

**FOUNDATION FOR APPALACHIAN  
KENTUCKY, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

*CPAs / ADVISORS*



**FOUNDATION FOR APPALACHIAN KENTUCKY, INC.**

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DECEMBER 31, 2016 AND 2015

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Foundation for Appalachian Kentucky, Inc.  
Hazard, 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, 2016 and 2015, 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, 2016 and 2015, 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

July 31, 2017

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

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### ASSETS

	2016	2015
Cash	\$ 700,093	\$ 216,046
Investments	2,858,760	2,431,700
Grants receivable	44,933	50,081
Interest in charitable lead annuity trust	3,282,180	3,446,691
Beneficial interest in charitable remainder trust	53,515	-0-
Property and equipment, net	<u>301,489</u>	<u>4,119</u>
	<u>\$ 7,240,970</u>	<u>\$ 6,148,637</u>

### LIABILITIES AND NET ASSETS

#### Liabilities

Accounts payable	\$ 9,686	\$ -0-
Custodial funds	35,907	12,079
Accrued expenses	<u>4,061</u>	<u>4,312</u>
Total liabilities	49,654	16,391

#### Net assets

Unrestricted net assets		
Operating	435,073	23,347
Board designated unrestricted endowment	<u>10,000</u>	<u>10,000</u>
	445,073	33,347
Temporarily restricted net assets	4,407,667	4,104,817
Permanently restricted net assets	<u>2,338,576</u>	<u>1,994,082</u>
Total net assets	<u>7,191,316</u>	<u>6,132,246</u>
	<u>\$ 7,240,970</u>	<u>\$ 6,148,637</u>

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*See accompanying notes to financial statements.*

## FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

### STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Support and revenues</b>					
Contributions and grants	\$ 597,953	\$ 754,170	\$ 344,494	\$ 1,696,617	\$ 827,468
Investment return, net	1,719	178,005	-0-	179,724	(25,942)
Administrative fees	22,963	-0-	-0-	22,963	20,764
In-kind revenue	12,000	-0-	-0-	12,000	12,000
Change in value of split-interest agreement	-0-	85,489	-0-	85,489	89,579
Net assets released from restrictions	<u>714,814</u>	<u>(714,814)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	1,349,449	302,850	344,494	1,996,793	923,869
<b>Expenses</b>					
Grants	345,671	-0-	-0-	345,671	446,246
Administrative fees	22,755	-0-	-0-	22,755	20,647
Programs	170,261	-0-	-0-	170,261	78,498
Salaries and wages	187,211	-0-	-0-	187,211	155,058
Payroll taxes	15,007	-0-	-0-	15,007	11,215
Employee benefits	47,094	-0-	-0-	47,094	40,794
Marketing	5,339	-0-	-0-	5,339	2,377
Advertising	3,991	-0-	-0-	3,991	3,315
Office supplies	4,369	-0-	-0-	4,369	5,363
Postage and printing	8,523	-0-	-0-	8,523	4,690
Telephone	6,181	-0-	-0-	6,181	6,662
Rent and utilities	18,050	-0-	-0-	18,050	17,500
Professional fees	39,774	-0-	-0-	39,774	50,600
Technology support	4,796	-0-	-0-	4,796	5,905
Travel and entertainment	27,047	-0-	-0-	27,047	21,869
Meetings and conferences	20,399	-0-	-0-	20,399	12,493
Insurance	3,962	-0-	-0-	3,962	6,920
Depreciation	3,170	-0-	-0-	3,170	6,935
Miscellaneous	4,123	-0-	-0-	4,123	2,322
Total expenses	<u>937,723</u>	<u>-0-</u>	<u>-0-</u>	<u>937,723</u>	<u>899,409</u>
Change in net assets	411,726	302,850	344,494	1,059,070	24,460
<b>Net assets, beginning of year</b>	<u>33,347</u>	<u>4,104,817</u>	<u>1,994,082</u>	<u>6,132,246</u>	<u>6,107,786</u>
<b>Net assets, end of year</b>	<u>\$ 445,073</u>	<u>\$ 4,407,667</u>	<u>\$ 2,338,576</u>	<u>\$ 7,191,316</u>	<u>\$ 6,132,246</u>

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenues</b>				
Contributions and grants	\$ 200,606	\$ 462,151	\$ 164,711	\$ 827,468
Investment return, net	-0-	(25,942)	-0-	(25,942)
Administrative fees	20,764	-0-	-0-	20,764
In-kind revenue	12,000	-0-	-0-	12,000
Change in value of split-interest agreement	-0-	89,579	-0-	89,579
Net assets released from restrictions	<u>634,633</u>	<u>(634,633)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	868,003	(108,845)	164,711	923,869
<b>Expenses</b>				
Grants	446,246	-0-	-0-	446,246
Administrative fees	20,647	-0-	-0-	20,647
Programs	78,498	-0-	-0-	78,498
Salaries and wages	155,058	-0-	-0-	155,058
Payroll taxes	11,215	-0-	-0-	11,215
Employee benefits	40,794	-0-	-0-	40,794
Marketing	2,377	-0-	-0-	2,377
Advertising	3,315	-0-	-0-	3,315
Office supplies	5,363	-0-	-0-	5,363
Postage and printing	4,690	-0-	-0-	4,690
Telephone	6,662	-0-	-0-	6,662
Rent and utilities	17,500	-0-	-0-	17,500
Professional fees	50,600	-0-	-0-	50,600
Technology support	5,905	-0-	-0-	5,905
Travel and entertainment	21,869	-0-	-0-	21,869
Meetings and conferences	12,493	-0-	-0-	12,493
Insurance	6,920	-0-	-0-	6,920
Depreciation	6,935	-0-	-0-	6,935
Miscellaneous	<u>2,322</u>	<u>-0-</u>	<u>-0-</u>	<u>2,322</u>
Total expenses	<u>899,409</u>	<u>-0-</u>	<u>-0-</u>	<u>899,409</u>
Change in net assets	(31,406)	(108,845)	164,711	24,460
<b>Net assets, beginning of year</b>	<u>64,753</u>	<u>4,213,662</u>	<u>1,829,371</u>	<u>6,107,786</u>
<b>Net assets, end of year</b>	<u>\$ 33,347</u>	<u>\$ 4,104,817</u>	<u>\$ 1,994,082</u>	<u>\$ 6,132,246</u>

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Operating activities</b>		
Change in net assets	\$ 1,059,070	\$ 24,460
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Receipt of interest in charitable remainder trust	(53,515)	-0-
Depreciation	3,170	6,935
Reinvested interest and dividends received on investments	(81,525)	(78,036)
Realized and unrealized losses (gains) on investments	(105,859)	98,526
Contributions restricted to endowment fund	(344,494)	(164,711)
Change in value of split-interest agreements	(85,489)	(89,579)
Changes in assets and liabilities:		
Grants receivable	5,148	(3,081)
Custodial funds	23,828	4,785
Accounts payable	9,686	-0-
Accrued expenses	(251)	2,025
Net cash flows from operating activities	429,769	(198,676)
<b>Investing activities</b>		
Purchases of property and equipment	(300,540)	(804)
Purchases of investments	(598,811)	(860,659)
Proceeds from sale of investments	359,135	530,576
Net cash flows from investing activities	(540,216)	(330,887)
<b>Financing activities</b>		
Contributions restricted to endowment fund	344,494	164,711
Payments received from charitable lead annuity trust	250,000	250,000
Net cash flows from financing activities	594,494	414,711
Net change in cash	484,047	(114,852)
<b>Cash, beginning of year</b>	216,046	330,898
<b>Cash, end of year</b>	\$ 700,093	\$ 216,046

*See accompanying notes to financial statements.*



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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 is located in Hazard, 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, 2016 AND 2015

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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.

### 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.

The property and equipment of the Foundation are being depreciated over their estimated useful lives ranging from three to thirty-nine years using the straight-line method.

### 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, 2016 AND 2015

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### 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, 2016 and 2015, 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.

### Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Foundation's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

### 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 July 31, 2017.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

### 2. INVESTMENTS

Investments consist of the following at December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents	\$ 229,080	\$ 92,561
Common stocks		
Consumer goods	108,234	111,242
Healthcare	82,901	84,692
Services	123,145	109,560
Industrial goods	67,910	107,648
Technology	130,469	117,392
Utilities	23,892	28,218
Financial	79,347	52,623
Basic materials	32,757	19,145
Equity exchange traded funds		
Large	252,494	129,349
Small/Mid	272,487	205,296
Other	60,263	38,150
Fixed income mutual funds		
Short term	350,023	328,788
Intermediate term	487,623	438,145
Other	11,766	25,292
Equity mutual funds		
Large	487,136	465,026
Small/Mid	59,233	53,014
Other	-0-	25,559
	\$ 2,858,760	\$ 2,431,700

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and dividend income	\$ 81,447	\$ 78,036
Realized and unrealized gains (losses)	105,773	(98,526)
Investment fees	(7,496)	(5,452)
	\$ 179,724	\$ (25,942)

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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 2016 and 2015. 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, 2016 AND 2015

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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, 2016 and 2015.

- *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.
- *Beneficial interest in charitable remainder trust:* Fair value is determined by calculating the net present value of future cash flows from the remainder of the trust using published life expectancy tables, 8% rate of return and 2.2% 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, 2016 and 2015:

	2016		
	Fair Value	Level 1	Level 3
Assets:			
Investments			
Common stocks	\$ 648,655	\$ 648,655	\$ -0-
Exchange traded funds	585,244	585,244	-0-
Mutual funds	1,395,781	1,395,781	-0-
Interest in charitable lead annuity trust	3,282,180	-0-	3,282,180
Beneficial interest in charitable remainder trust	53,515	-0-	53,515

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

	Fair Value	2015	
		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

The progression of interest in charitable lead annuity trust during the year ended December 31, 2016 and 2015 is as follows:

	2016	2015
Beginning balance	\$ 3,446,691	\$ 3,607,112
Trust payment received	(250,000)	(250,000)
Change in present value	<u>85,489</u>	<u>89,579</u>
	<u>\$ 3,282,180</u>	<u>\$ 3,446,691</u>

The progression of beneficial interest in charitable remainder trust during the year ended December 31, 2016 is as follows:

Beginning balance	\$ -0-
Receipt of gift	<u>53,515</u>
	<u>\$ 53,515</u>

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 5. GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Appalachian Regional Commission	\$ 24,100	\$ -0-
Center for Rural Development	-0-	15,000
EKU Cares	-0-	10,000
Appalachian Rural Development Philanthropy Initiative	<u>20,833</u>	<u>25,081</u>
	<u>\$ 44,933</u>	<u>\$ 50,081</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 \$3,282,180 and \$3,446,691 at December 31, 2016 and 2015, 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, 2016 and 2015.

### 7. INTEREST IN CHARITABLE REMAINDER TRUST

The Foundation has been named beneficiary of a charitable remainder trust. The Foundation is not the trustee of the trust, but upon the death of the Trust's lifetime beneficiaries, 25% of the remaining assets will revert to the Foundation. The estimated value of the expected residual benefit (which represents the fair value of the trust assets less the present value of the estimated future payments to beneficiaries based upon published life expectancy tables and a discount rate of 2.2%) of this trust was \$53,515 at December 31, 2016.



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Building	\$ 300,329	\$ -0-
Equipment	<u>43,664</u>	<u>43,543</u>
	343,993	43,543
Less accumulated depreciation	<u>42,504</u>	<u>39,424</u>
	<u>\$ 301,489</u>	<u>\$ 4,119</u>

### 9. 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 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 12,079	\$ 7,294
Contributions	89,238	25,402
Interest and dividend income	78	-0-
Realized and unrealized gains	86	-0-
Administrative fees	(208)	(117)
Other expenses	(64,196)	(20,500)
Grants	<u>(1,170)</u>	<u>-0-</u>
	<u>\$ 35,907</u>	<u>\$ 12,079</u>

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$4,407,667 and \$4,104,817 consist of endowment funds not yet appropriated for expenditure at December 31, 2016 and 2015.

Permanently restricted net assets in the amount of \$2,338,576 and \$1,994,082 at December 31, 2016 and 2015, respectively, are donor-restricted assets whereby the principal amount is never to be expended.

### 11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amounts of \$714,814 and \$634,633 based on endowment funds appropriated for expenditure for the years ended December 31, 2016 and 2015.

### 12. 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
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# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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).

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, 2016 and 2015 were as follows:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 10,000	\$ -0-	\$ -0-
Donor Restricted Funds	-0-	4,407,667	2,338,576
	\$ 10,000	\$ 4,407,667	\$ 2,338,576
	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 10,000	\$ -0-	\$ -0-
Donor Restricted Funds	-0-	4,104,817	1,994,082
	\$ 10,000	\$ 4,104,817	\$ 1,994,082

## FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Changes in endowment funds for the years ended December 31, 2016 and 2015 were as follows:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 10,000	\$ 4,104,817	\$ 1,994,082
Contributions and other revenue	-0-	839,659	344,494
Investment return, net	-0-	178,005	-0-
Appropriation of endowment assets for expenditure	-0-	(714,814)	-0-
Endowment net assets, end of year	\$ 10,000	\$ 4,407,667	\$ 2,338,576
	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	-0-	(634,633)	-0-
Endowment net assets, end of year	\$ 10,000	\$ 4,104,817	\$ 1,994,082

### 13. 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:

	2016	2015
Development of Appalachian Kentucky	\$ 655,940	\$ 649,872
Fundraising expenses	140,936	122,913
General and administrative expenses	140,847	126,624
	\$ 937,723	\$ 899,409

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 14. 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, 2016 and 2015, which approximates the fair value of the contribution.

### 15. 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.

### 16. COMMITMENT

In December 2016, the Foundation entered into an advisory agreement with a third party to provide investment management and consulting services. The agreement called for payments of \$35,000 per month for five months. As of December 31, 2016, the Foundation was still committed to \$140,000.

### 17. RECENTLY ISSUED ACCOUNTING STANDARDS

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Foundation is not required to adopt until its year ending December 31, 2018, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

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