

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

CPAs / ADVISORS



FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Foundation for Appalachian Kentucky, Inc.
Chavies, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Foundation for Appalachian Kentucky, Inc. (the "Foundation") which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

Seymour, Indiana

August 25, 2016

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
Cash	\$ 216,046	\$ 330,898
Investments	2,431,700	2,122,107
Grants receivable	50,081	47,000
Interest in charitable lead annuity trust	3,446,691	3,607,112
Equipment, net	<u>4,119</u>	<u>10,250</u>
	<u>\$ 6,148,637</u>	<u>\$ 6,117,367</u>

LIABILITIES AND NET ASSETS

Liabilities

Custodial funds	\$ 12,079	\$ 7,294
Accrued expenses	<u>4,312</u>	<u>2,287</u>
Total liabilities	16,391	9,581

Net assets

Unrestricted net assets		
Operating	23,347	54,753
Board designated unrestricted endowment	<u>10,000</u>	<u>10,000</u>
	33,347	64,753
Temporarily restricted net assets	4,104,817	4,213,662
Permanently restricted net assets	<u>1,994,082</u>	<u>1,829,371</u>
Total net assets	<u>6,132,246</u>	<u>6,107,786</u>
	<u>\$ 6,148,637</u>	<u>\$ 6,117,367</u>

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenues					
Contributions	\$ 200,606	\$ 462,151	\$ 164,711	\$ 827,468	\$ 692,264
Investment return, net	-0-	(25,942)	-0-	(25,942)	95,981
Administrative fees	20,764	-0-	-0-	20,764	25,765
In-kind revenue	12,000	-0-	-0-	12,000	12,000
Release of contributions receivable	-0-	-0-	-0-	-0-	(136,982)
Change in value of split-interest agreement	-0-	89,579	-0-	89,579	93,567
Net assets released from restrictions	<u>634,633</u>	<u>(634,633)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	868,003	(108,845)	164,711	923,869	782,595
Expenses					
Grants	446,246	-0-	-0-	446,246	365,397
Administrative fees	20,647	-0-	-0-	20,647	25,761
Programs	78,498	-0-	-0-	78,498	39,457
Salaries and wages	155,058	-0-	-0-	155,058	111,664
Payroll taxes	11,215	-0-	-0-	11,215	7,954
Employee benefits	40,794	-0-	-0-	40,794	28,938
Marketing	2,377	-0-	-0-	2,377	3,136
Advertising	3,315	-0-	-0-	3,315	1,267
Office supplies	5,363	-0-	-0-	5,363	4,509
Postage and printing	4,690	-0-	-0-	4,690	2,834
Telephone	6,662	-0-	-0-	6,662	4,732
Rent and utilities	17,500	-0-	-0-	17,500	12,000
Professional fees	50,600	-0-	-0-	50,600	30,085
Technology support	5,905	-0-	-0-	5,905	6,040
Travel and entertainment	21,869	-0-	-0-	21,869	16,658
Meetings and conferences	12,493	-0-	-0-	12,493	10,559
Insurance	6,920	-0-	-0-	6,920	7,984
Depreciation	6,935	-0-	-0-	6,935	7,088
Miscellaneous	<u>2,322</u>	<u>-0-</u>	<u>-0-</u>	<u>2,322</u>	<u>104</u>
Total expenses	899,409	-0-	-0-	899,409	686,167
Change in net assets	(31,406)	(108,845)	164,711	24,460	96,428
Net assets, beginning of year	<u>64,753</u>	<u>4,213,662</u>	<u>1,829,371</u>	<u>6,107,786</u>	<u>6,011,358</u>
Net assets, end of year	<u>\$ 33,347</u>	<u>\$ 4,104,817</u>	<u>\$ 1,994,082</u>	<u>\$ 6,132,246</u>	<u>\$ 6,107,786</u>

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Contributions	\$ 194,256	\$ 352,174	\$ 145,834	\$ 692,264
Investment return, net	21	95,960	-0-	95,981
Administrative fees	25,765	-0-	-0-	25,765
In-kind revenue	12,000	-0-	-0-	12,000
Release of contributions receivable	(136,982)	-0-	-0-	(136,982)
Change in value of split-interest agreement	-0-	93,567	-0-	93,567
Net assets released from restrictions	531,044	(531,044)	-0-	-0-
Total support and revenues	626,104	10,657	145,834	782,595
Expenses				
Grants	365,397	-0-	-0-	365,397
Administrative fees	25,761	-0-	-0-	25,761
Programs	39,457	-0-	-0-	39,457
Salaries and wages	111,664	-0-	-0-	111,664
Payroll taxes	7,954	-0-	-0-	7,954
Employee benefits	28,938	-0-	-0-	28,938
Marketing	3,136	-0-	-0-	3,136
Advertising	1,267	-0-	-0-	1,267
Office supplies	4,509	-0-	-0-	4,509
Postage and printing	2,834	-0-	-0-	2,834
Telephone	4,732	-0-	-0-	4,732
Rent and utilities	12,000	-0-	-0-	12,000
Professional fees	30,085	-0-	-0-	30,085
Technology support	6,040	-0-	-0-	6,040
Travel and entertainment	16,658	-0-	-0-	16,658
Meetings and conferences	10,559	-0-	-0-	10,559
Insurance	7,984	-0-	-0-	7,984
Depreciation	7,088	-0-	-0-	7,088
Miscellaneous	104	-0-	-0-	104
Total expenses	686,167	-0-	-0-	686,167
Change in net assets	(60,063)	10,657	145,834	96,428
Net assets, beginning of year	124,816	4,203,005	1,683,537	6,011,358
Net assets, end of year	\$ 64,753	\$ 4,213,662	\$ 1,829,371	\$ 6,107,786

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating activities		
Change in net assets	\$ 24,460	\$ 96,428
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	6,935	7,088
Reinvested interest and dividends received on investments	(78,036)	(72,957)
Realized and unrealized losses (gains) on investments	98,526	(28,356)
Contributions restricted to endowment fund	(164,711)	(145,834)
Change in value of split-interest agreements	(89,579)	(93,567)
Changes in assets and liabilities:		
Grants receivable	(3,081)	(16,347)
Custodial funds	4,785	2,935
Accrued expenses	2,025	(328)
Net cash flows from operating activities	<u>(198,676)</u>	<u>(250,938)</u>
Investing activities		
Purchases of equipment	(804)	(3,262)
Purchases of investments	(860,659)	(684,104)
Proceeds from sale of investments	530,576	671,003
Net cash flows from investing activities	<u>(330,887)</u>	<u>(16,363)</u>
Financing activities		
Contributions restricted to endowment fund	164,711	145,834
Payments received from charitable lead annuity trusts	250,000	250,000
Net cash flows from financing activities	<u>414,711</u>	<u>395,834</u>
Net change in cash	(114,852)	128,533
Cash, beginning of year	<u>330,898</u>	<u>202,365</u>
Cash, end of year	<u>\$ 216,046</u>	<u>\$ 330,898</u>

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Foundation for Appalachian Kentucky, Inc. (the "Foundation") is a not-for-profit entity that was created in 1998 and began full operations in 2008. The Foundation changed its name in 2011 and was formally known as the Community Foundation of Hazard and Perry County, Inc. The Foundation is located in Chavies, Kentucky. The mission of the Foundation is to support collaborative work in the community around a common vision that enhances the lives of all local citizens and to create a permanent endowment to serve as a catalyst and resource to respond to changing community priorities.

Management's Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

Basis of Presentation

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

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and made up of the Foundation's operating fund and monies designated by the board for specified purposes. The Foundation maintains unrestricted funds as follows:

Operating – used to fund current operations of the Foundation

Board designated unrestricted endowment – funding placed into the endowment to benefit future operations

Temporarily restricted net assets – Net assets not yet appropriated for expenditure by the Foundation's Board of Directors in accordance with their spending policy or that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Included in this classification are endowment funds based on donor intent requiring that the principal be maintained in perpetuity and invested for the purpose of producing present and future income.

Investments and Investment Return

The Foundation carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Statements of Activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as unrestricted or temporarily restricted based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Foundation's spending policy.

Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (contributions receivable), are recognized as revenues in the period the contribution is received or the promise is made.

Support and revenues are reported as increases in either unrestricted, temporarily restricted, or permanently restricted net assets in accordance with the nature of the related contribution. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either unrestricted or temporarily restricted net assets in accordance with the classification of the fund as it relates to donor intent.

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

All other revenue is recorded when earned.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Income Taxes

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation 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 Foundation, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

Subsequent Events

The Foundation has evaluated events or transactions occurring subsequent to the Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is August 25, 2016.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

2. INVESTMENTS

Investments consist of the following at December 31, 2015 and 2014:

	2015	2014
Cash and cash equivalents	\$ 92,561	\$ 253,213
Common stocks		
Consumer goods	111,242	76,735
Healthcare	84,692	64,403
Services	109,560	78,963
Industrial goods	107,648	73,434
Technology	117,392	76,085
Utilities	28,218	48,984
Financial	52,623	51,011
Basic materials	19,145	14,510
Equity exchange traded funds		
Large	129,349	-0-
Small/Mid	205,296	-0-
Other	38,150	29,580
Fixed income mutual funds		
Short term	328,788	334,524
Intermediate term	438,145	309,007
Other	25,292	-0-
Equity mutual funds		
Large	465,026	542,948
Small/Mid	53,014	168,710
Other	25,559	-0-
	\$ 2,431,700	\$ 2,122,107

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended December 31, 2015 and 2014:

	2015	2014
Interest and dividend income	\$ 78,036	\$ 72,957
Realized and unrealized gains (losses)	(98,526)	28,356
Investment fees	(5,452)	(5,332)
	\$ (25,942)	\$ 95,981

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

3. RISKS AND UNCERTAINTIES

The Foundation holds investments (Note 2). 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 financial statements.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The Foundation's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. There were no transfers in 2015 and 2014. The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- 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.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- *Common stocks*: Valued at the closing price reported on the active market on 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 held by the Foundation 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 Foundation are deemed to be actively traded.
- *Interest in charitable lead annuity trust*: Fair value determined by calculating the present value of the annual amount to be received until termination of the trust using a 2.52% discount rate.

The following table sets forth by level, within the hierarchy, the Foundation's assets measured at fair value on a recurring basis as of December 31, 2015 and 2014:

	2015		
	Fair Value	Level 1	Level 3
Assets:			
Investments			
Common stocks	\$ 630,520	\$ 630,520	\$ -0-
Exchange traded funds	372,795	372,795	-0-
Mutual funds	1,335,824	1,335,824	-0-
Interest in charitable lead annuity trust	3,446,691	-0-	3,446,691

	2014		
	Fair Value	Level 1	Level 3
Assets:			
Investments			
Common stocks	\$ 484,125	\$ 484,125	\$ -0-
Exchange traded funds	29,580	29,580	-0-
Mutual funds	1,355,189	1,355,189	-0-
Interest in charitable lead annuity trust	3,607,112	-0-	3,607,112

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

The progression of interest in charitable lead annuity trust during the year ended December 31, 2015 is as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 3,607,112	\$ 3,763,545
Trust payment received	(250,000)	(250,000)
Change in present value	<u>89,579</u>	<u>93,567</u>
	<u>\$ 3,446,691</u>	<u>\$ 3,607,112</u>

5. GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Appalachian Regional Commission	\$ -0-	\$ 25,000
Center for Rural Development	15,000	-0-
EKU Cares	10,000	
Appalachian Rural Development Philanthropy Initiative	<u>25,081</u>	<u>22,000</u>
	<u>\$ 50,081</u>	<u>\$ 47,000</u>

6. INTEREST IN CHARITABLE LEAD ANNUITY TRUST

During 2012, the Foundation became the lead beneficiary of a charitable lead annuity trust under which \$62,500 is received quarterly for twenty years. Upon termination of the trust, the trust assets revert to the beneficiaries named by the donor. The Foundation's interest under this trust was \$3,446,691 and \$3,607,112 at December 31, 2015 and 2014, respectively. In calculating the present value of the amount to be received until termination of the trust, a discount rate of 2.52% was used. The Foundation is not the trustee of this trust, therefore, the fair value of the trust assets has not been recorded in the Statements of Financial Position at December 31, 2015 and 2014.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

7. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Foundation by other organizations based on their individual board resolutions. The Foundation accounts for these transfers as a liability in accordance with applicable accounting standards. Income is added to these funds periodically in accordance with the Foundation's investment allocation policies. Contributions by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Statements of Activities. Following is a progression of custodial funds during 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 7,294	\$ 4,358
Contributions	25,402	12,200
Administrative fees	(117)	(3)
Other expenses	(20,500)	(8,436)
Grants	<u>-0-</u>	<u>(825)</u>
	<u>\$ 12,079</u>	<u>\$ 7,294</u>

8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$4,104,817 and \$4,213,662 consist of endowment funds not yet appropriated for expenditure at December 31, 2015 and 2014.

Permanently restricted net assets in the amount of \$1,994,082 and \$1,829,371 at December 31, 2015 and 2014, respectively, are donor-restricted assets whereby the principal amount is never to be expended.

9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amounts of \$634,633 and \$531,044 based on endowment funds appropriated for expenditure for the years ended December 31, 2015 and 2014.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

10. ENDOWMENT

The Foundation maintains endowment funds. These endowment funds include both donor-restricted assets and assets designated by the Board of Directors to function as endowments. 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 historic gift value as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The earnings on the permanent endowments are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation 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 Foundation
- (7) The investment policies of the Foundation

The Foundation 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 Foundation 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. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, the Foundation 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).

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

The Foundation has a policy of appropriating for distribution each year 4 percent of its endowment funds' average fair value over the prior 12 quarters, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Foundation considered the long-term expected return on its endowments.

The endowment funds by net asset type at December 31, 2015 and 2014 were as follows:

	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 10,000	\$ -0-	\$ -0-
Donor Restricted Funds	<u>-0-</u>	<u>4,104,817</u>	<u>1,994,082</u>
	<u>\$ 10,000</u>	<u>\$ 4,104,817</u>	<u>\$ 1,994,082</u>
	2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 10,000	\$ -0-	\$ -0-
Donor Restricted Funds	<u>-0-</u>	<u>4,213,662</u>	<u>1,829,371</u>
	<u>\$ 10,000</u>	<u>\$ 4,213,662</u>	<u>\$ 1,829,371</u>

Changes in endowment funds for the years ended December 31, 2015 and 2014 were as follows:

	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 10,000	\$ 4,213,662	\$ 1,829,371
Contributions and other revenue	-0-	551,730	164,711
Investment return, net	-0-	(25,942)	-0-
Appropriation of endowment assets for expenditure	<u>-0-</u>	<u>(634,633)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ 10,000</u>	<u>\$ 4,104,817</u>	<u>\$ 1,994,082</u>

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

	2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 10,000	\$ 4,203,005	\$ 1,683,537
Contributions and other revenue	-0-	445,741	145,834
Investment return, net	-0-	95,960	-0-
Appropriation of endowment assets for expenditure	<u>-0-</u>	<u>(531,044)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ 10,000</u>	<u>\$ 4,213,662</u>	<u>\$ 1,829,371</u>

11. FUNCTIONAL EXPENSES

The Foundation serves as a vehicle for residents of Appalachian Kentucky to donate to various organizations and projects in this region. Expenses related to providing this service are classified as follows:

	2015	2014
Development of Appalachian Kentucky	\$ 649,873	\$ 499,122
Fundraising expenses	122,913	87,551
General and administrative expenses	<u>126,623</u>	<u>99,494</u>
	<u>\$ 899,409</u>	<u>\$ 686,167</u>

12. RENT

The Foundation uses its office space and utilities with no rental charge. As such, the Foundation has recognized in-kind revenue and expense of \$12,000 for the years ended December 31, 2015 and 2014, which approximates the fair value of the contribution.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

13. CONCENTRATIONS

The Foundation maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these accounts.

Marketable securities and money market funds are maintained with an investment firm. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

During 2015 and 2014, the Foundation received 14 percent and 12 percent of its total support and revenues from one donor.