

AUDITED FINANCIAL STATEMENTS
Laurel Foundation
Year Ended June 30, 2010

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Audited Financial Statements
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Laurel Foundation
Pittsburgh, Pennsylvania

We have audited the accompanying statement of assets and fund balance - modified cash basis of the Laurel Foundation as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance - modified cash basis for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting used for federal excise tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and fund balance of the Laurel Foundation as of June 30, 2010, and its revenue, expenditures and changes in fund balance for the year then ended, on the basis of accounting described in Note 2.

Our audit was made for the purpose of expressing an opinion on the basic financial statements taken as a whole. The fair value information included in the statement of assets and fund balance - modified cash basis, is presented for informational purposes only and is not a required part of the basic financial statements. Such information has not been subjected to our auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Sisterson + Co. LLP

October 29, 2010

Laurel Foundation

Statement of Assets and Fund Balance -
Modified Cash Basis

	<u>June 30, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>
		<i>(Unaudited)</i>
Assets		
Cash, cash equivalents, and short-term investments	\$ 91,787	\$ 91,787
Stocks and bonds:		
Equity investments	20,873,407	17,998,686
Fixed-income investments	11,859,713	12,557,456
Total stocks and bonds	<u>32,733,120</u>	<u>30,556,142</u>
Partnership, trust and other assets	1,835,591	1,903,336
Total assets	<u>\$ 34,660,498</u>	<u>\$ 32,551,265</u>
Liabilities and Fund Balance		
Unappropriated fund balance	\$ 34,660,498	\$ 32,551,265
Total fund balance	<u>\$ 34,660,498</u>	<u>\$ 32,551,265</u>

The accompanying notes are an integral part of this financial statement.

Laurel Foundation

Statement of Revenues, Expenditures and Changes in Fund Balance -
Modified Cash Basis

	<u>Year Ended</u> <u>June 30, 2010</u>
Revenues:	
Dividends and interest	\$ 701,615
Realized capital losses	<u>(1,628,468)</u>
	(926,853)
Expenditures:	
Grant payments	1,307,913
Investment and related administrative expenses	133,479
Administrative expenses related to grantmaking	224,833
Federal excise taxes	<u>5,681</u>
	1,671,906
Changes in Fund Balance:	
Excess of expenditures over revenues	(2,598,759)
Unappropriated fund balance at beginning of year	<u>37,259,257</u>
Unappropriated fund balance at end of year	<u><u>\$ 34,660,498</u></u>

The accompanying notes are an integral part of this financial statement.

Laurel Foundation

Notes to Financial Statements

Year Ended June 30, 2010

1. Organization - Laurel Foundation (the Foundation) was incorporated in 1951 as a nonprofit organization for the purpose of grantmaking in the Pittsburgh and southwestern Pennsylvania region in the fields of art and culture, education, environment, health and human services, and community and public benefit. The Foundation uses the return from investments to make grants to charitable organizations.

2. Significant Accounting Policies

Basis of Accounting - The Foundation reports on the modified cash basis of accounting generally following accounting principles used for federal excise tax purposes. Revenues are recognized when cash is received or when amounts are taxed, and expenditures are recognized when cash is disbursed. Accordingly, grants to charitable organizations are recognized as expenditures when paid. Accounts do not include interest and dividends receivable, amortization of bond premiums, accretion of bond discounts, or other liabilities unless subject to federal excise tax in the current period. Federal excise taxes are accrued as expenses in the year to which they relate.

The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America ("GAAP") primarily due to GAAP requiring investments to be recorded at fair market value and grant expenses to be recognized at the time an unconditional promise is made.

Cash, Cash Equivalents, and Short-Term Investments - The Foundation considers all highly liquid investments having original maturities of three months or less to be cash equivalents and all investments having original maturities of one year or less to be short-term investments.

Stocks and Bonds - Stocks and bonds are recorded at cost on the acquisition date. Acquisitions and sales are accounted for on the trade date, when the order to buy or sell is executed.

Partnership and Trust - The partnership and trust are recorded at cost and adjusted in accordance with the Internal Revenue Code for increases (additional contributions and allocated income) and decreases (withdrawals and allocated expenses). Acquisitions and sales are accounted for on the trade date when the order to buy or sell is executed.

Investment Concentration - An investment in a diversified fixed income mutual fund accounts for approximately 38.6% of the fair value of the Foundation's investments as of June 30, 2010.

Laurel Foundation

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fund Balance - Grants approved to be paid in a future year are reflected as appropriated fund balance until paid. Unappropriated fund balance includes the amount of the original endowment, gains recognized on sales and other dispositions of assets, and net revenues in excess of expenditures.

Federal Excise Taxes - The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986 and, accordingly, is not subject to federal income tax on investment income. However, the Foundation is classified as a private foundation and is subject to an excise tax of 1% or 2% on net investment income. In order to qualify for the 1% tax rate, charitable expenses and grants must exceed the average expense and grant payout rate (as a percentage of assets) for the previous five years. For the year ended June 30, 2010, the Foundation incurred the excise tax at the rate of 1% of net investment income.

Subsequent Events - The Foundation evaluates events and transaction occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through October 29, 2010, the date on which the financial statements were available to be issued.

Uncertain Tax Positions - The Financial Accounting Standards Board "Accounting Standards Codification on Income Taxes" clarifies recognition, measurement, presentation and disclosure relating to uncertain tax positions. The Foundation's excise tax returns for tax years 2007 and later remain subject to examination by the Internal Revenue Service.

3. Fair Value of Assets

Fair value of assets is presented for comparative purposes. The statement of revenues, expenditures, and changes in fund balance-modified cash basis does not include any unrealized gains or losses due to changes in the fair value of assets. Fair values of stocks, bonds, the trust and short-term investments are based upon published quotations. The fair value of the partnership was determined by management, which relies primarily on the valuation provided by the general partner of the fund.

Laurel Foundation

Notes to Financial Statements (continued)

4. Retirement Benefits

The Foundation has a defined contribution retirement plan covering all employees after one year of service. The Foundation funded and charged to expenditures \$46,965 for the year ended June 30, 2010.

5. Related Party

The Foundation shares office space, office expenses and most staff with Colcom Foundation. Pursuant to a joint operating agreement, the Foundation reimburses Colcom Foundation for certain expenses, based on the relative assets in each foundation, with periodic adjustments. The Foundation has also entered into a sublease for office space from Colcom Foundation, extending to October 31, 2018. Total lease expense for the year ended June 30, 2010 was \$8,394. Because the share of the rent payable by the Foundation is adjusted periodically, future minimum lease payments are not fixed in amount.