

The Community Foundation of Louisville, Inc.

Consolidated Financial Statements

June 30, 2012 and 2011

The Community Foundation of Louisville, Inc.
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June 30, 2012 and 2011

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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 statements of financial position of The Community Foundation of Louisville, Inc. (a not-for-profit organization) as of June 30, 2012 and 2011 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the organization's management. 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 at June 30, 2012 and 2011, and revenues, gains, and other support constituting 1% and 2% of consolidated revenues, gains, and other support, respectively, 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Community Foundation of Louisville, Inc. as of June 30, 2012 and 2011, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements. The consolidated schedules of functional expenses on page 26 are presented for purposes of additional analysis of the consolidated financial statements and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and directly relates to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.



Louisville, Kentucky
January 29, 2013

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The Community Foundation of Louisville, Inc.
Consolidated Statements of Financial Position
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash	\$ 1,491,405	\$ 986,547
Investments	338,653,385	339,070,761
Accounts receivable	32,563	12,865
Contributions receivable	8,844,376	12,514,871
Other receivable	179,358	192,772
Beneficial interests in charitable remainder trusts and other deferred funds	4,979,040	4,887,102
Cash surrender value of life insurance	311,111	311,822
Property and equipment, net	160,959	48,769
Other assets	327,713	379,794
	<u>354,979,910</u>	<u>358,405,303</u>
Total assets	<u>\$ 354,979,910</u>	<u>\$ 358,405,303</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 10,740	\$ 12,599
Grants payable	19,647,459	4,185,517
Accrued expenses	89,090	77,501
Depository liabilities		
Depository	10,850,241	14,402,835
Corporate Depository	7,856,595	7,346,857
Agency endowment liabilities	15,161,793	15,844,445
Deferred gift liabilities for split-interest agreements	7,180,779	7,697,450
Other liabilities	240,738	225,459
	<u>61,037,435</u>	<u>49,792,663</u>
Total liabilities	<u>61,037,435</u>	<u>49,792,663</u>
Net assets		
Unrestricted		
Operations	599,651	643,111
Endowments	170,863,961	191,488,446
Depositories	284,303	300,246
Non-controlling interest in unrestricted net assets (see Note M)	(744,746)	(381,110)
Total unrestricted	<u>171,003,169</u>	<u>192,050,693</u>
Temporarily restricted	<u>112,335,125</u>	<u>105,900,205</u>
Permanently restricted		
Endowments	9,797,684	9,797,684
Non-controlling interest in permanently restricted net assets (see Note M)	806,497	864,058
Total permanently restricted	<u>10,604,181</u>	<u>10,661,742</u>
Total net assets	<u>293,942,475</u>	<u>308,612,640</u>
Total liabilities and net assets	<u>\$ 354,979,910</u>	<u>\$ 358,405,303</u>

See accompanying notes to the consolidated
financial statements

The Community Foundation of Louisville, Inc.
Consolidated Statements of Activities
Years ended June 30, 2012 and 2011

	2012			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Contributions and bequests	\$ 206,972	\$ 19,774,761	\$ (57,561)	\$ 19,924,172
Less amounts received for agency endowments	-	(135,299)	-	(135,299)
Investment income	2,334,279	4,820,350	-	7,154,629
Net unrealized gains on investments	-	-	-	-
Net realized gains on sales of investments	228,747	1,281,800	-	1,510,547
Administered fund fees				
Depository and Corporate Depository	42,254	-	-	42,254
Endowment and deferred funds	36,007	-	-	36,007
Other income	57,750	-	-	57,750
	<u>2,906,009</u>	<u>25,741,612</u>	<u>(57,561)</u>	<u>28,590,060</u>
Net assets released from restrictions due to				
Satisfaction of donor restrictions	17,266,118	(17,266,118)	-	-
Withdrawals of restrictions by donors	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>20,172,127</u>	<u>8,475,494</u>	<u>(57,561)</u>	<u>28,590,060</u>
Expenses and losses				
Program services				
Grants	36,612,890	-	-	36,612,890
Less amounts granted for agency endowments	(1,034,317)	-	-	(1,034,317)
Income distributions from Depositories				
to donors' funds	492,887	-	-	492,887
Distributions from deferred funds	787,033	-	-	787,033
Other program services expenses	818,535	-	-	818,535
	<u>37,677,028</u>	<u>-</u>	<u>-</u>	<u>37,677,028</u>
Management and general	2,194,547	-	-	2,194,547
Fundraising	581,761	-	-	581,761
	<u>40,453,336</u>	<u>-</u>	<u>-</u>	<u>40,453,336</u>
Net unrealized losses on investments	766,315	2,040,574	-	2,806,889
	<u>41,219,651</u>	<u>2,040,574</u>	<u>-</u>	<u>43,260,225</u>
Change in net assets	(21,047,524)	6,434,920	(57,561)	(14,670,165)
Net assets, beginning of year	192,050,693	105,900,205	10,661,742	308,612,640
Net asset reclassifications based on change in law (see Note L)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 171,003,169</u>	<u>\$ 112,335,125</u>	<u>\$ 10,604,181</u>	<u>\$ 293,942,475</u>

See accompanying notes to the consolidated
financial statements

2011

<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
\$ 2,039,503	\$ 27,539,733	\$ 3,721	\$ 29,582,957
-	(196,641)	-	(196,641)
2,345,407	5,485,333	-	7,830,740
12,330,142	28,880,670	-	41,210,812
870,333	3,946,725	-	4,817,058
49,176	-	-	49,176
32,716	-	-	32,716
48,208	-	-	48,208
<u>17,715,485</u>	<u>65,655,820</u>	<u>3,721</u>	<u>83,375,026</u>
40,927,367	(40,927,367)	-	-
28,500	-	(28,500)	-
<u>58,671,352</u>	<u>24,728,453</u>	<u>(24,779)</u>	<u>83,375,026</u>
22,167,963	-	-	22,167,963
(1,456,294)	-	-	(1,456,294)
783,827	-	-	783,827
837,086	-	-	837,086
924,511	-	-	924,511
<u>23,257,093</u>	<u>-</u>	<u>-</u>	<u>23,257,093</u>
2,200,493	-	-	2,200,493
501,729	-	-	501,729
<u>25,959,315</u>	<u>-</u>	<u>-</u>	<u>25,959,315</u>
-	-	-	-
<u>25,959,315</u>	<u>-</u>	<u>-</u>	<u>25,959,315</u>
32,712,037	24,728,453	(24,779)	57,415,711
229,949,246	10,259,191	10,988,492	251,196,929
(70,610,590)	70,912,561	(301,971)	-
<u>\$ 192,050,693</u>	<u>\$ 105,900,205</u>	<u>\$ 10,661,742</u>	<u>\$ 308,612,640</u>

The Community Foundation of Louisville, Inc.
Consolidated Statements of Cash Flows
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (14,670,165)	\$ 57,415,711
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	25,936	74,393
Net unrealized (gains) losses on investments	2,806,889	(41,210,812)
Net realized gains on sales of investments	(1,510,547)	(4,817,058)
Changes in assets and liabilities		
Accounts receivable	(19,698)	(12,767)
Contributions receivable	3,670,495	(3,734,516)
Beneficial interests in charitable remainder trusts and other deferred funds	(91,938)	(656,019)
Cash surrender value of life insurance	711	-
Other assets	52,081	(28,976)
Accounts payable	(1,859)	8,667
Grants payable	15,461,942	455,144
Accrued expenses	11,589	16,485
Depository liabilities	(3,042,856)	3,669,672
Agency endowment liabilities	(682,652)	1,929,386
Deferred gift liabilities for split-interest agreements	(516,671)	671,637
Other liabilities	15,279	41,376
	<u>1,508,536</u>	<u>13,822,323</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Proceeds from sales and maturities of investments	89,107,183	80,594,101
Net reduction of other receivable	13,414	12,436
Purchases of investments	(89,986,149)	(95,111,225)
Purchases of property and equipment	(138,126)	(15,684)
	<u>(1,003,678)</u>	<u>(14,520,372)</u>
Net cash used in investing activities		
Change in cash	504,858	(698,049)
Cash, beginning of year	<u>986,547</u>	<u>1,684,596</u>
Cash, end of year	<u>\$ 1,491,405</u>	<u>\$ 986,547</u>

See accompanying notes to the consolidated financial statements

**The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements
June 30, 2012 and 2011**

Note A--Nature of Organization/Consolidated Financial Statements

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

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

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

The Boards of Directors of the Depositories are comprised of the members of the Executive Committee of the Community Foundation.

In 2008, the Felix E. Martin, Jr. Foundation, Inc. (Martin Foundation) was established as a Type I supporting organization (as described in Section 509(a)(3) of the Internal Revenue Code) to the Community Foundation. The Martin Foundation was formed to receive and maintain the funds bequeathed by Felix 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.

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

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note B--Summary of Significant Accounting Policies

1. Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP for non-governmental entities.

2. Basis of Presentation

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

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

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 (see Note D). The fixed-income securities include U.S. government and government agency securities, corporate bonds/notes, and municipal bonds. 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 Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

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

5. Investments (Continued)

The Foundation's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note K for a discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade-date basis. Investments are generally administered as pools of commingled assets. Accordingly, investment income and unrealized gains (losses) are allocated to individual funds on a pro-rata 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. Unrealized gains (losses) are included in the change in net assets in the accompanying consolidated statements of activities.

In September 2009, the FASB issued guidance with respect to how entities should estimate the fair value of certain alternative investments. The fair value of investments within the scope of this guidance can now be determined using net asset value (NAV) per share as a practical expedient when the fair value is not readily determinable, unless it is probable the investment will be sold at something other than NAV. It also requires disclosure of certain attributes by major category of alternative investments, regardless of whether the practical expedient was used. See Notes E and K.

6. Contributions and Other Receivables

Contributions receivable consist principally of estates 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.

The other receivable amount is stated at the unpaid principal balance and is pursuant to an executed agreement between the Foundation and the respective other party.

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

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

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

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

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 gifts or bequests. 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 assets.

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 on deposit from depositors (individual or corporate) who control 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 their estimated fair value, the calculated present value of the income distributions or other payments to the donor or other designated beneficiaries during the terms of the respective split-interest agreements. See Note K for a description of the methodology to determine fair value.

12. Contributions and Bequests

Contributions and bequests, including, when applicable, 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.

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.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

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

14. Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Additionally, the Community 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 2008 through 2011 tax years remain open and subject to examination.

15. Reclassifications

Certain amounts for 2011 have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on the previously reported 2011 change in net assets.

16. Subsequent Events

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

Note C--Concentration of Credit Risk

Effective July 21, 2010, the federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) permanently increased from \$100,000 to \$250,000 per depositor.

On November 9, 2010, the FDIC issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act) which provides temporary unlimited deposit insurance for non-interest bearing accounts at all FDIC insured depository institutions. This separate coverage for non-interest bearing transaction accounts terminates on December 31, 2012.

At June 30, 2012, the Foundation’s non-interest bearing cash accounts are fully insured under the Act. At June 30, 2012, uninsured balances with respect to the Foundation’s interest bearing accounts, including invested certificates of deposit, total approximately \$1,663,000.

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, 2012 and 2011

Note D--Investments

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

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

At June 30, 2011, investments consist of the following (see Note K):

	<u>Community Foundation</u>	<u>Depository</u>	<u>Corporate Depository</u>	<u>Martin Foundation</u>	<u>Orchestra Foundation</u>	<u>Consolidated</u>
Cash equivalents	\$ 9,701,705	\$ 3,224,736	\$ 1,992,876	\$ 463,738	\$ 17,100	\$ 15,400,155
U.S. government and government agency obligations	3,945,604	2,737,034	444,191	6,025,021	-	13,151,850
Corporate bonds and notes	466,266	1,925,877	276,638	6,303,651	-	8,972,432
Municipal bonds	1,134,121	-	-	-	-	1,134,121
Mutual funds	192,842,284	3,830,160	1,766,325	29,545,175	5,071,195	233,055,139
Common stock	28,236,123	30,000	2,512,469	9,998,336	-	40,776,928
Alternative investments (see Note E)	<u>21,007,521</u>	<u>2,738,525</u>	<u>-</u>	<u>-</u>	<u>2,834,090</u>	<u>26,580,136</u>
	<u>\$ 257,333,624</u>	<u>\$ 14,486,332</u>	<u>\$ 6,992,499</u>	<u>\$ 52,335,921</u>	<u>\$ 7,922,385</u>	<u>\$ 339,070,761</u>

Note E--Alternative Investments

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

Limited partnerships: The Foundation has investments in twelve limited partnerships. Four of the limited partnerships invest primarily in marketable securities with a readily determinable fair value. The other eight limited partnerships invest primarily 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 capital invested.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note E--Alternative Investments (Continued)

Limited liability companies: The Foundation has investments in three limited liability companies. One of the limited liability companies invests primarily in marketable securities with a readily determinable fair value. The other two limited liability companies invest primarily 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.

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

Note F--Contributions Receivable

At June 30, 2012 and 2011, contributions receivable consist of the following:

	<u>2012</u>	<u>2011</u>
Estimated to be collected in less than one year	\$ 8,844,376	\$ 11,514,871
Estimated to be collected in one to five years	-	1,000,000
Estimated to be collected thereafter	-	-
	<u>8,844,376</u>	<u>12,514,871</u>
Less discounts to net present value	-	-
	<u>\$ 8,844,376</u>	<u>\$ 12,514,871</u>

Note G--Other Receivable

During 2006, shares of stock of a privately owned company were donated to the Foundation by one of the company's principal owners. Subsequently, the shares were purchased from the Foundation under the terms of a promissory note. The note's interest rate changes annually based on the "federal mid-term rate," however if the "federal mid-term rate" is less than or equal to 4.75% (1.07% and 2.27% at June 30, 2012 and 2011, respectively), the note receivable shall bear interest at 7.50%. Interest income on the note receivable is recognized over the term of the note and is calculated using the simple-interest method on the outstanding principal amount. The note is payable in monthly payments of principal and interest totaling approximately \$2,300 through the note's May 2021 maturity date. The amount due to the Foundation under this note receivable at June 30, 2012 and 2011 totals \$179,358 and \$192,772, respectively. As of June 30, 2012, the required principal payments due during 2013 total approximately \$14,500.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note H--Property and Equipment, Net

At June 30, 2012 and 2011, net property and equipment consists of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 12,500	\$ -
Building	116,772	-
Leasehold improvements	59,840	59,840
Office furniture and equipment	151,876	152,465
Computer hardware and software	<u>231,092</u>	<u>228,467</u>
	572,080	440,772
Less accumulated depreciation and amortization	<u>411,121</u>	<u>392,003</u>
	<u>\$ 160,959</u>	<u>\$ 48,769</u>

Depreciation and amortization expense totals \$25,936 and \$74,393 for the years ended June 30, 2012 and 2011, respectively.

Note I--Depository Liabilities

A progression of depository liabilities for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Depository</u>	<u>Corporate Depository</u>	<u>Depository</u>	<u>Corporate Depository</u>
Beginning of the year	\$ 14,402,835	\$ 7,346,857	\$ 11,008,906	\$ 7,071,114
Additions	6,483,868	3,525,382	11,245,072	3,759,764
Net investment income retained	15,090	100,056	(20,502)	62,349
Net unrealized and realized appreciation	1,244	376,496	10,733	653,604
Distributions	<u>(10,052,796)</u>	<u>(3,492,196)</u>	<u>(7,841,374)</u>	<u>(4,199,974)</u>
End of the year	<u>\$ 10,850,241</u>	<u>\$ 7,856,595</u>	<u>\$ 14,402,835</u>	<u>\$ 7,346,857</u>

Note J--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 of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note J--Split-interest Agreements (Continued)

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 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 promise by the Community Foundation to pay a fixed amount to the donor or to others designated by the donor for a specified period of time. Obligations continue until the death of the beneficiary.

The 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 related assumptions used in calculating the respective 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.

Amounts subject to split-interest agreements include the following as of June 30, 2012 and 2011 (see Note K):

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

	2011			
	Charitable remainder <u>trusts</u>	Pooled income <u>funds</u>	Charitable gift <u>annuities</u>	<u>Total</u>
Assets	\$ 13,845,090	\$ 549,271	\$ 1,209,926	\$ 15,604,287
Liabilities	6,624,225	457,115	616,110	7,697,450

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note K--Fair Value Measurements

The ASC provides a framework for measuring fair value. That 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, 2012 and 2011.

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 partners of each of the respective partnerships. Eight of the twelve limited partnerships make investments in securities for which there are no readily available market quotations. Therefore, the fair values of these limited partnerships 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 remaining limited partnerships invest entirely in publicly traded securities with readily determinable fair values. The fair values of these limited partnerships 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.

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note K--Fair Value Measurements (Continued)

Limited liability companies: The estimated fair values are based on information provided by the managing member of each respective limited liability company. Two of the three limited liability companies make investments in securities for which there are no readily available market quotations. Therefore, the fair values of these limited liability companies 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 third limited liability company invests entirely in publicly traded securities with readily determinable fair values. The fair value of this limited liability company is determined by allocating the aggregate fair values of the underlying securities to each member based on the number of units held by the member.

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.

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

Deferred gift liabilities for split-interest agreements: The estimated fair value is based on the calculated present value of the income distributions or other payments to the donor or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective 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, 2012 and 2011

Note K--Fair Value Measurements (Continued)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 17,400,387	\$ -	\$ -	\$ 17,400,387
U.S. government and government agency obligations				
Rated AAA	-	12,114,105	-	12,114,105
Rated AA- to AA+	<u>-</u>	<u>38,312</u>	<u>-</u>	<u>38,312</u>
	<u>-</u>	<u>12,152,417</u>	<u>-</u>	<u>12,152,417</u>
Corporate bonds and notes				
Rated AAA	-	30,321	-	30,321
Rated AA- to AA+	-	2,014,033	-	2,014,033
Rated A- to A+	-	5,290,042	-	5,290,042
Rated BB+ to BBB+	<u>-</u>	<u>1,627,640</u>	<u>-</u>	<u>1,627,640</u>
	<u>-</u>	<u>8,962,036</u>	<u>-</u>	<u>8,962,036</u>
Municipal bonds				
Rated AAA	-	251,392	-	251,392
Rated AA- to AA+	-	1,341,672	-	1,341,672
Rated A- to A+	<u>-</u>	<u>15,300</u>	<u>-</u>	<u>15,300</u>
	<u>-</u>	<u>1,608,364</u>	<u>-</u>	<u>1,608,364</u>
Mutual funds				
Equity	86,943,695	-	-	86,943,695
Fixed income	83,135,132	-	-	83,135,132
Index and exchange trade funds	32,108,788	-	-	32,108,788
International	24,174,218	-	-	24,174,218
Other	<u>1,075,665</u>	<u>-</u>	<u>-</u>	<u>1,075,665</u>
	<u>227,437,498</u>	<u>-</u>	<u>-</u>	<u>227,437,498</u>
Common stock				
Consumer discretionary	8,076,846	-	-	8,076,846
Energy	4,298,721	-	-	4,298,721
Financial	8,207,099	-	-	8,207,099
Health care	5,077,015	-	-	5,077,015
Industrials	4,423,102	-	-	4,423,102
Information technology	7,056,151	-	-	7,056,151
Other	<u>9,592,517</u>	<u>-</u>	<u>-</u>	<u>9,592,517</u>
	<u>46,731,451</u>	<u>-</u>	<u>-</u>	<u>46,731,451</u>
Alternative investments				
Limited partnerships	-	-	17,079,013	17,079,013
Limited liability companies	-	-	7,031,969	7,031,969
Closely held corporations	<u>-</u>	<u>-</u>	<u>250,250</u>	<u>250,250</u>
	<u>-</u>	<u>-</u>	<u>24,361,232</u>	<u>24,361,232</u>
Beneficial interests in charitable remainder trusts and other deferred funds				
Unitrusts	-	-	4,780,213	4,780,213
Charitable trust	<u>-</u>	<u>-</u>	<u>198,827</u>	<u>198,827</u>
	<u>-</u>	<u>-</u>	<u>4,979,040</u>	<u>4,979,040</u>
	<u>\$ 291,569,336</u>	<u>\$ 22,722,817</u>	<u>\$ 29,340,272</u>	<u>\$ 343,632,425</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note K--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, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 15,400,155	\$ -	\$ -	\$ 15,400,155
U.S. government and government agency obligations				
Rated AAA	-	13,151,850	-	13,151,850
Corporate bonds and notes				
Rated AA- to AA+	-	4,025,711	-	4,025,711
Rated A- to A+	-	4,454,862	-	4,454,862
Rated BB+ to BBB+	-	491,859	-	491,859
	<u>-</u>	<u>8,972,432</u>	<u>-</u>	<u>8,972,432</u>
Municipal bonds				
Rated AA- to AA+	-	1,108,503	-	1,108,503
Rated A- to A+	-	25,618	-	25,618
	<u>-</u>	<u>1,134,121</u>	<u>-</u>	<u>1,134,121</u>
Mutual funds				
Equity	96,938,317	-	-	96,938,317
Fixed income	80,219,401	-	-	80,219,401
Index and exchange trade funds	29,328,544	-	-	29,328,544
International	24,739,837	-	-	24,739,837
Other	1,829,040	-	-	1,829,040
	<u>233,055,139</u>	<u>-</u>	<u>-</u>	<u>233,055,139</u>
Common stock				
Consumer discretionary	5,909,506	-	-	5,909,506
Energy	3,662,744	-	-	3,662,744
Financial	6,699,071	-	-	6,699,071
Health care	3,826,709	-	-	3,826,709
Industrials	6,140,519	-	-	6,140,519
Information technology	5,676,873	-	-	5,676,873
Other	8,861,506	-	-	8,861,506
	<u>40,776,928</u>	<u>-</u>	<u>-</u>	<u>40,776,928</u>
Alternative investments				
Limited partnerships	-	-	18,007,485	18,007,485
Limited liability companies	-	-	8,342,989	8,342,989
Closely held corporations	-	-	229,662	229,662
	<u>-</u>	<u>-</u>	<u>26,580,136</u>	<u>26,580,136</u>
Beneficial interests in charitable remainder trusts and other deferred funds				
Unitrusts	-	-	4,698,092	4,698,092
Charitable trust	-	-	189,010	189,010
	<u>-</u>	<u>-</u>	<u>4,887,102</u>	<u>4,887,102</u>
	<u>\$ 289,232,222</u>	<u>\$ 23,258,403</u>	<u>\$ 31,467,238</u>	<u>\$ 343,957,863</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note K--Fair Value Measurements (Continued)

The years ended June 30, 2012 and 2011 activity of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 investments and beneficial interests in charitable remainder trusts and other deferred funds per the previous two tables) is as follows:

	<u>2012</u>	<u>2011</u>
Beginning of the year	\$ 31,467,238	\$ 19,373,021
Purchases/contributions	785,511	8,303,504
Sales	(3,977,711)	(504,123)
Net unrealized and realized appreciation	983,114	3,646,696
Actuarial change	82,120	648,140
Transfers in/out of Level 3	-	-
End of the year	<u>\$ 29,340,272</u>	<u>\$ 31,467,238</u>

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

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

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts				
Unitrusts	\$ -	\$ -	\$ 6,505,464	\$ 6,505,464
Gift annuity trusts	-	-	118,761	118,761
Pooled income funds	-	-	457,115	457,115
Charitable gift annuities	-	-	616,110	616,110
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,697,450</u>	<u>\$ 7,697,450</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note K--Fair Value Measurements (Continued)

The years ended June 30, 2012 and 2011 activity of the liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 deferred gift liabilities per the previous two tables) is as follows:

	<u>2012</u>	<u>2011</u>
Beginning of the year	\$ 7,697,450	\$ 7,025,813
New deferred gifts	-	-
Actuarial change	269,915	1,501,094
Payment obligations	(786,586)	(829,457)
Transfers in/out of Level 3	-	-
End of the year	<u>\$ 7,180,779</u>	<u>\$ 7,697,450</u>

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

	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Limited partnerships - marketable securities	\$ 7,688,625	\$ -	quarterly	45 days
Limited partnerships - marketable securities	7,288,130	-	quarterly	30 days
Limited partnerships - private equity	782,770	-	quarterly	65 days
Limited partnerships - private equity	1,319,488	1,672,500	N/A	N/A
Limited liability companies - marketable securities	6,867,178	-	monthly	10 days
Limited liability companies - private equity	106,557	92,000	N/A	N/A

The following table sets forth the fair values at June 30, 2011 relative to the alternative investments for which the fair values are determined using a net asset value per share or its equivalent:

	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Limited partnerships - marketable securities	\$ 7,342,464	\$ -	quarterly	45 days
Limited partnerships - marketable securities	7,585,140	-	quarterly	30 days
Limited partnerships - private equity	1,742,410	-	quarterly	65 days
Limited partnerships - private equity	609,327	-	quarterly	30 days
Limited partnerships - private equity	728,144	2,248,500	N/A	N/A
Limited liability companies - marketable securities	7,934,604	-	monthly	10 days
Limited liability companies - private equity	108,385	104,000	N/A	N/A

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note L--Endowment Funds

In August 2008, the FASB issued ASC 958-205-45-28, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*. This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The pronouncement also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

In March 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which was July 15, 2010. Accordingly, the Foundation adopted ASC 958-205-45-28 and the enacted state of Kentucky UPMIFA legislation for the year ended June 30, 2011. In connection therewith, management performed a comprehensive review of all of the Foundation's endowment funds. As a result, \$70,610,590 of net assets previously reported as unrestricted net assets as of June 30, 2010 and \$301,971 of net assets previously reported as permanently restricted as of June 30, 2010 were reclassified to temporarily restricted net assets (net asset reclassifications based on change in law per the accompanying 2011 consolidated statement of activities).

The Foundation's endowments consist of approximately 510 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 donor-restricted endowment fund
- 2) other resources of the organization
- 3) the investment policies of the organization
- 4) the duration and preservation of the fund
- 5) general economic conditions
- 6) the possible effect of inflation and deflation
- 7) the expected total return from income and the appreciation of investments

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

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note L--Endowment Funds (Continued)

Interpretation of relevant law (continued):

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

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

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

At June 30, 2011, endowment net assets consist of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board designated	\$ 65,125,139	\$ -	\$ -	\$ 65,125,139
Donor restricted	<u>126,363,307</u>	<u>105,900,205</u>	<u>9,797,684</u>	<u>242,061,196</u>
	<u>\$191,488,446</u>	<u>\$105,900,205</u>	<u>\$ 9,797,684</u>	<u>\$307,186,335</u>

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

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

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note L--Endowment Funds (Continued)

Changes in endowment net assets during the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of the year	\$ 229,823,382	\$ 10,259,191	\$ 10,099,655	\$ 250,182,228
Net asset reclassifications based on change in law	(70,610,590)	70,912,561	(301,971)	-
Contributions	1,745,538	27,343,092	-	29,088,630
Investment return				
Net investment income	1,646,468	5,485,333	-	7,131,801
Net unrealized and realized appreciation	11,018,554	32,827,395	-	43,845,949
Net assets released from restrictions	40,927,367	(40,927,367)	-	-
Appropriation of endowment assets for expenditure	<u>(23,062,273)</u>	<u>-</u>	<u>-</u>	<u>(23,062,273)</u>
End of the year	<u>\$ 191,488,446</u>	<u>\$ 105,900,205</u>	<u>\$ 9,797,684</u>	<u>\$ 307,186,335</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 that 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 were no such deficiencies as of June 30, 2012 and 2011.

Return objectives and risk parameters:

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

Strategies employed for achieving return objectives:

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

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

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

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note M--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, 2012 and 2011.

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, 2012 and 2011:

	Remainder of the original <u>transfer</u>	Amount attributable to the non- controlling <u>interest</u>	Total Orchestra Foundation <u>net assets</u>
Balance, June 30, 2010	\$ 7,600,000	\$ (50,919)	\$ 7,549,081
Net change for the year ended June 30, 2011	<u>-</u>	<u>533,867</u>	<u>533,867</u>
Balance, June 30, 2011	7,600,000	482,948	8,082,948
Net change for the year ended June 30, 2012	<u>-</u>	<u>(421,197)</u>	<u>(421,197)</u>
Balance, June 30, 2012	<u>\$ 7,600,000</u>	<u>\$ 61,751</u>	<u>\$ 7,661,751</u>

The Community Foundation's non-controlling interest in the net assets of the Orchestra Foundation is presented in the accompanying consolidated statements of financial position as of June 30, 2012 and 2011 under the following captions:

	<u>2012</u>	<u>2011</u>
Non-controlling interest in unrestricted net assets	\$ (744,746)	\$ (381,110)
Non-controlling interest in permanently restricted net assets	<u>806,497</u>	<u>864,058</u>
	<u>\$ 61,751</u>	<u>\$ 482,948</u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note M--Non-controlling Interest (Continued)

For the years ended June 30, 2012 and 2011, the change in net assets attributable to the Community Foundation is as follows:

	<u>2012</u>	<u>2011</u>
Total change in net assets per the accompanying consolidated statements of activities	\$(14,670,165)	\$ 57,415,711
Less change in net assets attributable to the non-controlling interest	<u>(421,197)</u>	<u>533,867</u>
Change in net assets attributable to the Community Foundation	<u><u>\$(14,248,968)</u></u>	<u><u>\$ 56,881,844</u></u>

Note N--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 (electric), initially expired in April 2012, but was renewed through September 2012 under the same terms and conditions.

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, not including any amounts paid to the lessor for utilities, totals approximately \$84,000 for both 2012 and 2011.

The future minimum lease payments under the operating lease, including the impact of the lease entered into in October 2012, are as follows:

<u>Year ending June 30</u>	
2013	\$ 144,447
2014	164,616
2015	164,616
2016	164,616
2017	164,616
Thereafter	<u>41,154</u>
	<u><u>\$ 844,065</u></u>

The Community Foundation of Louisville, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2012 and 2011

Note O--Investment Management 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, 2012 and 2011, investment management and other fees include approximately \$891,000 and \$961,000, respectively, of investment management and custodial fees.

Note P--Pension Plan

The Community Foundation has a defined contribution pension plan covering all employees who are at least twenty-one years old and have at least one year of service. Participants become fully vested upon completion of two years of service. Currently, the monthly employer contributions are based on 6.50% of the participant's compensation. Pension plan expense for the years ended June 30, 2012 and 2011 totals approximately \$77,000 and \$75,000, respectively.

Note Q--Revocable Beneficiary

During 2006, the Community Foundation was notified that it was the revocable beneficiary of a charitable lead trust. During both 2012 and 2011, the Community Foundation received distributions from the trust in the amount of approximately \$7,400,000. 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, 2012 and 2011

	2012			
	Program services	Management and general	Fundraising	Total
Grants	\$ 35,578,573	\$ -	\$ -	\$ 35,578,573
Special programs	157,164	-	-	157,164
Income distributions from Depositories to donors' funds	492,887	-	-	492,887
Distributions from deferred funds	787,033	-	-	787,033
Investment management and other fees	-	904,079	-	904,079
Salaries, payroll taxes, and benefits	490,062	915,796	315,939	1,721,797
Rent, utilities, and office expenses	49,975	100,001	21,886	171,862
Marketing and communications and planned giving design center	3,126	-	201,305	204,431
Legal, audit, and other professional services	61,090	142,369	15,506	218,965
Travel, entertainment, and conference expenses	30,175	40,423	8,279	78,877
Software maintenance contracts and upgrades	12,136	26,519	6,293	44,948
Memberships and reference materials and continuing education	1,368	33,120	5,585	40,073
Postage, printing, and publications	6,211	13,571	3,221	23,003
Miscellaneous expenses	809	2,480	419	3,708
Depreciation and amortization	6,419	16,189	3,328	25,936
Totals	<u>\$ 37,677,028</u>	<u>\$ 2,194,547</u>	<u>\$ 581,761</u>	<u>\$ 40,453,336</u>

See accompanying independent
auditor's report

2011

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
\$	20,711,669	\$ -	\$ -	\$ 20,711,669
	315,374	-	-	315,374
	783,827	-	-	783,827
	837,086	-	-	837,086
	-	982,040	-	982,040
	445,338	859,752	287,104	1,592,194
	41,476	87,424	20,103	149,003
	2,925	-	144,762	147,687
	50,635	100,197	15,482	166,314
	25,980	39,930	6,104	72,014
	13,853	30,271	7,182	51,306
	1,610	40,537	6,826	48,973
	6,717	14,679	3,483	24,879
	517	1,771	268	2,556
	<u>20,086</u>	<u>43,892</u>	<u>10,415</u>	<u>74,393</u>
\$	<u>23,257,093</u>	\$ <u>2,200,493</u>	\$ <u>501,729</u>	\$ <u>25,959,315</u>