	22,153,614	22,153,614
Limited partnerships	-	-	3,287,118	3,287,118
Closely-held corporation	-	-	403,260	403,260
	<u>-</u>	<u>-</u>	<u>25,843,992</u>	<u>25,843,992</u>
Notes receivable	-	-	3,893,507	3,893,507
Beneficial interests in charitable remainder trusts				
Unitrusts	-	-	2,419,973	2,419,973
Annuity trust	-	-	571,115	571,115
	<u>-</u>	<u>-</u>	<u>2,991,088</u>	<u>2,991,088</u>
	<u>\$ 450,888,152</u>	<u>\$ 22,791,036</u>	<u>\$ 32,728,587</u>	<u>\$ 506,407,775</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note J - 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, 2017:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 16,334,564	\$ -	\$ -	\$ 16,334,564
U.S. government and government agency obligations				
Rated AAA	-	3,634,172	-	3,634,172
Rated AA- to AA+	-	160,378	-	160,378
	<u>-</u>	<u>3,794,550</u>	<u>-</u>	<u>3,794,550</u>
Corporate bonds and notes				
Rated AAA	-	587,208	-	587,208
Rated AA- to AA+	-	2,123,608	-	2,123,608
Rated A- to A+	-	4,851,524	-	4,851,524
Rated BB+ to BBB+	-	2,048,041	-	2,048,041
	<u>-</u>	<u>9,610,381</u>	<u>-</u>	<u>9,610,381</u>
Municipal bonds				
Rated AAA	-	301,516	-	301,516
Rated AA- to AA+	-	2,130,770	-	2,130,770
Rated A- to A+	-	1,518,435	-	1,518,435
	<u>-</u>	<u>3,950,721</u>	<u>-</u>	<u>3,950,721</u>
Mutual funds				
Equity	71,084,888	-	-	71,084,888
Fixed income	114,539,198	-	-	114,539,198
Index and exchange traded funds	55,839,636	-	-	55,839,636
International	47,104,660	-	-	47,104,660
Other	6,442,863	-	-	6,442,863
	<u>295,011,245</u>	<u>-</u>	<u>-</u>	<u>295,011,245</u>
Common stock				
Consumer discretionary	15,430,474	-	-	15,430,474
Consumer staples	9,238,850	-	-	9,238,850
Energy	4,160,208	-	-	4,160,208
Financial	20,403,005	-	-	20,403,005
Healthcare	14,644,414	-	-	14,644,414
Industrials	15,157,213	-	-	15,157,213
Information technology	26,010,547	-	-	26,010,547
Other	14,033,010	-	-	14,033,010
	<u>119,077,721</u>	<u>-</u>	<u>-</u>	<u>119,077,721</u>
Alternative investments				
Limited liability companies	-	-	15,598,464	15,598,464
Limited partnerships	-	-	1,506,734	1,506,734
Closely-held corporation	-	-	403,260	403,260
	<u>-</u>	<u>-</u>	<u>17,508,458</u>	<u>17,508,458</u>
Notes receivable	-	-	1,066,165	1,066,165
Beneficial interests in charitable remainder trusts and real estate				
Unitrusts	-	-	7,372,165	7,372,165
Annuity trust	-	-	573,781	573,781
Real estate	-	-	3,400,000	3,400,000
	<u>-</u>	<u>-</u>	<u>11,345,946</u>	<u>11,345,946</u>
	<u>\$ 430,423,530</u>	<u>\$ 17,355,652</u>	<u>\$ 29,920,569</u>	<u>\$ 477,699,751</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note J - Fair Value Measurements (Continued)

The changes in the Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs during the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 29,920,569	\$ 26,124,321
Purchases/contributions	8,157,409	1,810,000
Sales	(9,216,585)	(240,624)
Net unrealized and realized appreciation	3,771,608	1,042,391
Actuarial change	95,586	1,184,481
End of the year	<u>\$ 32,728,587</u>	<u>\$ 29,920,569</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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 6,199,953	\$ 6,199,953
Annuity trust	-	-	52,961	52,961
Pooled income fund	-	-	518,902	518,902
Charitable gift annuities	-	-	695,974	695,974
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,467,790</u>	<u>\$ 7,467,790</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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 5,355,360	\$ 5,355,360
Annuity trust	-	-	63,850	63,850
Pooled income fund	-	-	539,619	539,619
Charitable gift annuities	-	-	721,657	721,657
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,680,486</u>	<u>\$ 6,680,486</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note J - Fair Value Measurements (Continued)

The changes in the Level 3 liabilities measured at fair value on a recurring basis using significant unobservable inputs during the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 6,680,486	\$ 6,684,821
Actuarial change	1,574,747	684,374
Payment obligations	(787,443)	(688,709)
End of the year	<u>\$ 7,467,790</u>	<u>\$ 6,680,486</u>

The following table sets forth the unfunded commitments, redemption frequencies, and redemption notice periods related to the Foundation's limited liability company and limited partnership investments for which the fair values at June 30, 2018 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 liability companies - marketable securities	\$ 13,787,597	\$ -	N/A	N/A
Limited liability companies - marketable securities	5,749,374	-	monthly	30 days
Limited liability companies - commercial real estate	1,416,643	-	N/A	N/A
Limited liability companies - commercial and residential real estate	1,200,000	-	N/A	N/A
Limited partnerships - marketable securities	625,837	-	quarterly	45 days
Limited partnerships - marketable securities	59,800	-	N/A	N/A
Limited partnerships - marketable securities and private equity	82,224	-	quarterly	65 days
Limited partnerships - private equity	305,518	26,000	N/A	N/A
Limited partnerships - distressed debt	2,213,739	2,340,000	N/A	N/A

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note K - 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 720 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 remainder trusts and charitable gift annuities, 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:

- the purposes of the organization and the respective endowment fund
- other resources of the organization
- the investment policies of the organization
- the duration and preservation of the endowment fund
- the expected total return from income and the appreciation of investments
- general economic conditions
- 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)
Years Ended June 30, 2018 and 2017

Note K - Endowment Funds (Continued)

At June 30, 2018, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 87,686,060	\$ -	\$ -	\$ 87,686,060
Endowments subject to donor fund agreements	<u>194,005,599</u>	<u>167,189,992</u>	<u>8,059,055</u>	<u>369,254,646</u>
	<u>\$ 281,691,659</u>	<u>\$ 167,189,992</u>	<u>\$ 8,059,055</u>	<u>\$ 456,940,706</u>

At June 30, 2017, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 82,959,172	\$ -	\$ -	\$ 82,959,172
Endowments subject to donor fund agreements	<u>180,072,195</u>	<u>154,215,467</u>	<u>8,059,055</u>	<u>342,346,717</u>
	<u>\$ 263,031,367</u>	<u>\$ 154,215,467</u>	<u>\$ 8,059,055</u>	<u>\$ 425,305,889</u>

Changes in endowment net assets during the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 263,031,367	\$ 154,215,467	\$ 8,059,055	\$ 425,305,889
Contributions	1,623,712	27,858,445	-	29,482,157
Investment return				
Net investment income	2,199,460	9,739,802	-	11,939,262
Net unrealized and realized appreciation	3,697,541	22,670,883	-	26,368,424
Net assets released from restrictions	47,294,605	(47,294,605)	-	-
Appropriation of endowment assets for expenditure	<u>(36,155,026)</u>	<u>-</u>	<u>-</u>	<u>(36,155,026)</u>
End of the year	<u>\$ 281,691,659</u>	<u>\$ 167,189,992</u>	<u>\$ 8,059,055</u>	<u>\$ 456,940,706</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note K - Endowment Funds (Continued)

Changes in endowment net assets during the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 242,445,191	\$ 131,235,042	\$ 8,059,055	\$ 381,739,288
Contributions	3,383,347	46,511,966	-	49,895,313
Investment return				
Net investment income	2,102,145	8,018,684	-	10,120,829
Net unrealized and realized appreciation	7,711,536	32,273,131	-	39,984,667
Net assets released from restrictions	63,823,356	(63,823,356)	-	-
Appropriation of endowment assets for expenditure	(56,434,208)	-	-	(56,434,208)
End of the year	<u>\$ 263,031,367</u>	<u>\$ 154,215,467</u>	<u>\$ 8,059,055</u>	<u>\$ 425,305,889</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 at June 30, 2018 and 2017.

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)
Years Ended June 30, 2018 and 2017

Note K - 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 standard spending policy is to make available for distribution 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 annually at an average rate of 3%. 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 L - 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, 2018 and 2017.

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, 2018 and 2017:

	Remainder of the original transfer	Amount attributable to the non- controlling interest	Total Orchestra Foundation net assets
Balance, June 30, 2016	\$ 7,600,000	\$ 1,262,053	\$ 8,862,053
Net change for the year ended June 30, 2017	<u>-</u>	<u>845,457</u>	<u>845,457</u>
Balance, June 30, 2017	7,600,000	2,107,510	9,707,510
Net change for the year ended June 30, 2018	<u>-</u>	<u>376,673</u>	<u>376,673</u>
Balance, June 30, 2018	<u>\$ 7,600,000</u>	<u>\$ 2,484,183</u>	<u>\$ 10,084,183</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note L - 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, 2018 and 2017 under the following captions:

	<u>2018</u>	<u>2017</u>
Non-controlling interest in unrestricted net assets	\$ 1,672,545	\$ 1,320,872
Non-controlling interest in permanently restricted net assets	<u>811,638</u>	<u>786,638</u>
	<u>\$ 2,484,183</u>	<u>\$ 2,107,510</u>

For the years ended June 30, 2018 and 2017, the change in net assets attributable to the Community Foundation is as follows:

	<u>2018</u>	<u>2017</u>
Total change in net assets per the accompanying consolidated statement of activities	\$ 32,828,345	\$ 44,588,956
Less change in net assets attributable to the non-controlling interest	<u>376,673</u>	<u>845,457</u>
Change in net assets attributable to the Community Foundation	<u>\$ 32,451,672</u>	<u>\$ 43,743,499</u>

Note M - Office Space Lease

The Community Foundation leases its office space under an operating lease. The lease agreement, under which the Community Foundation currently pays rent in the amount of \$13,955 per month, inclusive of utilities, expires in September 2020. Each October, the monthly rent payment amount, inclusive of utilities, increases as follows: October 2018 - \$14,428; October 2019 - \$14,901.

Rent expense totaled approximately \$167,000 and \$165,000 for the years ended June 30, 2018 and 2017, respectively.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note M - Office Space Lease (Continued)

At June 30, 2018, the future minimum lease payments under this operating lease are as follows:

<u>Year ending June 30</u>	
2019	\$ 171,714
2020	177,391
2021	44,702
	<u>\$ 393,807</u>

Note N - 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, 2018 and 2017, investment management and other fees include approximately \$1,587,000 and \$1,360,000, respectively, of investment management and custodial fees.

Note O - 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% of the participant's compensation. Pension plan expense for the years ended June 30, 2018 and 2017 totals approximately \$75,000 and \$82,000, respectively.

Note P - Revocable Beneficiary

During 2006, the Community Foundation was notified that it was the revocable beneficiary of a charitable lead trust. During 2018 and 2017, the Community Foundation received distributions from the trust in the amount of approximately \$2,400,000 and \$7,900,000, respectively. In accordance with the terms of the related trust agreement, the Community Foundation received its the final distribution from the trust in April 2018.

Note Q - Restatements

Management subsequently identified misstatements in the 2018 and 2017 consolidated financial statements related to investments, temporarily restricted unrealized gains (losses) on investments, and temporarily restricted net assets. The accompanying 2018 and 2017 consolidated financial statements have been restated to correct the impact of the warranted adjustments.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note Q - Restatements (Continued)

The financial statement line items were impacted as follows:

Consolidated Statements of Financial Position

	<u>2018</u>	<u>2017</u>
Investments, as previously stated	\$ 504,335,583	\$ 470,587,640
Adjustment to investments as of July 1, 2016	(8,481,706)	(8,481,706)
Cumulative adjustments to temporarily restricted net unrealized gains	<u>3,669,303</u>	<u>3,181,706</u>
Investments, as restated	<u>\$ 499,523,180</u>	<u>\$ 465,287,640</u>
	<u>2018</u>	<u>2017</u>
Temporarily restricted endowment net assets, as previously stated	\$ 172,002,395	\$ 159,515,467
Net adjustments to temporarily restricted endowment net assets	<u>(4,812,403)</u>	<u>(5,300,000)</u>
Temporarily restricted endowment net assets, as restated	<u>\$ 167,189,992</u>	<u>\$ 154,215,467</u>

Consolidated Statements of Activities

	<u>2018</u>	<u>2017</u>
Temporarily restricted net unrealized gains on investments, as previously stated	\$ 387,217	\$ 21,758,192
Adjustments to temporarily restricted net unrealized gains on investments	<u>487,597</u>	<u>3,181,706</u>
Temporarily restricted net unrealized gains on investments, as restated	<u>\$ 874,814</u>	<u>\$ 24,939,898</u>
		<u>2017</u>
Temporarily restricted net assets, beginning of year, as previously stated		\$ 140,766,748
Adjustment to investments as of July 1, 2016		<u>(8,481,706)</u>
Temporarily restricted net assets, beginning of year, as restated		<u>\$ 132,285,042</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note R - Subsequent Event

Subsequent to year-end, the Orchestra Foundation's Board of Directors consented to formally dissolving the Orchestra Foundation on or before December 31, 2018. As discussed in Note A, 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.

In 2018, the Orchestra Foundation's articles of incorporation were amended to permit the Orchestra Foundation to distribute the entirety of its net assets to the Community Foundation (versus the lesser of its net assets or an amount equal to the remainder of the Community Foundation's initial transfer to the Orchestra Foundation as described above). Pursuant to a "fund agreement" dated December 3, 2018, the Orchestra Foundation agreed to establish a designated endowment fund to support the presentations of classical and other musical performances by the Louisville Orchestra, Inc. The designated endowment fund will be established with a transfer from the Orchestra Foundation of its net assets, which is expected to approximate \$9,900,000. This transfer has not yet occurred.

Supplementary Information

**The Community Foundation of Louisville, Inc.
Consolidated Schedule of Functional Expenses
Year Ended June 30, 2018**

	Program services	Management and general	Fundraising	Total
Grants	\$ 31,468,829	\$ -	\$ -	\$ 31,468,829
Special programs	208,288	-	-	208,288
Income distributions from Depositories to donors' funds	523,369	-	-	523,369
Distributions from deferred funds	787,443	-	-	787,443
Investment management and other fees	-	1,588,615	-	1,588,615
Salaries, payroll taxes, and benefits	640,173	1,196,372	412,715	2,249,260
Rent, utilities, and office expenses	91,464	180,310	39,290	311,064
Marketing and communications	3,211	-	159,231	162,442
Development and stewardship	-	-	24,086	24,086
Mission and impact	3,414	-	-	3,414
Legal, audit, and other professional services	84,983	287,741	37,717	410,441
Travel, entertainment, and conference expenses	26,532	47,001	8,218	81,751
Software maintenance contracts and upgrades	10,381	22,686	5,383	38,450
Memberships and reference materials and continuing education	2,531	32,118	5,352	40,001
Postage, printing, and publications	7,192	15,715	3,729	26,636
Miscellaneous expenses	4,788	18,504	11,433	34,725
Depreciation and amortization	14,678	37,364	7,611	59,653
	<u>\$ 33,877,276</u>	<u>\$ 3,426,426</u>	<u>\$ 714,765</u>	<u>\$ 38,018,467</u>
Totals	<u>\$ 33,877,276</u>	<u>\$ 3,426,426</u>	<u>\$ 714,765</u>	<u>\$ 38,018,467</u>

See accompanying independent auditor's report.

**The Community Foundation of Louisville, Inc.
Consolidated Schedule of Functional Expenses
Year Ended June 30, 2017**

	Program services	Management and general	Fundraising	Total
Grants	\$ 52,173,213	\$ -	\$ -	\$ 52,173,213
Special programs	321,206	-	-	321,206
Income distributions from Depositories to donors' funds	689,848	-	-	689,848
Distributions from deferred funds	688,709	-	-	688,709
Investment management and other fees	-	1,373,243	-	1,373,243
Salaries, payroll taxes, and benefits	578,249	1,080,651	372,793	2,031,693
Rent, utilities, and office expenses	77,957	166,081	37,733	281,771
Marketing and communications	898	-	121,162	122,060
Development and stewardship	-	-	24,762	24,762
Mission and impact	13,411	-	-	13,411
Legal, audit, and other professional services	49,454	160,078	20,565	230,097
Travel, entertainment, and conference expenses	18,681	28,291	4,204	51,176
Software maintenance contracts and upgrades	13,626	29,774	7,065	50,465
Memberships and reference materials and continuing education	1,268	34,760	5,779	41,807
Postage, printing, and publications	5,478	11,969	2,840	20,287
Miscellaneous expenses	2,177	8,495	68,914	79,586
Depreciation and amortization	20,701	49,560	10,734	80,995
	<u>\$ 54,654,876</u>	<u>\$ 2,942,902</u>	<u>\$ 676,551</u>	<u>\$ 58,274,329</u>
Totals				

See accompanying independent auditor's report.