

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

*CPAs / ADVISORS*



# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

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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, 2015 and 2014, 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, 2015 and 2014, 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

November 4 , 2015

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2015 AND 2014

### ASSETS

	2015	2014 As Restated
Cash and cash equivalents	\$ 4,302,634	\$ 4,141,994
Certificates of deposit	308,788	570,908
Pledges receivable	234,525	-0-
Investments	68,994,952	66,596,149
Property and equipment, net	812,479	875,356
Cash surrender value of life insurance	244,763	-0-
Other assets	179,901	44,362
Total assets	<u>\$ 75,078,042</u>	<u>\$ 72,228,769</u>

### LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 1,454	\$ 650
Note payable	555,813	567,964
Custodial funds	7,970,147	7,979,074
Other liabilities	191	1,317
Total liabilities	8,527,605	8,549,005
Net assets		
Unrestricted	17,704,069	16,908,981
Temporarily restricted	48,846,368	46,770,783
Total net assets	<u>66,550,437</u>	<u>63,679,764</u>
Total liabilities and net assets	<u>\$ 75,078,042</u>	<u>\$ 72,228,769</u>

*See accompanying notes to financial statements.*

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	2015			2014 As Restated
	Unrestricted	Temporarily Restricted	Total	Total
<b>Support and revenues</b>				
Contributions	\$ 7,655,442	\$ 5,409,878	\$ 13,065,320	\$ 14,785,933
Grants	175,933	-0-	175,933	300,999
Interest and dividend income, net	362,443	1,386,045	1,748,488	1,946,858
Realized gains on investments	217,285	1,260,363	1,477,648	1,316,028
Unrealized gains (losses) on investments	(599,825)	(3,537,194)	(4,137,019)	4,536,547
Community support fee income	854,362	-0-	854,362	946,123
Net assets released from restrictions	2,443,507	(2,443,507)	-0-	-0-
Total support and revenues	<u>11,109,147</u>	<u>2,075,585</u>	<u>13,184,732</u>	<u>23,832,488</u>
<b>Expenses</b>				
Program expenses	10,041,486	-0-	10,041,486	18,797,452
General and administrative expenses	208,232	-0-	208,232	247,067
Fundraising expenses	64,341	-0-	64,341	38,755
Total expenses	<u>10,314,059</u>	<u>-0-</u>	<u>10,314,059</u>	<u>19,083,274</u>
Change in net assets	795,088	2,075,585	2,870,673	4,749,214
<b>Net assets, beginning of year</b>	<u>16,908,981</u>	<u>46,770,783</u>	<u>63,679,764</u>	<u>58,930,550</u>
<b>Net assets, end of year</b>	<u>\$ 17,704,069</u>	<u>\$ 48,846,368</u>	<u>\$ 66,550,437</u>	<u>\$ 63,679,764</u>

*See accompanying notes to financial statements.*

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014 (AS RESTATED)

	Unrestricted	Temporarily Restricted	Total
<b>Support and revenues</b>			
Contributions	\$ 11,448,066	\$ 3,337,867	\$ 14,785,933
Grants	300,999	-0-	300,999
Interest and dividend income, net	311,945	1,634,913	1,946,858
Realized gains on investments	241,254	1,074,774	1,316,028
Unrealized gains on investments	754,049	3,782,498	4,536,547
Community support fee income	946,123	-0-	946,123
Net assets released from restrictions	<u>2,867,052</u>	<u>(2,867,052)</u>	<u>-0-</u>
Total support and revenues	16,869,488	6,963,000	23,832,488
<b>Expenses</b>			
Program expenses	18,797,452	-0-	18,797,452
General and administrative expenses	247,067	-0-	247,067
Fundraising expenses	<u>38,755</u>	<u>-0-</u>	<u>38,755</u>
Total expenses	<u>19,083,274</u>	<u>-0-</u>	<u>19,083,274</u>
Change in net assets	<u>\$ (2,213,786)</u>	<u>\$ 6,963,000</u>	<u>\$ 4,749,214</u>
<b>Net assets, beginning of year</b>			
As previously reported	\$ 19,122,767	\$ 39,196,257	\$ 58,319,024
Prior period adjustment related to correct recognition of custodial funds	<u>-0-</u>	<u>611,526</u>	<u>611,526</u>
As restated	19,122,767	39,807,783	58,930,550
Change in net assets	<u>(2,213,786)</u>	<u>6,963,000</u>	<u>4,749,214</u>
<b>Net assets, end of year</b>	<u>\$ 16,908,981</u>	<u>\$ 46,770,783</u>	<u>\$ 63,679,764</u>

*See accompanying notes to financial statements.*

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014 As Restated
<b>Operating activities</b>		
Change in net assets	\$ 2,870,673	\$ 4,749,214
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	75,421	74,989
Loss on disposal of property and equipment	710	11,947
Reinvested interest and dividends received on investments	(2,310,050)	(2,408,938)
Realized and unrealized (gains) losses on investments	3,127,900	(6,637,654)
Gifts of cash surrender value of life insurance	(244,763)	-0-
Change in operating assets and liabilities:		
Pledges receivable	(234,525)	-0-
Other assets	(135,539)	(44,362)
Accounts payable	804	(171,404)
Grants payable	-0-	-0-
Custodial funds	(8,927)	1,870,948
Other liabilities	(1,126)	1,202
Net cash flows from operating activities	3,140,578	(2,554,058)
<b>Investing activities</b>		
Purchases of property and equipment	(13,254)	(85,612)
Purchases of certificates of deposit	(308,788)	(570,908)
Maturities of certificates of deposit	570,908	904,432
Proceeds from sales of investments	21,910,257	13,621,485
Purchases of investments	(25,126,910)	(14,831,782)
Net cash flows from investing activities	(2,967,787)	(962,385)
<b>Financing activities</b>		
Payments on note payable	(12,151)	(11,725)
Net change in cash and cash equivalents	160,640	(3,528,168)
<b>Cash and cash equivalents, beginning of year</b>	4,141,994	7,670,162
<b>Cash and cash equivalents, end of year</b>	\$ 4,302,634	\$ 4,141,994
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 19,956	\$ 24,207

*See accompanying notes to financial statements.*



# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 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,

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# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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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 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.

### 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 \$228,252 and \$164,621 for the years ended June 30, 2015 and 2014, respectively, on the Consolidated Statements of Activities.

### 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, 2015.

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 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.

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.

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 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, 2015 and 2014, 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.

### 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 November 4, 2015.

## 2. RESTATEMENT

The Organization has restated its consolidated financial statements to correct the classification of custodial funds as of July 1, 2013. The correction resulted in a decrease in custodial funds of \$611,526 and an increase in temporarily restricted net assets of \$611,526 at July 1, 2013. The impact on the change in net assets for the year ending June 30, 2013 was an increase of \$80,280.

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

The change reflected in the consolidated financial statements as of and for the year ended June 30, 2014 are as follows:

	2014 as Previously Reported	Adjustment	2014 Restated
Custodial funds	\$ 8,927,736	\$ (948,662)	\$ 7,979,074
Temporarily restricted net assets	45,822,121	948,662	46,770,783
Temporarily restricted contributions	3,022,352	315,515	3,337,867
Contributions	14,470,418	315,515	14,785,933
Temporarily restricted unrealized gains on investments	3,760,877	21,621	3,782,498
Unrealized gains on investments	4,514,926	21,621	4,536,547
Temporarily restricted change in net assets	6,625,864	337,136	6,963,000
Change in net assets	4,412,078	337,136	4,749,214

### 3. CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following as of June 30, 2015 and 2014:

2015			2014		
Amount	Maturity	Interest Rate	Amount	Maturity	Interest Rate
\$ 245,035	5/28/2016	0.40%	\$ 263,488	9/19/2014	0.40%
<u>63,753</u>	5/28/2016	0.40%	153,710	5/28/2015	0.40%
			<u>153,710</u>	5/28/2015	0.40%
<u>\$ 308,788</u>			<u>\$ 570,908</u>		

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 4. PLEDGES RECEIVABLE

Unconditional pledges receivable total \$234,525 at June 30, 2015. Amounts due subsequent to year end are as follows:

Amounts due in:	
Less than one year	\$ 125,250
One to five years	<u>109,275</u>
	<u>\$ 234,525</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, 2015 AND 2014

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### 5. INVESTMENTS

Investments at June 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 162,658	\$ 557,480
Money market funds	428,460	548,322
Common stock		
Large cap	2,957,374	2,337,415
Mid/small cap	394,927	295,668
International	587,795	385,254
Fixed income securities	349,886	390,912
Mutual funds		
Fixed income		
Core and core plus	8,531,703	10,298,118
Intermediate	1,731,442	1,024,195
Other	1,122,518	1,113,860
Equity		
Large cap	7,780,181	12,217,402
Mid/small cap	3,846,084	6,954,587
International	7,513,887	8,125,798
Emerging markets	7,247,355	7,975,328
Real estate	1,696,434	1,684,542
Other	769,554	501,970
Exchange traded funds		
Fixed income		
Core fixed income	2,819,904	-0-
Equity		
Large cap	1,472,977	896,649
Mid/small cap	2,732,968	3,059,969
Natural resources	1,528,572	1,701,826
Commodities broad basket	1,609,812	1,582,440
Other	292,151	55,085
Alternative investments		
Hedged equity	10,844,233	3,463,879
Limited partnership	2,574,077	1,425,450
	<u>\$ 68,994,952</u>	<u>\$ 66,596,149</u>

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 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 OF FINANCIAL INSTRUMENTS

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 2015 or 2014. 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.



# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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, 2015 and 2014:

- *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.
- *Common stock:* Valued at the closing price reported on the active market which the individual securities are traded.
- *Fixed income securities:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *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.
- *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, 2015 and 2014:

	2015			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 428,460	\$ -0-	\$ 428,460	\$ -0-
Common stock	3,940,096	3,940,096	-0-	-0-
Fixed income securities	349,886	-0-	349,886	-0-
Mutual funds	40,239,158	40,239,158	-0-	-0-
Exchange traded funds	10,456,384	10,456,384	-0-	-0-
Alternative investments	13,418,310	-0-	10,844,233	2,574,077

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

	2014			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 548,322	\$ -0-	\$ 548,322	\$ -0-
Common stock	3,018,337	3,018,337	-0-	-0-
Fixed income securities	390,912	-0-	390,912	-0-
Mutual funds	49,895,800	49,895,800	-0-	-0-
Exchange traded funds	7,295,969	7,295,969	-0-	-0-
Alternative investments	4,889,329	-0-	3,463,879	1,425,450

A summary of hedged equity as of June 30, 2015 and 2014, including balances, restrictions on redemptions and investment objectives, is as follows:

	2015	2014	Redemption Notice	Redemption Frequency
FEG Equity Access	\$ 2,237,904	\$ 1,891,519	95 days	Semi-annually
FEG Absolute Access	<u>8,606,329</u>	<u>1,572,360</u>	95 days	Semi-annually
	<u>\$ 10,844,233</u>	<u>\$ 3,463,879</u>		

### ***FEG Equity Access and FEG Absolute Access Hedged Equities***

The investment objective of the FEG Equity Access and FEG Absolute Access hedged equities (the "equities") is to meet or exceed the performance of the broad equity markets over a full market cycle with less volatility than the equity markets as measured by the S&P 500 Index. The investments in equities may be redeemed at the net asset value on a semi-annual basis and there is a twelve month restriction on withdrawals as defined in the agreement based on the date of entry. Advance notice of 95 days is required to redeem these investments. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements.

A summary of the limited partnership as of June 30, 2015 and 2014, including balances, restrictions on redemptions and investment objectives, is as follows:

	2015	2014	Unfunded Commitment as of June 30, 2015
FEG Private Opportunities Fund I	\$ 2,000,995	\$ 1,425,450	\$ 784,500
FEG Private Opportunities Fund II	<u>573,082</u>	<u>-0-</u>	<u>3,400,000</u>
	<u>\$ 2,574,077</u>	<u>\$ 1,425,450</u>	<u>\$ 4,184,500</u>

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### ***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.

The alternative investments are classified as Level 2 and Level 3 depending on the Organization’s ability to redeem them. The Level 3 progression for the limited partnership for the years ended June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 1,425,450	\$ 700,732
Purchase of shares	1,309,638	790,362
Change in value	<u>(161,011)</u>	<u>(65,644)</u>
	<u>\$ 2,574,077</u>	<u>\$ 1,425,450</u>

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 8. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Furniture, equipment, and software	\$ 418,336	\$ 407,772
Building	<u>645,843</u>	<u>645,843</u>
	1,064,179	1,053,615
Less accumulated depreciation	<u>251,700</u>	<u>178,259</u>
	<u>\$ 812,479</u>	<u>\$ 875,356</u>

### 9. NOTE PAYABLE

In 2013, the Organization obtained a loan from a financial institution for the purchase of a building, which was refinanced in July 2015. The loan is secured by real estate with a net book value of \$604,462 at June 30, 2015, and has an interest rate of 3.65%. Beginning July 2015, under a refinance agreement, 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, 2015 are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 11,008
2017	12,436
2018	12,897
2019	13,376
2020	13,872
Thereafter	<u>492,224</u>
	<u>\$ 555,813</u>

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 10. 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 2015 and 2014:

	2015	2014 As Restated
Beginning balance	\$ 7,979,074	\$ 6,108,126
Contributions	669,605	1,060,188
Interest and dividend income, net	333,310	297,459
Realized gains on investments	89,211	187,610
Unrealized gains (losses) on investments	(557,740)	597,469
Community support fees	(74,459)	(51,017)
Grant payments	(468,854)	(220,761)
Ending balance	<u>\$ 7,970,147</u>	<u>\$ 7,979,074</u>

### 11. UNRESTRICTED NET ASSETS

Unrestricted net assets are classified as follows at June 30, 2015 and 2014:

	2015	2014
Discretionary	\$ 685,511	\$ 562,793
Field of interest	478,066	390,189
Scholarship	574,282	580,001
Donor advised	13,291,366	12,917,427
Designated	1,806,752	1,771,860
Operating and special projects	488,459	356,826
Fiscal sponsorships	379,633	329,885
	<u>\$ 17,704,069</u>	<u>\$ 16,908,981</u>

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# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are classified as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u> As Restated
Endowment funds not yet appropriated for expenditure:		
Discretionary	\$ 16,336,803	\$ 14,568,614
Field of interest	2,073,414	860,493
Scholarship	5,737,109	6,045,402
Donor advised	13,552,233	12,873,315
Designated	10,584,974	11,874,596
Operating endowment	508,861	513,923
Designated purpose restrictions related to:		
Lexington East End Equity Partnership	<u>52,974</u>	<u>34,440</u>
	<u>\$ 48,846,368</u>	<u>\$ 46,770,783</u>

### 13. 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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Endowment funds appropriated for expenditure	\$ 2,416,757	\$ 2,728,390
Designated purpose restrictions related to:		
Lexington East End Equity Partnership	26,750	55,462
Policy Food Project	<u>-0-</u>	<u>83,200</u>
	<u>\$ 2,443,507</u>	<u>\$ 2,867,052</u>

# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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### 14. 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 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 12 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.

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# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Endowed funds are donor restricted funds that are all classified as temporarily restricted as of June 30, 2015 and 2014. Changes in net assets related to endowed funds for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014 As Restated
Endowment net assets, beginning of year	\$ 46,736,343	\$ 39,703,490
Contributions and other revenue	5,406,459	3,269,058
Investment gains (losses)	(932,651)	6,492,185
Appropriation of endowment assets for expenditure	<u>(2,416,757)</u>	<u>(2,728,390)</u>
Endowment net assets, end of year	<u>\$ 48,793,394</u>	<u>\$ 46,736,343</u>

### 15. 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, 2015 and 2014, are classified as follows:

	2015			
	Program	Fundraising	General and Administrative	Total
Grants	\$ 8,118,432	\$ -0-	\$ -0-	\$ 8,118,432
Support fees	848,270	-0-	-0-	848,270
Personnel costs	750,170	25,004	58,346	833,520
Marketing	66,902	7,524	-0-	74,426
Community and donor education	4,556	4,816	-0-	9,372
Occupancy and operating	104,845	24,734	131,489	261,068
Professional fees	80,433	-0-	13,117	93,550
Depreciation	<u>67,878</u>	<u>2,263</u>	<u>5,280</u>	<u>75,421</u>
	<u>\$ 10,041,486</u>	<u>\$ 64,341</u>	<u>\$ 208,232</u>	<u>\$ 10,314,059</u>



# BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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	2014			
	<u>Program</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Grants	\$ 16,925,527	\$ -0-	\$ -0-	\$ 16,925,527
Support fees	785,768	-0-	-0-	785,768
Personnel costs	691,054	23,035	53,749	767,838
Marketing	90,148	10,453	-0-	100,601
Community and donor education	16,922	355	7,393	24,670
Occupancy and operating	152,147	2,662	161,485	316,294
Professional fees	68,396	-0-	19,191	87,587
Depreciation	<u>67,490</u>	<u>2,250</u>	<u>5,249</u>	<u>74,989</u>
	<u>\$ 18,797,452</u>	<u>\$ 38,755</u>	<u>\$ 247,067</u>	<u>\$ 19,083,274</u>

### 16. 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 \$55,144 and \$37,154 for the years ended June 30, 2015 and 2014, respectively.

### 17. 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. Mutual funds and money market funds are held in various brokerage accounts. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.