

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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

Opinion

We have audited the accompanying consolidated financial statements of Blue Grass Community Foundation, Inc. (the "Foundation"), a nonprofit organization, and affiliate, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation and its affiliate as of June 30, 2023 and 2022, and changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blue & Co., LLC

Seymour, Indiana

February 21, 2024

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 8,427,184	\$ 9,007,775
Pledges receivable	292,417	307,417
Investments	205,221,809	169,085,782
Property and equipment, net	976,689	644,133
Promissory notes receivable	2,793,326	5,586,923
Cash surrender value of life insurance	657,770	616,820
Real estate held for sale	3,466,523	-0-
Other assets	2,144,602	1,918,081
Total assets	<u>\$ 223,980,320</u>	<u>\$ 187,166,931</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,746	\$ 5,289
Grants payable	1,094,665	787,104
Notes payable	450,308	465,338
Custodial funds	21,191,871	17,458,320
Total liabilities	22,740,590	18,716,051
Net assets		
Without donor restrictions	1,148,001	1,068,465
With donor restrictions		
Restricted for specified purpose	97,210,947	73,113,475
Restricted in perpetuity - endowment	90,191,621	85,645,073
Restricted subject to the Organization's spending policy	12,689,161	8,623,867
	<u>200,091,729</u>	<u>167,382,415</u>
Total net assets	<u>201,239,730</u>	<u>168,450,880</u>
Total liabilities and net assets	<u>\$ 223,980,320</u>	<u>\$ 187,166,931</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenues				
Contributions:				
Cash and other financial assets	\$ 15,007	41,488,266	\$ 41,503,273	\$ 42,616,919
Nonfinancial assets	-0-	3,466,523	3,466,523	-0-
Interest and dividend income, net	61,209	5,916,727	5,977,936	4,463,376
Realized and unrealized gains (losses) on investments	-0-	6,309,956	6,309,956	(20,628,687)
Change in value of cash surrender value of life insurance	-0-	40,950	40,950	16,932
Community support fee income	2,053,126	-0-	2,053,126	1,937,144
Other revenue	-0-	447,967	447,967	82,319
Net assets released from restrictions	<u>24,961,075</u>	<u>(24,961,075)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	<u>27,090,417</u>	<u>32,709,314</u>	<u>59,799,731</u>	<u>28,488,003</u>
Expenses				
Grantmaking and fund development	25,737,111	-0-	25,737,111	19,008,016
General and administrative	1,034,989	-0-	1,034,989	949,711
Fundraising	<u>238,781</u>	<u>-0-</u>	<u>238,781</u>	<u>260,480</u>
Total expenses	<u>27,010,881</u>	<u>-0-</u>	<u>27,010,881</u>	<u>20,218,207</u>
Change in net assets	79,536	32,709,314	32,788,850	8,269,796
Net assets, beginning of year	<u>1,068,465</u>	<u>167,382,415</u>	<u>168,450,880</u>	<u>160,181,084</u>
Net assets, end of year	<u>\$ 1,148,001</u>	<u>\$ 200,091,729</u>	<u>\$ 201,239,730</u>	<u>\$ 168,450,880</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions	\$ 33,297	\$ 42,583,622	\$ 42,616,919
Interest and dividend income, net	6,889	4,456,487	4,463,376
Realized and unrealized losses on investments	-0-	(20,628,687)	(20,628,687)
Change in value of cash surrender value of life insurance	-0-	16,932	16,932
Community support fee income	1,937,144	-0-	1,937,144
Other revenue	-0-	82,319	82,319
Net assets released from restrictions	18,461,758	(18,461,758)	-0-
Total support and revenues	20,439,088	8,048,915	28,488,003
Expenses			
Grantmaking and fund development	19,008,016	-0-	19,008,016
General and administrative	949,711	-0-	949,711
Fundraising	260,480	-0-	260,480
Total expenses	20,218,207	-0-	20,218,207
Change in net assets	220,881	8,048,915	8,269,796
Net assets, beginning of year	847,584	159,333,500	160,181,084
Net assets, end of year	<u>\$ 1,068,465</u>	<u>\$ 167,382,415</u>	<u>\$ 168,450,880</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED JUNE 30, 2023 AND 2022

	2023				2022			
	Grantmaking and Fund Development	General and Administrative	Fundraising	Total	Grantmaking and Fund Development	General and Administrative	Fundraising	Total
Grants	\$ 22,694,271	\$ -0-	\$ -0-	\$ 22,694,271	\$ 16,241,487	\$ -0-	\$ -0-	\$ 16,241,487
Community support fees	1,960,865	-0-	-0-	1,960,865	1,851,579	-0-	-0-	1,851,579
Personnel costs	787,490	585,086	94,537	1,467,113	665,931	549,346	89,685	1,304,962
Marketing	128,606	-0-	14,290	142,896	74,427	-0-	8,270	82,697
Community and donor education	8,146	-0-	8,146	16,292	2,908	-0-	2,908	5,816
Occupancy and operating	99,750	362,292	111,831	573,873	129,689	324,946	152,085	606,720
Professional fees	32,381	72,857	6,939	112,177	26,656	66,580	5,712	98,948
Depreciation	25,602	14,754	3,038	43,394	15,339	8,839	1,820	25,998
	<u>\$ 25,737,111</u>	<u>\$ 1,034,989</u>	<u>\$ 238,781</u>	<u>\$ 27,010,881</u>	<u>\$ 19,008,016</u>	<u>\$ 949,711</u>	<u>\$ 260,480</u>	<u>\$ 20,218,207</u>

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Operating activities		
Change in net assets	\$ 32,788,850	\$ 8,269,796
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	43,393	25,998
Uncollectible pledges	-0-	34,588
Reinvested interest and dividends received on investments	(7,235,134)	(5,887,911)
Realized and unrealized losses (gains) on investments	(7,613,531)	23,404,682
Contributions of real estate held for sale	(3,466,523)	-0-
Restricted contributions for endowment	(4,408,661)	(3,835,827)
Change in value of cash surrender value of life insurance	(40,950)	(16,932)
Change in operating assets and liabilities:		
Pledges receivable	15,000	14,370
Other assets	(226,521)	(873,126)
Accounts payable	(1,543)	3,392
Grants payable	307,561	(212,896)
Custodial funds	3,733,551	(1,559,772)
Net cash flows from operating activities	13,895,492	19,366,362
Investing activities		
Purchases of property and equipment	(375,949)	(142,762)
Maturities of certificates of deposit	-0-	257,232
Proceeds from sales of investments	38,795,492	36,394,365
Purchases of investments	(60,082,854)	(56,971,197)
Collections on promissory notes	2,793,597	-0-
Net cash flows from investing activities	(18,869,714)	(20,462,362)
Financing activities		
Payments on note payable	(15,030)	(14,484)
Restricted contributions for endowment	4,408,661	3,835,827
Net cash flows from financing activities	4,393,631	3,821,343
Net change in cash and cash equivalents	(580,591)	2,725,343
Cash and cash equivalents, beginning of year	9,007,775	6,282,432
Cash and cash equivalents, end of year	\$ 8,427,184	\$ 9,007,775
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 16,969	\$ 17,514

See accompanying notes to financial statements.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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.

In 2023, the Board of Directors formed Robert L. Brown Foundation, Inc. ("RLBF") as a supporting organization of the Foundation, and which the Foundation is the sole member of RLBF, to support the Foundation in creating generous, vibrant and engaged community in Sharpsburg, Bath County, Kentucky.

Consolidation Policy

The accounts of the LLC and the Corporation are consolidated with the accounts of the Foundation. All inter-entity transactions have been eliminated in consolidation. The consolidated operations of the Foundation, the LLC and the Corporation 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.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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.

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, 2023 and 2022.

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 \$642,054 and \$671,944 for the years ended June 30, 2023 and 2022, respectively, on the Consolidated Statements of Activities.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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 are being depreciated over their 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.

All other revenue is recorded when earned.

Contributed Nonfinancial Assets

The Organization received contributions in a form other than cash or investments. The Organization was donated farm properties in three locations during 2023 and immediately promoted with the intent to sell. The contributed assets are recognized at their estimated fair value at the date of the gift based on third party appraisals. The value of the real estate at June 30, 2023 is \$3,466,523 and is shown on the Consolidated Statement of Financial Position as real estate held for sale.

Grants and Grants Payable

Unconditional grants are recorded when a commitment is made and approved by the Board of Directors. For grants which are conditional on the recipient overcoming specified barriers and there exists a right of return/release, grants are recorded at the time those conditions are satisfied.

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.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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 Consolidated Statements of Activities and Consolidated Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report expenses that are attributed to more than one program or supporting function. Those expenses include personnel costs, professional fees, depreciation, marketing, and various occupancy and operating expenses. These expenses are allocated on the basis of estimates of time, effort and usage. While the methods of allocation are considered appropriate, other methods could produce different results.

Income Taxes

The Foundation and RLBF are not-for-profit corporations 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, 2023 and 2022, 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 to conform to the current method of presentation.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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 February 21, 2024.

2. PLEDGES RECEIVABLE

Unconditional pledges receivable total \$292,417 and \$307,417 at June 30, 2023 and 2022, respectively. Amounts due subsequent to year end are as follows:

	<u>2023</u>	<u>2022</u>
Amounts due in:		
Less than one year	\$ 40,917	\$ 41,690
One to five years	1,500	15,727
Thereafter	<u>250,000</u>	<u>250,000</u>
	<u>\$ 292,417</u>	<u>\$ 307,417</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, 2023 AND 2022

3. INVESTMENTS

Investments at June 30, 2023 and 2022, consist of the following:

	2023	2022
Cash and cash equivalents	\$ 623,253	\$ 2,167,042
Money market funds	7,537,146	1,719,161
Government securities	4,255,875	2,974,295
Common stock		
Large cap	12,815,039	10,136,517
Mid/small cap	24,222,096	2,920,405
International	971,920	486,295
Other	204,976	327,473
Mutual funds		
Fixed income		
Inflation protected	4,650,607	4,359,756
Intermediate	11,520,988	10,595,179
Short	7,393,172	8,411,306
International	6,067,325	5,681,284
Other	517,260	156,537
Equity		
Large cap	49,772,844	43,403,179
Mid/small cap	17,721,821	18,673,672
Real estate	7,087,859	7,116,484
Energy	3,968,461	4,345,297
Natural resources	4,388,423	4,174,496
Other	2,267,224	2,545,463
Exchange traded funds		
Equity		
Large cap	13,777,773	14,701,641
Mid/small cap	10,392,217	7,817,295
International	3,380,429	3,099,592
Other	982,364	1,029,350
Fixed income	4,447,699	4,564,698
Alternative investments		
Limited partnership	6,255,038	7,679,365
	\$ 205,221,809	\$ 169,085,782

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

4. RISKS AND UNCERTAINTIES

The Organization holds investments (Note 3). 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.

5. 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 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, 2023 and 2022:

- *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.
- *Government 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.

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

- *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 and closed-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The funds held by the Organization are deemed to be actively traded.
- *Alternative investments*: Valued at the 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, 2023 and 2022:

	2023		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ -0-	\$ 7,537,146	\$ 7,537,146
Government securities	-0-	4,255,875	4,255,875
Common stock	38,214,031	-0-	38,214,031
Mutual funds	115,355,984	-0-	115,355,984
Exchange traded funds	32,980,482	-0-	32,980,482
Total assets in fair value hierarchy	\$ 186,550,497	\$ 11,793,021	198,343,518
Alternative investments*			6,255,038
Total assets at fair value			\$ 204,598,556

	2022		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ -0-	\$ 1,719,161	\$ 1,719,161
Government securities	-0-	2,974,295	2,974,295
Common stock	13,870,690	-0-	13,870,690
Mutual funds	109,462,653	-0-	109,462,653
Exchange traded funds	31,212,576	-0-	31,212,576
Total assets in fair value hierarchy	\$ 154,545,919	\$ 4,693,456	159,239,375
Alternative investments*			7,679,365
Total assets at fair value			\$ 166,918,740

BLUE GRASS COMMUNITY FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

* 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 partnerships as of June 30, 2023 and 2022, including balances, restrictions on redemptions and investment objectives, is as follows:

	2023	2022	Unfunded Commitment as of June 30, 2023
FEG Private Opportunities Fund I	\$ 1,898,088	\$ 2,651,703	\$ 154,500
FEG Private Opportunities Fund II	4,356,950	5,027,662	180,000
	\$ 6,255,038	\$ 7,679,365	\$ 334,500

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of 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.

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2023 and 2022 is as follows:

	2023	2022
Furniture, equipment, and software	\$ 436,929	\$ 385,198
Building	1,107,315	783,097
	1,544,244	1,168,295
Less accumulated depreciation	567,555	524,162
	\$ 976,689	\$ 644,133

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7. PROMISSORY NOTES RECEIVABLE

In 2017, the Organization received a limited partnership interest equal to 8.08 percent of the total partnership interests. On July 1, 2020, this interest was sold in exchange for a promissory note. The note calls for annual installment payments of \$284,071 and monthly interest payments at 1% through June 2025. The balance of this note receivable is \$568,143 and \$1,136,286 at June 30, 2023 and 2022, respectively.

During 2021, the Foundation had a beneficial interest in trust that was converted into a promissory note directly with the trust. The note calls for annual installment payments of \$1,112,727 and monthly interest payments at 1% through June 2025. The balance of this note receivable is \$2,225,183 and \$4,450,637 at June 30, 2023 and 2022, respectively.

8. 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 \$473,016 at June 30, 2023, 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 due in April 2026. Maturities of payments on the note payable subsequent to June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	
2024	\$ 15,594
2025	16,226
2026	<u>418,488</u>
	<u>\$ 450,308</u>

9. 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.

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Following is a progression of custodial funds during 2023 and 2022:

	2023	2022
Beginning balance	\$ 17,458,320	\$ 19,018,092
Contributions	2,353,121	859,889
Investment return, net	1,864,213	(2,078,540)
Community support fees	(102,178)	(96,123)
Grant payments	(381,605)	(244,998)
Ending balance	<u>\$ 21,191,871</u>	<u>\$ 17,458,320</u>

10. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions in the amount of \$24,961,075 and \$18,461,758 based on funds appropriated for expenditure for the years ended June 30, 2023 and 2022, respectively.

11. 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, the Organization retains 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
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12. 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 \$104,950 and \$102,443 for the years ended June 30, 2023 and 2022, respectively.

13. 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 Statements of Financial Position date comprise the following as of June 30, 2023 and 2022:

	2023	2022
Operating cash	\$ 263,164	\$ 502,016
Operating investments	838,808	525,083
Other	348	260
	<u>\$ 1,102,320</u>	<u>\$ 1,027,359</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 11. Although

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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.

14. 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.