

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 30, 2017

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 6,272,551	\$ 3,468,557
Certificates of deposit	265,862	265,199
Pledges receivable	1,618,450	140,100
Investments	90,169,983	73,154,177
Property and equipment, net	684,282	746,173
Beneficial interest in trust	5,235,574	-0-
Cash surrender value of life insurance	314,867	244,763
Other assets	<u>1,365,854</u>	<u>366,757</u>
Total assets	<u>\$ 105,927,423</u>	<u>\$ 78,385,726</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 18,712	\$ 15,149
Note payable	531,930	544,083
Custodial funds	<u>10,113,132</u>	<u>7,651,244</u>
Total liabilities	10,663,774	8,210,476
Net assets		
Unrestricted	36,309,151	24,318,837
Temporarily restricted	<u>58,954,498</u>	<u>45,856,413</u>
Total net assets	<u>95,263,649</u>	<u>70,175,250</u>
Total liabilities and net assets	<u>\$ 105,927,423</u>	<u>\$ 78,385,726</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Contributions	\$ 15,588,166	\$ 11,565,136	\$ 27,153,302	\$ 11,305,936
Grants	1,138,956	-0-	1,138,956	557,700
Interest and dividend income, net	606,336	1,313,124	1,919,460	1,645,308
Realized and unrealized gains (losses) on investments	1,055,691	4,220,580	5,276,271	(2,204,573)
Change in value of beneficial interest in trust	-0-	235,574	235,574	-0-
Change in value of cash surrender value of life insurance	70,104	-0-	70,104	-0-
Community support fee income	1,071,084	-0-	1,071,084	952,741
Net assets released from restrictions	4,236,329	(4,236,329)	-0-	-0-
Total support and revenues	23,766,666	13,098,085	36,864,751	12,257,112
Expenses				
Program expenses	11,181,936	-0-	11,181,936	8,153,179
General and administrative expenses	533,898	-0-	533,898	421,588
Fundraising expenses	60,518	-0-	60,518	57,532
Total expenses	11,776,352	-0-	11,776,352	8,632,299
Change in net assets	11,990,314	13,098,085	25,088,399	3,624,813
Net assets, beginning of year	24,318,837	45,856,413	70,175,250	66,550,437
Net assets, end of year	\$ 36,309,151	\$ 58,954,498	\$ 95,263,649	\$ 70,175,250

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATECONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions	\$ 8,666,873	\$ 2,639,063	\$ 11,305,936
Grants	557,700	-0-	557,700
Interest and dividend income, net	347,072	1,298,236	1,645,308
Realized and unrealized losses on investments	(226,352)	(1,978,221)	(2,204,573)
Community support fee income	952,741	-0-	952,741
Net assets released from restrictions	<u>4,949,033</u>	<u>(4,949,033)</u>	<u>-0-</u>
Total support and revenues	15,247,067	(2,989,955)	12,257,112
Expenses			
Program expenses	8,153,179	-0-	8,153,179
General and administrative expenses	421,588	-0-	421,588
Fundraising expenses	<u>57,532</u>	<u>-0-</u>	<u>57,532</u>
Total expenses	<u>8,632,299</u>	<u>-0-</u>	<u>8,632,299</u>
Change in net assets	6,614,768	(2,989,955)	3,624,813
Net assets, beginning of year	<u>17,704,069</u>	<u>48,846,368</u>	<u>66,550,437</u>
Net assets, end of year	<u>\$ 24,318,837</u>	<u>\$ 45,856,413</u>	<u>\$ 70,175,250</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2016

	2017	2016
Operating activities		
Change in net assets	\$ 25,088,399	\$ 3,624,813
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	84,035	77,002
Loss on disposal of property and equipment	982	4,037
Non-cash contribution received on beneficial interest in trust	(5,000,000)	-0-
Reinvested interest and dividends received on investments	(2,428,596)	(2,090,761)
Realized and unrealized (gains) losses on investments	(6,028,068)	2,586,912
Change in value of beneficial interest in trust	(235,574)	-0-
Change in value of cash surrender value of life insurance	(70,104)	-0-
Change in operating assets and liabilities:		
Pledges receivable	(1,478,350)	94,425
Other assets	(999,097)	(186,856)
Accounts payable	3,563	13,695
Custodial funds	2,461,888	(318,903)
Other liabilities	-0-	(191)
Net cash flows from operating activities	11,399,078	3,804,173
Investing activities		
Purchases of property and equipment	(23,126)	(14,733)
Purchases of certificates of deposit	(265,862)	(265,069)
Maturities of certificates of deposit	265,199	308,658
Proceeds from sales of investments	17,308,841	56,079,287
Purchases of investments	(25,867,983)	(60,734,663)
Net cash flows from investing activities	(8,582,931)	(4,626,520)
Financing activities		
Payments on note payable	(12,153)	(11,730)
Net change in cash and cash equivalents	2,803,994	(834,077)
Cash and cash equivalents, beginning of year	3,468,557	4,302,634
Cash and cash equivalents, end of year	\$ 6,272,551	\$ 3,468,557
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 19,926	\$ 20,353

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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, 2017 AND 2016

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, 2017.

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 \$235,319 and \$191,946 for the years ended June 30, 2017 and 2016, 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, 2017 AND 2016

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.

Reclassification

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

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, 2017 and 2016, 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.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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.

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 November 30, 2017.

2. CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following as of June 30, 2017 and 2016:

2017			2016		
Amount	Maturity	Interest Rate	Amount	Maturity	Interest Rate
\$ 265,862	9/19/2017	0.25%	\$ 265,199	9/19/2016	0.40%

3. PLEDGES RECEIVABLE

Unconditional pledges receivable total \$1,618,450 and \$140,100 at June 30, 2017 and 2016, respectively. Amounts due subsequent to year end are as follows:

	2017	2016
Amounts due in:		
Less than one year	\$ 356,920	\$ 50,250
One to five years	<u>1,261,530</u>	<u>89,850</u>
	<u>\$ 1,618,450</u>	<u>\$ 140,100</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, 2017 AND 2016

4. INVESTMENTS

Investments at June 30, 2017 and 2016, consist of the following:

	2017	2016
Cash and cash equivalents	\$ 930,968	\$ 1,096,709
Money market funds	548,665	58,478
Common stock		
Large cap	4,586,473	2,714,838
Mid/small cap	321,624	257,893
International	1,491,034	-0-
Other	76,299	44,641
Preferred stock	-0-	173,575
Mutual funds		
Fixed income		
Inflation protected	2,982,273	1,949,748
Intermediate	4,669,452	3,456,332
Other	9,282,029	6,324,696
Equity		
Large cap	33,606,426	24,439,707
Mid/small cap	11,201,384	8,734,484
Real estate	4,335,124	3,484,463
Energy	1,730,788	1,307,872
Natural resources	712,125	571,055
Commodities broad basket	2,486,786	1,829,538
Other	1,553,774	-0-
Exchange traded funds		
Fixed income		
Core fixed income	-0-	3,149,119
Equity		
Large cap	1,769,077	1,495,691
Mid/small cap	2,264,579	663,202
Natural resources	204,096	66,067
Commodities broad basket	46,456	203,164
Real estate	531,375	271,951
Other	414,746	36,313
Alternative investments		
Hedged equity	-0-	6,990,211
Limited partnership	4,424,430	3,834,430
	<u>\$ 90,169,983</u>	<u>\$ 73,154,177</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

5. RISKS AND UNCERTAINTIES

The Organization holds investments (Note 4). 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.

6. 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 2017 or 2016. 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, 2017 and 2016:

- *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, 2017 AND 2016

- *Common and preferred 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, 2017 and 2016:

	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-	5,235,574	5,235,574
Total assets in fair value hierarchy	84,265,920	5,784,239	90,050,159
Alternative investments*	-0-	-0-	4,424,430
Total assets at fair value	\$ 84,265,920	\$ 5,784,239	\$ 94,474,589

	2016		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ -0-	\$ 58,478	\$ 58,478
Common stock	3,017,372	-0-	3,017,372
Preferred stock	173,575	-0-	173,575
Mutual funds	52,097,895	-0-	52,097,895
Exchange traded funds	5,885,507	-0-	5,885,507
Total assets in fair value hierarchy	61,174,349	58,478	61,232,827
Alternative investments*	-0-	-0-	10,824,641
Total assets at fair value	\$ 61,174,349	\$ 58,478	\$ 72,057,468

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

* 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 hedged equity as of June 30, 2017 and 2016, including balances, restrictions on redemptions and investment objectives, is as follows:

	2017	2016	Redemption Notice	Redemption Frequency
FEG Equity Access	\$ -0-	\$ 190,585	95 days	Semi-annually
FEG Absolute Access	-0-	6,799,626	95 days	Semi-annually
	\$ -0-	\$ 6,990,211		

The hedge equity investments were redeemed in full during 2017.

A summary of the limited partnership as of June 30, 2017 and 2016, including balances, restrictions on redemptions and investment objectives, is as follows:

	2017	2016	Unfunded Commitment as of June 30, 2017
FEG Private Opportunities Fund I	\$ 2,270,301	\$ 2,360,301	\$ 274,500
FEG Private Opportunities Fund II	2,154,129	1,474,129	1,800,000
	\$ 4,424,430	\$ 3,834,430	\$ 2,074,500

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.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

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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.

7. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Furniture, equipment, and software	\$ 428,075	\$ 411,640
Building	<u>647,214</u>	<u>647,214</u>
	1,075,289	1,058,854
Less accumulated depreciation	<u>391,007</u>	<u>312,681</u>
	<u>\$ 684,282</u>	<u>\$ 746,173</u>

8. 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. The Organization's beneficial interest in the trust is \$5,235,574 at June 30, 2017 and, the change in the present value is an increase of \$235,574 for the year ending June 30, 2017.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

9. 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 \$572,629 at June 30, 2017, 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, 2017 are as follows:

<u>Year Ending June 30.</u>	
2018	\$ 12,605
2019	13,080
2020	13,521
2021	14,081
2022	<u>478,643</u>
	<u>\$ 531,930</u>

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 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 7,651,244	\$ 7,970,147
Contributions	1,684,070	130,442
Interest and dividend income, net	273,817	253,507
Realized and unrealized gains (losses) on investments	751,797	(382,339)
Community support fees	(75,254)	(62,596)
Grant payments	<u>(172,542)</u>	<u>(257,917)</u>
Ending balance	<u>\$ 10,113,132</u>	<u>\$ 7,651,244</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

11. UNRESTRICTED NET ASSETS

Unrestricted net assets are classified as follows at June 30, 2017 and 2016:

	2017	2015
Discretionary	\$ 1,967,064	\$ 1,358,159
Field of interest	609,779	552,206
Scholarship	995,337	869,229
Donor advised	28,707,071	18,369,996
Designated	2,376,966	2,244,947
Operating and special projects	1,461,453	584,784
Fiscal sponsorships	191,481	339,516
	<u>\$ 36,309,151</u>	<u>\$ 24,318,837</u>

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are classified as follows at June 30, 2017 and 2016:

	2017	2016
Endowment funds not yet appropriated for expenditure:		
Discretionary	\$ 14,325,687	\$ 14,133,187
Field of interest	3,479,401	1,955,694
Scholarship	6,234,239	5,506,304
Donor advised	21,565,609	12,489,716
Designated	12,410,728	10,790,406
Operating endowment	938,834	981,106
	<u>\$ 58,954,498</u>	<u>\$ 45,856,413</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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, 2017 and 2016 are as follows:

	2017	2016
Endowment funds appropriated for expenditure	\$ 4,236,329	\$ 4,896,059
Designated purpose restrictions related to:		
Lexington East End Equity Partnership	-0-	52,974
	<u>\$ 4,236,329</u>	<u>\$ 4,949,033</u>

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

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

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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, 2017 and 2016.

Changes in net assets related to endowed funds for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Endowment net assets, beginning of year	\$ 45,856,413	\$ 48,793,394
Contributions and other revenue	11,800,710	2,639,063
Investment income (losses)	5,533,704	(679,985)
Appropriation of endowment assets for expenditure	<u>(4,236,329)</u>	<u>(4,896,059)</u>
Endowment net assets, end of year	<u>\$ 58,954,498</u>	<u>\$ 45,856,413</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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, 2017 and 2016, are classified as follows:

	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
	<u>\$ 11,181,936</u>	<u>\$ 60,518</u>	<u>\$ 533,898</u>	<u>\$ 11,776,352</u>
	2016			
	Program	Fundraising	General and Administrative	Total
Grants	\$ 6,271,431	\$ -0-	\$ -0-	\$ 6,271,431
Support fees	852,883	-0-	-0-	852,883
Personnel costs	727,055	27,078	153,441	907,574
Marketing	38,652	4,295	-0-	42,947
Community and donor education	4,726	4,688	-0-	9,414
Occupancy and operating	106,924	19,161	165,151	291,236
Professional fees	89,906	-0-	89,906	179,812
Depreciation	61,602	2,310	13,090	77,002
	<u>\$ 8,153,179</u>	<u>\$ 57,532</u>	<u>\$ 421,588</u>	<u>\$ 8,632,299</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 \$52,577 and \$61,920 for the years ended June 30, 2017 and 2016, 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. Investments are held in various brokerage accounts. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

18. 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. This ASU completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

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