

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, the related consolidated statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2018, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blue & Co., LLC

Seymour, Indiana

November 8, 2019

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

ASSETS

	2019	2018 As Restated
Cash and cash equivalents	\$ 4,359,295	\$ 8,094,397
Certificates of deposit	1,360,302	478,258
Pledges receivable	1,649,090	2,147,397
Investments	122,307,091	108,066,007
Property and equipment, net	580,846	628,182
Beneficial interest in trust	5,787,532	5,500,268
Cash surrender value of life insurance	485,006	441,470
Other assets	1,380,661	1,369,651
Total assets	<u>\$ 137,909,823</u>	<u>\$ 126,725,630</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 3,801	\$ 16,185
Note payable	506,245	519,325
Custodial funds	13,854,583	13,515,404
Total liabilities	14,364,629	14,050,914
Net assets		
Without donor restrictions	467,302	408,696
With donor restrictions		
Restricted for specified purpose	44,291,467	35,735,075
Restricted in perpetuity - endowment	72,120,467	68,916,381
Restricted subject to the Organization's spending policy	6,665,958	7,614,564
	<u>123,077,892</u>	<u>112,266,020</u>
Total net assets	<u>123,545,194</u>	<u>112,674,716</u>
Total liabilities and net assets	<u>\$ 137,909,823</u>	<u>\$ 126,725,630</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2018)

	2019			2018 As Restated
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenues				
Contributions	\$ 12,118	\$ 18,053,546	\$ 18,065,664	\$ 18,673,739
Grants	-0-	-0-	-0-	458,500
Interest and dividend income, net	11,330	3,208,333	3,219,663	2,704,699
Realized and unrealized gains on investments	-0-	841,812	841,812	5,607,875
Change in value of beneficial interest in trust	-0-	462,260	462,260	450,393
Change in value of cash surrender value of life insurance	-0-	43,536	43,536	47,900
Community support fee income	1,231,994	-0-	1,231,994	1,162,058
Other revenue	-0-	57,569	57,569	61,584
Net assets released from restrictions	<u>11,855,184</u>	<u>(11,855,184)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	13,110,626	10,811,872	23,922,498	29,166,748
Expenses				
Grantmaking and fund development	12,207,226	-0-	12,207,226	10,899,246
General and administrative expenses	654,282	-0-	654,282	644,437
Fundraising expenses	<u>190,512</u>	<u>-0-</u>	<u>190,512</u>	<u>211,998</u>
Total expenses	<u>13,052,020</u>	<u>-0-</u>	<u>13,052,020</u>	<u>11,755,681</u>
Change in net assets	58,606	10,811,872	10,870,478	17,411,067
Net assets, beginning of year	<u>408,696</u>	<u>112,266,020</u>	<u>112,674,716</u>	<u>95,263,649</u>
Net assets, end of year	<u>\$ 467,302</u>	<u>\$ 123,077,892</u>	<u>\$ 123,545,194</u>	<u>\$ 112,674,716</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

(AS RESTATED)

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions	\$ 6,373	\$ 18,667,366	\$ 18,673,739
Grants	458,500	-0-	458,500
Interest and dividend income, net	5,447	2,699,252	2,704,699
Realized and unrealized gains on investments	-0-	5,607,875	5,607,875
Change in value of beneficial interest in trust	-0-	450,393	450,393
Change in value of cash surrender value of life insurance	-0-	47,900	47,900
Community support fee income	1,162,058	-0-	1,162,058
Other revenue	-0-	61,584	61,584
Net assets released from restrictions	<u>10,212,972</u>	<u>(10,212,972)</u>	<u>-0-</u>
Total support and revenues	11,845,350	17,321,398	29,166,748
Expenses			
Grantmaking and fund development	10,899,246	-0-	10,899,246
General and administrative expenses	644,437	-0-	644,437
Fundraising expenses	<u>211,998</u>	<u>-0-</u>	<u>211,998</u>
Total expenses	<u>11,755,681</u>	<u>-0-</u>	<u>11,755,681</u>
Change in net assets	89,669	17,321,398	17,411,067
Net assets, beginning of year	<u>319,027</u>	<u>94,944,622</u>	<u>95,263,649</u>
Net assets, end of year	<u>\$ 408,696</u>	<u>\$ 112,266,020</u>	<u>\$ 112,674,716</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2019

	Grantmaking and Fund Development	General and Administrative	Fundraising	Total
Grants	\$ 9,873,002	\$ -0-	\$ -0-	\$ 9,873,002
Community support fees	1,170,155	-0-	-0-	1,170,155
Personnel costs	645,678	292,190	70,529	1,008,397
Marketing	69,380	-0-	7,709	77,089
Community and donor education	4,907	-0-	4,907	9,814
Occupancy and operating	133,756	228,646	44,042	406,444
Professional fees	280,053	119,719	60,011	459,783
Depreciation	<u>30,295</u>	<u>13,727</u>	<u>3,314</u>	<u>47,336</u>
	<u>\$ 12,207,226</u>	<u>\$ 654,282</u>	<u>\$ 190,512</u>	<u>\$ 13,052,020</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating activities		
Change in net assets	\$ 10,870,478	\$ 17,411,067
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	47,336	56,100
Non-cash contribution of life insurance	-0-	(78,703)
Interest earned on certificates of deposit	(11,944)	(4,458)
Reinvested interest and dividends received on investments	(3,683,326)	(3,891,696)
Realized and unrealized gains on investments	(752,945)	(5,607,875)
Change in value of beneficial interest in trust	(462,260)	(450,393)
Change in value of cash surrender value of life insurance	(43,536)	(47,900)
Change in operating assets and liabilities:		
Pledges receivable	498,307	(528,947)
Other assets	(11,010)	(3,797)
Accounts payable	(12,384)	(2,527)
Custodial funds	339,179	3,402,272
Net cash flows from operating activities	6,777,895	10,253,143
Investing activities		
Purchases of certificates of deposit	(1,094,600)	(473,800)
Maturities of certificates of deposit	224,500	265,862
Proceeds from sales of investments	16,855,810	22,417,448
Purchases of investments	(26,660,623)	(30,813,901)
Net cash flows from investing activities	(10,674,913)	(8,604,391)
Financing activities		
Payments on note payable	(13,080)	(12,605)
Payments received from charitable trust	174,996	185,699
Net cash flows from financing activities	161,916	173,094
Net change in cash and cash equivalents	(3,735,102)	1,821,846
Cash and cash equivalents, beginning of year	8,094,397	6,272,551
Cash and cash equivalents, end of year	\$ 4,359,295	\$ 8,094,397

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 Organization 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

The accompanying financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board of directors (Board) or designated by the Board for specific use. The Organization maintains net assets without donor restrictions that are used to fund current operations of the Organization.

Net assets with donor restrictions: Net assets subject to donor stipulations for specific purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term to support operations or specific purposes.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

The Organization maintains net assets with donor restrictions as follows:

Restricted for specified purpose – all contributions to the Organization with the intention of the donor to be held for a specific program or in a donor-restricted non-endowed fund

Restricted in perpetuity – endowment – all contributions to the Organization with the intention of the donor that the assets be held in perpetuity and managed in accordance with the Organization’s spending policy

Restricted subject to the Organization’s spending policy – investment earnings on assets restricted in perpetuity – endowment and managed in accordance with the Organization’s spending policy

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, 2019.

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 net assets with or without donor restrictions 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 \$442,043 and \$368,151 for the years ended June 30, 2019 and 2018, respectively, on the Consolidated Statements of Activities.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 net assets with or without donor restrictions in accordance with the classification of the fund as it relates to the Organization's spending policy. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either net assets with or without donor restrictions in accordance with the classification of the fund as it relates to Organization's spending policy.

The Organization recognizes grant revenue in the period the related expenses are incurred.

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 and are considered program expenses. 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 (grantmaking and fund development) and supporting services (fundraising and general and administrative) have been summarized on a functional basis in the Statements of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated on the basis of estimates of time and effort. 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, 2019 AND 2018

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, 2019 and 2018, 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.

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 November 8, 2019.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the consolidated financial statements and notes about its liquidity, financial performance and cash flows. The Organization has adjusted the presentation of its 2019 consolidated financial statements herein and retrospectively restated the prior year consolidated financial statements. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 16), and disclosures related to the functional allocation of expenses were expanded (Note 1).

During the adoption of this standard, the Organization reevaluated their presentation of net assets and identified a correction needed to reflect proper net asset classifications as of July 1, 2017. The correction resulted in a decrease in net assets without donor restrictions and a corresponding increase in net assets with donor restrictions by \$26,584,805. This restatement had no effect on the overall change in net assets.

The impact of this correction and the adoption of ASU No. 2016-14 on the Organization's net assets is as follows:

Consolidated Statement of Financial Position

	As previously stated, June 30, 2018	Adjustment	As restated June 30, 2018
Unrestricted net assets	\$ 31,662,062	\$ (31,662,062)	\$ -0-
Temporarily restricted net assets	81,012,654	(81,012,654)	-0-
Without donor restrictions	-0-	408,696	408,696
With donor restrictions	-0-	112,266,020	112,266,020
Total net assets	<u>\$112,674,716</u>	<u>\$ -0-</u>	<u>\$112,674,716</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Consolidated Statement of Activities

	As previously stated, June 30, 2018	Adjustment	As restated June 30, 2018
Changes in unrestricted net assets	\$ 4,758,230	\$ (4,758,230)	\$ -0-
Changes in temporarily restricted net assets	12,652,837	(12,652,837)	-0-
Changes in net assets without donor restrictions	-0-	89,669	89,669
Changes in net assets with donor restrictions	<u>-0-</u>	<u>17,321,398</u>	<u>17,321,398</u>
Total changes in net assets	<u>\$ 17,411,067</u>	<u>\$ -0-</u>	<u>\$ 17,411,067</u>

There was no significant impact to the statement of cash flows as a result of adopting this ASU.

3. CERTIFICATES OF DEPOSIT

Certificates of deposit are recorded at cost plus accrued interest and total \$1,360,302 and \$478,258 at June 30, 2019 and 2018, respectively. These certificates of deposit mature at varying dates through August 2020 and earn interest at rates ranging from 1.20% to 2.85%.

4. PLEDGES RECEIVABLE

Unconditional pledges receivable total \$1,649,090 and \$2,147,397 at June 30, 2019 and 2018, respectively. Amounts due subsequent to year end are as follows:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than one year	\$ 583,202	\$ 674,672
One to five years	815,888	1,222,725
Thereafter	<u>250,000</u>	<u>250,000</u>
	<u>\$ 1,649,090</u>	<u>\$ 2,147,397</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, 2019 AND 2018

5. INVESTMENTS

Investments at June 30, 2019 and 2018, consist of the following:

	2019	2018
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 1,050,263	\$ 966,833
Money market funds	1,283,486	857,479
Common stock		
Large cap	8,155,711	4,913,263
Mid/small cap	370,350	236,808
International	699,506	1,502,786
Other	204,168	209,436
Mutual funds		
Fixed income		
Inflation protected	3,875,761	3,844,431
Intermediate	5,965,924	5,673,428
Short	5,873,565	5,247,075
International	4,951,406	4,872,046
Other	458,981	350,609
Equity		
Large cap	36,279,384	35,632,126
Mid/small cap	16,547,552	15,007,180
Real estate	5,736,422	5,395,897
Energy	3,175,497	3,095,483
Natural resources	3,274,958	2,299,972
Other	2,255,964	2,899,904
Exchange traded funds		
Equity		
Large cap	10,036,113	3,755,602
Mid/small cap	4,837,076	4,140,450
Real estate	1,057,640	951,737
Other	395,724	765,920
Alternative investments		
Limited partnership	<u>5,821,640</u>	<u>5,447,542</u>
	<u>\$ 122,307,091</u>	<u>\$ 108,066,007</u>

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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

Effective July 1, 2018, the Organization early adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU removed certain disclosure requirements in Topic 820. As such, the fair value measurement disclosures for fiscal year 2018 have been restated for these changes.

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 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, 2019 AND 2018

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, 2019 and 2018:

- *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.
- *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, 2019 and 2018:

	2019		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ -0-	\$ 1,283,486	\$ 1,283,486
Common stock	9,429,735	-0-	9,429,735
Mutual funds	88,395,414	-0-	88,395,414
Exchange traded funds	16,326,553	-0-	16,326,553
Beneficial interest in trust	-0-	5,787,532	\$ 5,787,532
Total assets in fair value hierarchy	\$ 114,151,702	\$ 7,071,018	121,222,720
Alternative investments*			5,821,640
Total assets at fair value			\$ 127,044,360

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

	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-	5,500,268	5,500,268
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>

* 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, 2019 and 2018, including balances, restrictions on redemptions and investment objectives, is as follows:

	2019		2018		Unfunded Commitment as of June 30, 2019
	2019	2018	2018	2018	June 30, 2019
FEG Private Opportunities Fund I	\$ 2,258,760	\$ 2,385,371	\$ 2,385,371	\$ 154,500	\$ 154,500
FEG Private Opportunities Fund II	3,562,880	3,062,171	3,062,171	380,000	380,000
	<u>\$ 5,821,640</u>	<u>\$ 5,447,542</u>	<u>\$ 5,447,542</u>	<u>\$ 534,500</u>	<u>\$ 534,500</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. The nature of the investments is that the

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distributions are received through the liquidation of the underlying assets of the fund. The timing of the liquidation of these underlying assets is unknown.

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.

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2019 and 2018 is as follows:

	2019	2018
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>494,443</u>	<u>447,107</u>
	<u>\$ 580,846</u>	<u>\$ 628,182</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 2019 and 2018:

	2019	2018
Beginning balance	\$ 5,500,268	\$ 5,235,574
Payments received on trust	(174,996)	(185,699)
Change in value	<u>462,260</u>	<u>450,393</u>
Ending balance	<u>\$ 5,787,532</u>	<u>\$ 5,500,268</u>

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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 \$539,425 at June 30, 2019, 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, 2019 are as follows:

<u>Year Ending June 30,</u>	
2020	\$ 13,521
2021	14,081
2022	<u>478,643</u>
	<u>\$ 506,245</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 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 13,515,404	\$ 10,113,132
Contributions	496,429	3,559,981
Investment return, net	374,796	1,186,997
Community support fees	(61,963)	(63,017)
Grant payments	<u>(470,083)</u>	<u>(1,281,689)</u>
Ending balance	<u>\$ 13,854,583</u>	<u>\$ 13,515,404</u>

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12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions in the amount of \$11,855,184 and \$10,212,972 based on funds appropriated for expenditure for the years ended June 30, 2019 and 2018, respectively.

13. ENDOWMENT

The majority of the Organization's funds consist of donor-restricted endowed 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 the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, we retain in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation 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 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 6 percent greater than the consumer price index annually. Actual returns in any given year may vary from this amount.

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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 each year between 3 and 6 percent of its endowment funds' average fair value over the prior 20 quarters including community support fees, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Organization considered the long-term expected return on its endowment.

Changes in net assets related to endowed funds for the year ended June 30, 2019 and 2018 were as follows:

	2019	2018 As Restated
	<u>2019</u>	<u>As Restated</u>
Endowment net assets, beginning of year	\$ 76,530,945	\$ 63,967,219
Contributions and other revenue	2,628,710	8,280,530
Investment income	2,649,939	6,955,670
Interfund activity, net	(413,340)	(390,121)
Appropriation of endowment assets for expenditure	<u>(2,609,829)</u>	<u>(2,282,353)</u>
Endowment net assets, end of year	<u>\$ 78,786,425</u>	<u>\$ 76,530,945</u>

14. 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 \$77,108 and \$69,073 for the years ended June 30, 2019 and 2018, respectively.

15. RELATED PARTY TRANSACTIONS

The Organization received \$153,561 and \$1,268,820 in contributions from members of the Organization's board of directors and staff during 2019 and 2018, respectively.

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16. LIQUIDITY AND AVAILABILITY

As part of the Organization's liquidity management, it structures its financial assets to be available as its awarded grants, general expenditures and other obligations become due. The Organization invests cash in excess of daily requirements in cash and other short-term investments. Financial assets available for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following:

Cash	\$	93,322
Community support fee receivable		96,681
Certificate of deposit		<u>203,313</u>
	\$	<u>393,316</u>

The Organization's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The Organization has an annual grant approval process. This process includes evaluating a number of factors relative to the spending rate to be applied to the Organization's fund balances in accordance with its spending policy. Once the Organization's Board approves the spending rate, the related dollar amount of the funds becomes available for general expenditures.

While not subject to the Organization's spending policy, expenditures from donor-restricted non-endowed funds must be approved by the Board and, therefore, are not available for general expenditure until that time. Non-endowed funds are held in cash and cash equivalents or liquid investments and are made available upon appropriation.

The Organization also has a donor-restricted operating endowment of approximately \$1,100,000, which is subject to an annual spending rate of up to 6 percent as described in Note 13. Although the Organization does not intend to spend from this operating endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available, if necessary.

The Organization also relies on the administrative fees it charges its funds annually up to 1.5% of fund balances to fund operational expenditures. The community support fee receivable of \$96,681 reflected in the table above is fees owed to the operating fund from the other funds for fiscal year 2019 that have not yet been transferred as of June 30, 2019.

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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 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 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 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 this ASU will have on its future consolidated financial statements, including related disclosures.