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Report of Independent Auditors

To the Board of Directors
Central Kentucky Community Foundation, Inc.
Elizabethtown, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Central Kentucky Community Foundation, Inc. (the Foundation) which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Central Kentucky Community Foundation, Inc.
Report of Independent Auditors, continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Kentucky Community Foundation, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Basis of Accounting

The Foundation has kept its records and has prepared its financial statements for previous years on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. As described in Note 2 to the financial statements, the Foundation has adopted accounting principles generally accepted in the United States of America as of the beginning of the current year.

Other Auditors

The financial statements of the Foundation, as of and for the year ended December 31, 2016, were audited by other auditors whose report dated July 26, 2017, expressed an unmodified opinion on those financial statements using the modified cash basis of accounting.

New Accounting Pronouncement

As discussed in Note 2, effective January 1, 2017, the Foundation has early adopted Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified in respect to this matter.

Dean Dotson Allen Ford, PLLC

August 8, 2018
Lexington, Kentucky

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Statement of Financial Position

December 31, 2017

Assets

Assets:

Cash	\$ 176,353
Investments	28,418,632
Property and equipment, net	<u>264,125</u>
Total assets	\$ <u>28,859,110</u>

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 6,847
Payroll related liabilities	7,923
Agency fund liabilities	391,648
Current portion of deferred gift liabilities for split-interest agreements	<u>57,572</u>
Total current liabilities	463,990

Long-term liabilities:

Deferred gift liabilities for split-interest agreements, net of current portion	<u>563,567</u>
Total liabilities	1,027,557

Net assets:

Without donor restrictions:

Undesignated	1,476,313
Invested in property and equipment	264,125
Designated by the Board for endowment	<u>110,225</u>
	1,850,663

With donor restrictions:

Endowed	17,165,542
Non-endowed	<u>8,815,348</u>
	<u>25,980,890</u>

Total net assets	<u>27,831,553</u>
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Total liabilities and net assets	\$ <u>28,859,110</u>
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See accompanying notes.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Statement of Activities

Year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and bequests	\$ 9,551	\$ 8,489,988	\$ 8,499,539
Less amounts received for agency funds	-	(15,000)	(15,000)
Grants and contracts	-	22,059	22,059
Investment return, net	145,642	2,533,384	2,679,026
Change in value of split interest agreements	-	(97,502)	(97,502)
Other income	310	-	310
Net assets released from restriction	<u>946,926</u>	<u>(946,926)</u>	<u>-</u>
Total support and revenue	1,102,429	9,986,003	11,088,432
Expenses:			
Program services:			
Grants awarded and distributions	496,675	-	496,675
Less amounts awarded for agency funds	(4,451)	-	(4,451)
Scholarships	168,364	-	168,364
Awarded grant and contract expenditures	21,035	-	21,035
Split interest agreement expenditures	1,207	-	1,207
Other expense allocated to program services	<u>155,749</u>	<u>-</u>	<u>155,749</u>
Total program services	838,579	-	838,579
Support services:			
Management and general	124,504	-	124,504
Fundraising	<u>50,461</u>	<u>-</u>	<u>50,461</u>
Total support services	<u>174,965</u>	<u>-</u>	<u>174,965</u>
Total expenses	<u>1,013,544</u>	<u>-</u>	<u>1,013,544</u>
Change in net assets	88,885	9,986,003	10,074,888
Net assets, beginning of year	<u>1,761,778</u>	<u>15,994,887</u>	<u>17,756,665</u>
Net assets, end of year	<u>\$ 1,850,663</u>	<u>\$ 25,980,890</u>	<u>\$ 27,831,553</u>

See accompanying notes.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Statement of Functional Expenses

Year ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
Direct program services:				
Grants awarded and distributions	\$ 496,675	\$ -	\$ -	\$ 496,675
Less amounts granted for agency funds	(4,451)	-	-	(4,451)
Scholarships	168,364	-	-	168,364
Awarded grant and contract expenditures	21,035	-	-	21,035
Split interest agreement expenditures	1,207	-	-	1,207
	682,830	-	-	682,830
Functional expenses:				
Personnel	75,198	91,984	30,009	197,191
Depreciation	11,132	7,084	2,024	20,240
Insurance	1,585	1,009	288	2,882
KY Gives Day expenses	3,100	-	-	3,100
Marketing and public relations	35,721	-	-	35,721
Office space and telephone	4,186	2,664	761	7,611
Office supplies and expenses	2,856	1,813	518	5,187
Other disbursements	-	5,266	-	5,266
Professional enhancement	4,588	1,835	2,753	9,176
Professional fees	5,196	6,495	1,299	12,990
Service agreements and contracts	7,987	5,083	1,452	14,522
Travel	4,200	1,271	600	6,071
	155,749	124,504	39,704	319,957
Direct fundraising expenses	-	-	10,757	10,757
Totals	\$ 838,579	\$ 124,504	\$ 50,461	\$ 1,013,544

See accompanying notes.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Statement of Cash Flows

Year ended December 31, 2017

Cash flows from operating activities:

Change in net assets	\$ 10,074,888
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	20,240
Realized gain on sale of investments	(205,103)
Unrealized gain on investments	(1,979,040)
Contributed stock	(5,352,374)
Other long-term contributions	(3,122,615)
Actuarial change in deferred gift liabilities	97,502
Increase in cash due to changes in:	
Accounts payable	6,847
Accrued liabilities	6,509
Agency fund liabilities	<u>54,113</u>
Net cash used in operating activities	(399,033)

Cash flows from investing activities:

Purchase of property and equipment	(43,331)
Increase in investments, net	<u>(2,666,856)</u>
Net cash used in investing activities	(2,710,187)

Cash flows from financing activities:

Payments on deferred gift liabilities	(52,979)
Long-term contributions received	<u>3,122,615</u>
Net cash provided by financing activities	<u>3,069,636</u>

Net decrease in cash (39,584)

Cash and cash equivalents, beginning of year	<u>215,937</u>
Cash and cash equivalents, end of year	\$ <u><u>176,353</u></u>

See accompanying notes.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements

1. Description of the Organization

Central Kentucky Community Foundation, Inc. (the Foundation), a non-profit organization, is a regional leader, promoter and innovator of education, philanthropic, economic and community development initiatives. The Foundation collaborates with educational entities and organizations in the private, public and civic sectors to increase our residents' standard of living and quality of life. The Foundation receives contributions and bequests, most of which are placed into endowment funds to achieve the organizational mission stated above. The distribution of grants to meet community needs is made in accordance with the Foundation's spending policies, as approved by the Foundation's Board of Directors.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in the preparation of its financial statements:

Cash

The Foundation has a concentration of credit risk in that it maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Foundation does not believe it is exposed to any significant credit risk with respect to such cash accounts.

Investments

The Foundation records all investments at fair value with unrealized gains and losses recorded in the statements of activities. The Foundation invests in a combination of publicly-traded stocks, mutual funds, fixed-income securities and exchange traded funds. All investment securities are subject to the risks common to financial markets, including interest rate risk, credit risk and overall market risk. Due to the level of risk associated with all investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of activities.

Management has elected not to further disaggregate the investments as displayed in Note 4 as additional risk information is not deemed material to the financial statements.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The gain or loss on the sale of property and equipment is recorded in the year of disposition. The capitalization threshold used for the year ended December 31, 2017 was \$5,000.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Assets Held and Liabilities Under Split-Interest Agreements

Charitable Trusts

The Foundation acts as trustee for various revocable and irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to us, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace us as the beneficiary of the trust, we record the assets placed in trust at fair value, with an equal and offsetting liability until such time that we receive distributions from the trust in accordance with its terms. If the trust is irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect changes in the fair value of the liability at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income.

Agency Fund Liabilities

The Foundation establishes, manages, and invests funds on behalf of governmental and non-profit organizations. The funds are the property of the Foundation. Distributions are made in accordance with the agency agreements. Under the applicable provisions of GAAP, the unexpended portion of such funds is reported as a liability instead of as a net asset of the Foundation.

Net Assets

Net assets and revenues, expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions - represent resources whose use is not limited or restricted by donors. They generally arise as a result of unrestricted contributions or restricted contributions whose restrictions have expired.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Assets, continued

Net assets with donor restrictions - represent resources whose use by the Foundation are either limited by donors for the purpose and/or time in which they may be expended or limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Net assets with donor restriction are reclassified to net assets without donor restriction as net assets released from restriction as their time and/or purpose requirements are met. The investment return on net assets with donor restriction may be restricted or unrestricted according to the donor's wishes.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributed Services

The Foundation records the value of donated services when there is an objective basis available to measure their value.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Foundation are summarized on a functional basis in the accompanying statements of activities and functional expenses. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited based on management's time and service estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except for any unrelated business income activities. Accordingly, no provision for income taxes has been made.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Reclassification

The Foundation has kept its records and has prepared its financial statements for previous years on the modified cash basis of accounting, which is a basis of accounting other than GAAP. Effective January 1, 2017, the Foundation has elected to convert from the modified cash basis to GAAP.

During 2017, the Foundation corrected its January 1, 2017 net assets without donor restrictions and net assets with donor restrictions amounts by reclassifying \$98,838 of net asset balances from with donor restrictions to without donor restrictions.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through August 8, 2018, the date that the financial statements were available to be issued.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted before 2019. The updated standard becomes effective for the Foundation for the year ending December 31, 2019. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The Foundation has elected to early adopt ASU 2016-14 for the purpose of preparing the accompanying financial statements.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

3. Liquidity and Availability

Financial assets available for general expenditure, that is without donor restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash \$ 176,353

As part of its liquidity management plan, the Foundation typically maintains more than 60 days of cash on hand. As of December 31, 2017, days of cash on hand was approximately 63 days.

Our board-designated endowment of \$110,225 is subject to a board approved annual spending rate as described in Note 8. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

4. Investments

The Foundation's investment portfolio consists of the following as of December 31, 2017:

	Cost	Unrealized Gain (Loss)	Market Value
Money market funds	\$ 6,713,001	\$ -	\$ 6,713,001
Mutual funds - fixed	7,446,007	(50,539)	7,395,468
Mutual funds - equity	6,068,848	878,468	6,947,316
Exchange traded funds	2,661,712	544,288	3,206,000
Marketable equity securities	3,134,349	975,026	4,109,375
Mortgage backed securities	47,442	30	47,472
	\$ 26,071,359	\$ 2,347,273	\$ 28,418,632

The following schedule summarizes the investment return and its classification in the statement of activities. Investment return is segregated as without donor restrictions or with donor restrictions, based upon the funds on which the investment return is earned as of December 31, 2017:

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

4. Investments, continued

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
Interest and dividend income	\$ 52,724	\$ 566,670
Realized gains on investments	631	204,472
Unrealized gains on investments	101,693	1,877,347
Investment expenses	<u>(9,406)</u>	<u>(115,104)</u>
Investment return, net	<u>\$ 145,642</u>	<u>\$ 2,533,385</u>

5. Property and Equipment

Property and equipment consists of the following as of December 31, 2017:

Land held for investment	\$ 8,493
Land, building and improvements	245,337
Office equipment, furniture and fixtures	119,387
Construction-in-progress	<u>9,390</u>
	382,607
Less accumulated depreciation	<u>(118,482)</u>
Property and equipment, net	<u>\$ 264,125</u>

6. Split-Interest Agreements

The Foundation is party to two irrevocable split-interest agreements. A split-interest agreement is a gift that is partially for the Foundation's benefit and partially for an individual's benefit. Upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the present value of the liability payable to the beneficiary. These agreements consist of charitable remainder trusts. Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to designated beneficiaries over the trust's term. Upon termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets.

Amounts subject to split-interest agreements include the following as of December 31, 2017:

Charitable remainder trusts:	
Assets	\$ 1,151,434
Liabilities	621,139

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

7. Fair Value Measurements

GAAP provides a framework for measuring fair value. That framework 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 or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
Level 2	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability directly, for substantially the full term of the asset or liability
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity)

The following methods and assumptions were used by the Foundation in estimating the fair value of its assets and liabilities. There were no changes in the methodologies used to measure fair value during the year ended December 31, 2017.

Money market funds: Valued at cost which approximates fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual 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 mutual funds held by the Plan are deemed to be actively traded.

Exchange traded funds, marketable equity securities, mortgage backed securities: Valued at the quoted market price of the shares held by the Foundation at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

7. Fair Value Measurements, continued

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 6,713,000	\$ -	\$ -	\$ 6,713,000
Mutual funds - fixed	7,395,468	-	-	7,395,468
Mutual funds - equity	6,947,316	-	-	6,947,316
Exchange traded funds	3,206,000	-	-	3,206,000
Marketable equity securities	4,109,375	-	-	4,109,375
Mortgage backed securities	<u>47,473</u>	<u>-</u>	<u>-</u>	<u>47,473</u>
	<u>\$ 28,418,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,418,632</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder trusts	\$ -	\$ -	\$ 621,139	\$ 621,139

The year ended December 31, 2017 activity of the liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 deferred gift liabilities per the previous tables) is as follows:

Beginning of year	\$ 576,616
Actuarial change	97,502
Payment obligations	<u>(52,979)</u>
End of year	<u>\$ 621,139</u>

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

8. Endowment Funds

The Foundation's endowments consist of approximately 70 donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of relevant law:

Management and the Board have determined that the majority of the Foundation's net assets meet the definition of endowment funds under the *Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA)*. The Foundation is governed subject to its bylaws and most contributions are received subject to the terms of the fund agreements.

Under the terms of the Foundation's standard fund agreements, the Board had the ability to distribute as much of the corpus of any trust or separate gift, devise, bequest or fund as the Board, in its sole discretion, shall determine. In accordance with UPMIFA, the Foundation considers the following factors in making a determination on donor-restricted endowment funds outside the standing investment and spending policy:

1. the purpose of the organization and the respective donor-restricted endowment fund
2. other resources of the organization
3. the investment policies of the organization
4. the duration and preservation of the fund
5. general economic conditions
6. the possible effect of inflation and deflation
7. the expected total return from income and the appreciation of investments

Changes in endowment net assets during the year ended December 31, 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 98,839	\$ 13,055,257	\$ 13,154,096
Contributions	-	2,467,681	2,467,681
Investment return:			
Net investment income	2,055	305,979	308,034
Net realized and unrealized gains	11,528	1,881,970	1,893,498
Administered fund fees	(2,197)	(296,395)	(298,592)
Net assets released from restriction	-	(248,950)	(248,950)
End of year	\$ 110,225	\$ 17,165,542	\$ 17,275,767

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

8. Endowment Funds, continued

Funds with deficiencies:

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restriction.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes.

Strategies employed for achieving return objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term rate-of-return objectives while within prudent risk parameters.

Spending policy and how the investment objectives relate to the spending policy:

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current spending policy is to make available for distribution 3% of the average balance over twelve rolling quarters. Accordingly, over the long-term, the Foundation expects its current spending policy to allow its endowment assets to grow. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

9. Retirement Plan

The Foundation sponsors a 401(k) retirement plan covering employees who meet eligibility requirements and choose to participate. The Foundation's expense was \$5,060 for the fiscal year ended December 31, 2017.

10. Commitment

The Foundation has entered into an agreement relating to the construction of a new office. As of August 8, 2018, the Foundation expects the remaining construction-in-progress to approximate \$2,203,000. The Foundation has a \$1.1 million line of credit to fund the construction.

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2017:

Subject to expenditure for specified purpose:

Donor advised	\$	6,267,581
Scholarships		1,532,321
Designated		349,060
Educational programs		85,108
Field of interest		<u>50,983</u>

Total subject to expenditure for specified purpose 8,285,053

Subject to passage of time:

Charitable remainder trusts		530,295
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Endowments:

Subject to appropriation and expenditure when a specified event occurs:

Scholarships		7,945,633
Designated		4,143,762
Field of interest		3,096,775
Donor advised		<u>1,979,372</u>

Total endowments 17,165,542

Total net assets with donor restriction \$ 25,980,890

CENTRAL KENTUCKY COMMUNITY FOUNDATION, INC.

Notes to the Financial Statements, continued

11. Net Assets With Donor Restrictions, continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2017:

Satisfaction of restrictions		
Donor advised	\$	279,970
Support fee		254,632
Designated		172,449
Scholarships		168,364
Field of interest		39,805
Educational		21,035
Scholarship administrative fee		7,464
Other		2,000
Distributions from charitable remainder trusts		<u>1,207</u>
Total net assets released from restriction	\$	<u>946,926</u>