

**BLUE GRASS COMMUNITY FOUNDATION, INC.
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

CPAs / ADVISORS



BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

TABLE OF CONTENTS
JUNE 30, 2018 AND 2017

	Page
Report of Independent Auditors	1
 Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7



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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Blue Grass Community Foundation, Inc. and Affiliate
Lexington, Kentucky

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Blue Grass Community Foundation, Inc. and Affiliate (the "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 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 audits 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization 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.

Blue & Co., LLC

Seymour, Indiana

December 3, 2018

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 AND 2017

	ASSETS	
	2018	2017 As Restated
Cash and cash equivalents	\$ 8,094,397	\$ 6,272,551
Certificates of deposit	478,258	265,862
Pledges receivable	2,147,397	1,618,450
Investments	108,066,007	90,169,983
Property and equipment, net	628,182	684,282
Beneficial interest in trust	5,500,268	5,235,574
Cash surrender value of life insurance	441,470	314,867
Other assets	1,369,651	1,365,854
Total assets	<u>\$ 126,725,630</u>	<u>\$ 105,927,423</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 16,185	\$ 18,712
Note payable	519,325	531,930
Custodial funds	13,515,404	10,113,132
Total liabilities	14,050,914	10,663,774
Net assets		
Unrestricted	31,662,062	26,903,832
Temporarily restricted	81,012,654	68,359,817
Total net assets	112,674,716	95,263,649
Total liabilities and net assets	<u>\$ 126,725,630</u>	<u>\$ 105,927,423</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	As Restated Total
Support and revenues				
Contributions	\$ 9,966,112	\$ 8,707,627	\$ 18,673,739	\$ 27,153,302
Grants	458,500	-0-	458,500	1,138,956
Interest and dividend income, net	558,626	2,146,073	2,704,699	1,743,047
Realized and unrealized gains on investments	798,279	4,809,596	5,607,875	5,276,271
Change in value of beneficial interest in trust	-0-	450,393	450,393	411,987
Change in value of cash surrender value of life insurance	47,900	-0-	47,900	70,104
Community support fee income	1,223,642	-0-	1,223,642	1,071,084
Net assets released from restrictions	<u>3,460,852</u>	<u>(3,460,852)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	16,513,911	12,652,837	29,166,748	36,864,751
Expenses				
Program expenses	11,219,108	-0-	11,219,108	11,181,936
General and administrative expenses	484,075	-0-	484,075	533,898
Fundraising expenses	<u>52,498</u>	<u>-0-</u>	<u>52,498</u>	<u>60,518</u>
Total expenses	<u>11,755,681</u>	<u>-0-</u>	<u>11,755,681</u>	<u>11,776,352</u>
Change in net assets	4,758,230	12,652,837	17,411,067	25,088,399
Net assets, beginning of year	<u>26,903,832</u>	<u>68,359,817</u>	<u>95,263,649</u>	<u>70,175,250</u>
Net assets, end of year	<u>\$ 31,662,062</u>	<u>\$ 81,012,654</u>	<u>\$ 112,674,716</u>	<u>\$ 95,263,649</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES (AS RESTATED) YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions	\$ 9,795,186	\$ 17,358,116	\$ 27,153,302
Grants	1,138,956	-0-	1,138,956
Interest and dividend income, net	429,923	1,313,124	1,743,047
Realized and unrealized gains on investments	1,055,691	4,220,580	5,276,271
Change in value of beneficial interest in trust	-0-	411,987	411,987
Change in value of cash surrender value of life insurance	70,104		70,104
Community support fee income	1,071,084	-0-	1,071,084
Net assets released from restrictions	<u>2,387,942</u>	<u>(2,387,942)</u>	<u>-0-</u>
Total support and revenues	15,948,886	20,915,865	36,864,751
Expenses			
Program expenses	11,181,936	-0-	11,181,936
General and administrative expenses	533,898	-0-	533,898
Fundraising expenses	<u>60,518</u>	<u>-0-</u>	<u>60,518</u>
Total expenses	<u>11,776,352</u>	<u>-0-</u>	<u>11,776,352</u>
Change in net assets	<u>\$ 4,172,534</u>	<u>\$ 20,915,865</u>	<u>\$ 25,088,399</u>
Net assets, beginning of year			
As previously reported	\$ 24,318,837	\$ 45,856,413	\$ 70,175,250
Reclassification	<u>(1,587,539)</u>	<u>1,587,539</u>	<u>-0-</u>
As restated	22,731,298	47,443,952	70,175,250
Change in net assets	<u>4,172,534</u>	<u>20,915,865</u>	<u>25,088,399</u>
Net assets, end of year	<u>\$ 26,903,832</u>	<u>\$ 68,359,817</u>	<u>\$ 95,263,649</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating activities		
Change in net assets	\$ 17,411,067	\$ 25,088,399
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	56,100	84,035
Loss on disposal of property and equipment	-0-	982
Non-cash contribution of life insurance	(78,703)	-0-
Non-cash contribution received on beneficial interest in trust	-0-	(5,000,000)
Interest earned on certificates of deposit	(4,458)	-0-
Reinvested interest and dividends received on investments	(3,133,912)	(2,252,183)
Realized and unrealized gains on investments	(6,365,659)	(6,028,068)
Change in value of beneficial interest in trust	(450,393)	(411,987)
Change in value of cash surrender value of life insurance	(47,900)	(70,104)
Change in operating assets and liabilities:		
Pledges receivable	(528,947)	(1,478,350)
Other assets	(3,797)	(999,097)
Accounts payable	(2,527)	3,563
Custodial funds	3,402,272	2,461,888
Net cash flows from operating activities	10,253,143	11,399,078
Investing activities		
Purchases of property and equipment	-0-	(23,126)
Purchases of certificates of deposit	(473,800)	(265,862)
Maturities of certificates of deposit	265,862	265,199
Proceeds from sales of investments	22,417,448	17,308,841
Purchases of investments	(30,813,901)	(26,044,396)
Net cash flows from investing activities	(8,604,391)	(8,759,344)
Financing activities		
Payments on note payable	(12,605)	(12,153)
Payments received from charitable trust	185,699	176,413
Net cash flows from financing activities	173,094	164,260
Net change in cash and cash equivalents	1,821,846	2,803,994
Cash and cash equivalents, beginning of year	6,272,551	3,468,557
Cash and cash equivalents, end of year	\$ 8,094,397	\$ 6,272,551

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Blue Grass Community Foundation, Inc. (the "Foundation") is an independent nonprofit corporation formed as a community foundation for the primary benefit of the citizens of the central and eastern regions of Kentucky. The Foundation's purpose is to establish a permanent and growing endowment to benefit the community, while providing philanthropic leadership for the enrichment of education, human services, social, religious, or cultural endeavors.

In 2013, the Board of Directors formed Four Ninety Nine East High Street, LLC ("LLC") as a single member LLC of the Foundation to hold the building that the Foundation occupies.

Consolidation Policy

The accounts of the LLC are consolidated with the accounts of the Foundation. All inter-entity transactions have been eliminated in consolidation. The consolidated operations of the Foundation and the LLC are hereinafter collectively referred to as the "Organization."

Management's Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

Basis of Presentation

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization plans to follow the donor restrictions of each contributor. However, the Organization has the right to modify any restriction or condition on the distribution of funds for any specific charitable purpose if, in the opinion of a majority of the Organization's Board of Directors, such restriction or conditions become unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions or have been allocated for expenditure by the Board of Directors. Unrestricted net assets are composed of the Organization's operating fund, special project funds, fiscal sponsorships, endowed funds allocated for expenditure and non-endowed funds.

Temporarily restricted net assets – Net assets not yet appropriated for expenditure by the Organization's Board of Directors in accordance with their spending policy or that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market investments and exclude amounts held by the Organization's fund managers and included in investments.

Pledges Receivable

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Management estimates an allowance for doubtful pledges receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Organization's donors. No allowance for doubtful pledges receivable was determined necessary as of June 30, 2018.

Investments and Investment Return

The Organization carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Consolidated Statements of Activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as unrestricted or temporarily restricted based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Organization's spending policy. Interest and dividend income is shown net of investment fees of \$368,151 and \$235,319 for the years ended June 30, 2018 and 2017, respectively, on the Consolidated Statements of Activities.

Property and Equipment

Property and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at fair value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred. Property and equipment is being depreciated over its estimated useful lives ranging from five to thirty-nine years using the straight-line method.

Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (pledges receivable), are recognized as revenues in the period the contribution is received or the promise is made.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Support and revenues are reported as increases in either unrestricted or temporarily restricted net assets in accordance with the classification of the related fund as it relates to the Organization's spending policy. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either unrestricted or temporarily restricted net assets in accordance with the classification of the related fund as it relates to the Organization's spending policy. All other revenue is recorded when earned.

Community Support Fees

Community support fees are expensed from the funds to support the operations of the Organization. Community support fees from all funds are reflected as revenue on the Consolidated Statements of Activities. The community support fees from custodial funds (agency endowments) are not included as expenses on the Consolidated Statements of Activities because they are included in the change in custodial funds.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

Income Taxes

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 501(a) of the Code. The LLC is disregarded for income tax purposes and all of its activities attribute to the Foundation.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, the Organization is generally exempt from income taxes. However, the Organization is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Reclassifications

Certain prior year amounts have been reclassified herein to conform to the current method of presentation.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Organization's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are available to be issued.

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the Consolidated Statement of Financial Position date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued, which is December 3, 2018.

2. RESTATEMENT

The Organization has restated its consolidated financial statements to correct unrestricted and temporarily restricted net assets at June 30, 2017 due to duplication of net assets released and recognition of time restrictions. This restatement had no effect on net assets as a whole. The changes reflected in the consolidated financial statements as of and for the year ended June 30, 2017 are as follows:

	2017 as Previously Reported	Adjustment	2017 Restated
Statement of Financial Position:			
Unrestricted net assets	\$ 36,309,151	\$ (9,405,319)	\$ 26,903,832
Temporarily restricted net assets	58,954,498	9,405,319	68,359,817
Statement of Activities:			
Unrestricted contributions	15,588,166	(5,792,980)	9,795,186
Temporarily restricted contributions	11,565,136	5,792,980	17,358,116
Unrestricted interest and dividend income, net	606,336	(176,413)	429,923
Change in value of beneficial interest in trust	235,574	176,413	411,987
Unrestricted net assets released from restrictions	4,236,329	(1,848,387)	2,387,942
Temporarily restricted net assets released from restrictions	(4,236,329)	1,848,387	(2,387,942)
Unrestricted net assets, beginning of year	24,318,837	(1,587,539)	22,731,298
Temporarily restricted net assets, beginning of year	45,856,413	1,587,539	47,443,952
Unrestricted net assets, end of year	36,309,151	(9,405,319)	26,903,832
Temporarily restricted net assets, end of year	58,954,498	9,405,319	68,359,817
Unrestricted change in net assets	11,990,314	(7,817,780)	4,172,534
Temporarily restricted change in net assets	13,098,085	7,817,780	20,915,865

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

3. CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following as of June 30, 2018 and 2017:

2018			2017		
Amount	Maturity	Interest Rate	Amount	Maturity	Interest Rate
\$ 225,737	11/29/2018	0.85%	<u>\$ 265,862</u>	9/19/2017	0.25%
132,568	8/29/2019	1.20%			
119,953	8/29/2020	1.40%			
<u>\$ 478,258</u>					

4. PLEDGES RECEIVABLE

Unconditional pledges receivable total \$2,147,397 and \$1,618,450 at June 30, 2018 and 2017, respectively. Amounts due subsequent to year end are as follows:

	2018	2017
Amounts due in:		
Less than one year	\$ 674,672	\$ 356,920
One to five years	<u>1,472,725</u>	<u>1,261,530</u>
	<u>\$ 2,147,397</u>	<u>\$ 1,618,450</u>

Pledges receivable have not been discounted to present value due to the immaterial effect.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

5. INVESTMENTS

Investments at June 30, 2018 and 2017, consist of the following:

	2018	2017
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 966,833	\$ 930,968
Money market funds	857,479	548,665
Common stock		
Large cap	4,913,263	4,586,473
Mid/small cap	236,808	321,624
International	1,502,786	1,491,034
Other	209,436	76,299
Mutual funds		
Fixed income		
Inflation protected	3,844,431	2,982,273
Intermediate	5,673,428	4,669,452
Other	10,469,730	9,282,029
Equity		
Large cap	35,632,126	33,606,426
Mid/small cap	15,007,180	11,201,384
Real estate	5,395,897	4,335,124
Energy	3,095,483	1,730,788
Natural resources	2,299,972	712,125
Commodities broad basket	16,360	2,486,786
Other	2,883,544	1,553,774
Exchange traded funds		
Equity		
Large cap	3,755,602	1,769,077
Mid/small cap	4,140,450	2,264,579
Natural resources	32,890	204,096
Commodities broad basket	214,061	46,456
Real estate	951,737	531,375
Other	518,969	414,746
Alternative investments		
Limited partnership	<u>5,447,542</u>	<u>4,424,430</u>
	<u>\$ 108,066,007</u>	<u>\$ 90,169,983</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

6. RISKS AND UNCERTAINTIES

The Organization holds investments (Note 5). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

7. FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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 (level 1) and the lowest priority to unobservable inputs (level 3). The Organization's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during 2018 or 2017. The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017:

- *Money market funds*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

- *Common stock*: Valued at the closing price reported on the active market which the individual securities are traded.
- *Mutual funds and exchange traded funds*: Valued at the daily closing price as reported by the fund. Mutual funds and exchange traded funds (“funds”) held by the Organization are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.
- *Beneficial interest in trust*: Fair value is determined by calculating the present value of future payments using a discount rate of 8.2%.
- *Alternative investments*: Valued at the net asset value (NAV) of the fund as determined by the reported valuations of underlying investment managers.

The following table sets forth financial assets measured at fair value in the Consolidated Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy on a recurring basis as of June 30, 2018 and 2017:

	2018		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ -0-	\$ 857,479	\$ 857,479
Common stock	6,862,293	-0-	6,862,293
Mutual funds	84,318,151	-0-	84,318,151
Exchange traded funds	9,613,709	-0-	9,613,709
Beneficial interest in trust	-0-	<u>5,500,268</u>	<u>5,500,268</u>
Total assets in fair value hierarchy	<u>\$ 100,794,153</u>	<u>\$ 6,357,747</u>	107,151,900
Alternative investments*			<u>5,447,542</u>
Total assets at fair value			<u>\$ 112,599,442</u>

	2017		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ -0-	\$ 548,665	\$ 548,665
Common stock	6,475,430	-0-	6,475,430
Mutual funds	72,560,161	-0-	72,560,161
Exchange traded funds	5,230,329	-0-	5,230,329
Beneficial interest in trust	-0-	<u>5,235,574</u>	<u>5,235,574</u>
Total assets in fair value hierarchy	<u>\$ 84,265,920</u>	<u>\$ 5,784,239</u>	90,050,159
Alternative investments*			<u>4,424,430</u>
Total assets at fair value			<u>\$ 94,474,589</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the consolidated statement of financial position.

A summary of the limited partnership as of June 30, 2018 and 2017, including balances, restrictions on redemptions and investment objectives, is as follows:

	2018	2017	Unfunded Commitment as of June 30, 2018
	<u>2018</u>	<u>2017</u>	<u>June 30, 2018</u>
FEG Private Opportunities Fund I	\$ 2,385,371	\$ 2,270,301	\$ 154,500
FEG Private Opportunities Fund II	<u>3,062,171</u>	<u>2,154,129</u>	<u>1,060,000</u>
	<u>\$ 5,447,542</u>	<u>\$ 4,424,430</u>	<u>\$ 1,214,500</u>

FEG Private Opportunities Fund I and II

The investment objectives of the FEG Private Opportunities Fund I and II (the "funds") is to invest in a diversified pool of underlying investment funds among the key segments (global private equity, special situations, or real assets) from established investment organizations to exploit the opportunities available from investing in their requisite market segments. Each of the three segments encompasses a range of investment strategies. The funds seek to allocate to underlying strategies in a manner that considers both the current market environment and the funds' diversification goals. In aggregate the funds seek a premium return relative to opportunities available in the public markets. Although the funds will typically commit capital to investment funds at formation, the funds, on an opportunistic basis, may also purchase investment funds in secondary transactions. The investments in the funds may not be redeemed at any time prior to the dissolution of the funds, but may be redeemed at the direct consent of the funds' general partner.

Due to the nature of the investments held by the equities and the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the equities and the funds and, consequently, the fair value of the Organization's interests in these investments. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Organization were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2018 and 2017 is as follows:

	2018	2017
	<u> </u>	<u> </u>
Furniture, equipment, and software	\$ 428,075	\$ 428,075
Building	<u>647,214</u>	<u>647,214</u>
	1,075,289	1,075,289
Less accumulated depreciation	<u>447,107</u>	<u>391,007</u>
	<u>\$ 628,182</u>	<u>\$ 684,282</u>

9. BENEFICIAL INTEREST IN TRUST

In 2017, the Organization received a promissory note from a trust in which the Organization expects to receive \$7,000,000 in December 2022. In calculating the present value of the beneficial interest in this trust, the Organization used a discount rate of 8.2 percent and factored in the monthly interest payments of \$14,583 that are to be received through the maturity date. Following is a progression of the beneficial interest in trust during 2018 and 2017:

	2018	2017
	<u> </u>	<u> </u>
Beginning balance	\$ 5,235,574	\$ -0-
Contribution	-0-	5,000,000
Payments received on trust	(185,699)	(176,413)
Change in value	<u>450,393</u>	<u>411,987</u>
Ending balance	<u>\$ 5,500,268</u>	<u>\$ 5,235,574</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

10. NOTE PAYABLE

The Organization has a loan from a financial institution for the purchase of the building. The loan is secured by real estate with a net book value of \$556,027 at June 30, 2018, and has an interest rate of 3.65%. Interest and principal payments are due in monthly installments of \$2,673 with a final balloon payment of \$465,452 due in July 2022. Maturities of payments on the note payable subsequent to June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 13,080
2020	13,521
2021	14,081
2022	<u>478,643</u>
	<u>\$ 519,325</u>

11. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Organization by other non-profit organizations based on their individual board resolutions. The Organization accounts for these transfers as a liability in accordance with standards set forth by the Financial Accounting Standards Board. Income is added to these funds periodically in accordance with the Organization's investment allocation policies. Contributions by, investment return credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Consolidated Statements of Activities. Following is a progression of custodial funds during 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 10,113,132	\$ 7,651,244
Contributions	3,559,981	1,684,070
Interest and dividend income, net	429,213	273,817
Realized and unrealized gains on investments	757,784	751,797
Community support fees	(63,017)	(75,254)
Grant payments	<u>(1,281,689)</u>	<u>(172,542)</u>
Ending balance	<u>\$ 13,515,404</u>	<u>\$ 10,113,132</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

12. UNRESTRICTED NET ASSETS

Unrestricted net assets are classified as follows at June 30, 2018 and 2017:

	2018	2017 As Restated
	<u>2018</u>	<u>As Restated</u>
Field of interest	\$ 1,137,414	\$ 1,019,014
Scholarship	480,899	424,553
Donor advised	25,864,881	22,097,948
Designated	2,400,557	1,739,544
Operating and special projects	1,321,989	1,435,414
Fiscal sponsorships	456,322	187,359
	<u>\$ 31,662,062</u>	<u>\$ 26,903,832</u>

13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are classified as follows at June 30, 2018 and 2017:

	2018	2017 As Restated
	<u>2018</u>	<u>As Restated</u>
Time restrictions related to:		
Pledges receivable to non-endowed funds	\$ 1,140,229	\$ 792,980
Beneficial interest in trust	5,500,268	5,235,574
Endowment funds not yet appropriated for expenditure:		
Discretionary	16,533,654	15,671,819
Field of interest	7,810,656	3,459,850
Scholarship	7,397,765	6,681,371
Donor advised	24,342,748	22,493,443
Designated	17,177,794	12,968,496
Operating endowment	1,109,540	1,056,284
	<u>\$ 81,012,654</u>	<u>\$ 68,359,817</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions or based on the Organization's spending policy during the years ended June 30, 2018 and 2017 are as follows:

	2018	2017 As Restated
Time restrictions related to:		
Beneficial interest in trust	\$ 185,699	\$ 176,413
Endowment funds appropriated for expenditure	<u>3,275,153</u>	<u>2,211,529</u>
	<u>\$ 3,460,852</u>	<u>\$ 2,387,942</u>

15. ENDOWMENT

The majority of the Organization's funds consist of donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring endowment funds to be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

capital without undue exposure to risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent greater than the consumer price index annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

The Organization has a policy of appropriating for distribution 3% to 6% of the endowment funds' average fair value over the prior 20 quarters as voted upon annually by the Board of Directors. In establishing this policy, the Organization considered the long-term expected return on its endowment.

Endowed funds are donor restricted funds that are all classified as temporarily restricted as of June 30, 2018 and 2017.

Changes in net assets related to endowed funds for the years ended June 30, 2018 and 2017 were as follows:

	2018	2017 As Restated
	<u>2018</u>	<u>As Restated</u>
Endowment net assets, beginning of year	\$ 62,331,263	\$ 47,443,952
Contributions and other revenue	8,360,378	11,565,136
Investment income	6,955,669	5,533,704
Appropriation of endowment assets for expenditure	<u>(3,275,153)</u>	<u>(2,211,529)</u>
Endowment net assets, end of year	<u>\$ 74,372,157</u>	<u>\$ 62,331,263</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

16. FUNCTIONAL EXPENSES

The Organization serves as a vehicle for residents of central and eastern Kentucky to donate to various organizations and projects in the region. Expenses related to providing this service for the years ended June 30, 2018 and 2017, are classified as follows:

	2018			
	Program	Fundraising	General and Administrative	Total
Grants	\$ 8,713,142	\$ -0-	\$ -0-	\$ 8,713,142
Support fees	1,092,099	-0-	-0-	1,092,099
Personnel costs	776,299	29,111	164,964	970,374
Marketing	64,918	7,213	-0-	72,131
Community and donor education	4,251	3,302	-0-	7,553
Occupancy and operating	298,362	11,189	84,415	393,966
Professional fees	225,160	-0-	225,160	450,320
Depreciation	44,877	1,683	9,536	56,096
	\$ 11,219,108	\$ 52,498	\$ 484,075	\$ 11,755,681
	2017			
	Program	Fundraising	General and Administrative	Total
Grants	\$ 9,053,797	\$ -0-	\$ -0-	\$ 9,053,797
Support fees	948,527	-0-	-0-	948,527
Personnel costs	687,418	25,778	146,076	859,272
Marketing	60,038	6,671	-0-	66,709
Community and donor education	4,963	4,214	-0-	9,177
Occupancy and operating	129,740	21,334	143,311	294,385
Professional fees	230,225	-0-	230,225	460,450
Depreciation	67,228	2,521	14,286	84,035
	\$ 11,181,936	\$ 60,518	\$ 533,898	\$ 11,776,352

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

17. RETIREMENT PLAN

The Organization has a 401(k) defined contribution retirement plan providing for employer contributions for all qualified employees who are at least 21 years old and who have performed services for at least one year. The Organization contributes a minimum of 3% of an employee's eligible compensation to the plan and may make additional discretionary contributions. The Organization's current discretionary contribution rate is 7%. Retirement plan expense was \$69,073 and \$52,577 for the years ended June 30, 2018 and 2017, respectively.

18. RELATED PARTY TRANSACTIONS

The Organization received \$1,268,820 and \$319,467 in contributions from members of the Organization's board of directors and staff during 2018 and 2017, respectively.

19. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash. Investments are held in various brokerage accounts. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

20. RECENTLY ISSUED ACCOUNTING STANDARDS

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in consolidated financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Organization is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users.

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow an NFP entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The Organization will be required to adopt this new standard in the year ending June 30, 2020.

The Organization is presently evaluating the effects that these ASU's will have on its future consolidated financial statements, including related disclosures.