

# **FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017 AND 2016**

*CPAs / ADVISORS*



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## TABLE OF CONTENTS DECEMBER 31, 2017 AND 2016

---

	Page
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Consolidated Statements of Financial Position .....	3
Consolidated Statements of Activities .....	4
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7
<b>Supplementary Information (2017 only)</b>	
Consolidating Statement of Financial Position .....	20
Consolidating Statement of Activities .....	21

---



Blue & Co., LLC / 813 West Second Street / Seymour, IN 47274  
main 812.522.8416 fax 812.523.8615 email blue@blueandco.com

[blueandco.com](http://blueandco.com)

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of the Foundation for Appalachian Kentucky, Inc. and affiliate (collectively referred to as the "Organization") which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplementary Information

Our 2017 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2017 consolidating information on pages 20 and 21 is presented for purposes of additional analysis, rather than to present financial position, results of operations, and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 2017 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Blue & Co., LLC*

Seymour, Indiana

July 18, 2018

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

### ASSETS

	2017	2016
Cash	\$ 356,113	\$ 700,093
Investments	5,405,534	2,858,760
Grants receivable	101,421	44,933
Interest in charitable lead annuity trust	3,113,476	3,282,180
Beneficial interest in charitable remainder trust	97,046	53,515
Property and equipment, net	<u>336,314</u>	<u>301,489</u>
	<u>\$ 9,409,904</u>	<u>\$ 7,240,970</u>

### LIABILITIES AND NET ASSETS

#### Liabilities

Accounts payable	\$ 12,978	\$ 9,686
Custodial funds	92,023	35,907
Accrued expenses	<u>6,965</u>	<u>4,061</u>
Total liabilities	111,966	49,654

#### Net assets

Unrestricted net assets		
Operating	397,298	435,073
Board designated:		
Unrestricted endowment	10,000	10,000
Operating reserve	<u>38,493</u>	<u>-0-</u>
	445,791	445,073
Temporarily restricted net assets	6,296,179	4,407,667
Permanently restricted net assets	<u>2,555,968</u>	<u>2,338,576</u>
Total net assets	<u>9,297,938</u>	<u>7,191,316</u>
	<u>\$ 9,409,904</u>	<u>\$ 7,240,970</u>

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Support and revenues</b>					
Contributions and grants	\$ 481,835	\$ 2,476,213	\$ 217,392	\$ 3,175,440	\$ 1,696,617
Investment return, net	3,528	478,589	-0-	482,117	179,724
Administrative fees	27,113	-0-	-0-	27,113	22,963
In-kind revenue	-0-	-0-	-0-	-0-	12,000
Other revenue	5,581	101	-0-	5,682	-0-
Change in value of split-interest agreement	-0-	124,827	-0-	124,827	85,489
Net assets released from restrictions	1,191,218	(1,191,218)	-0-	-0-	-0-
<b>Total support and revenues</b>	<b>1,709,275</b>	<b>1,888,512</b>	<b>217,392</b>	<b>3,815,179</b>	<b>1,996,793</b>
<b>Expenses</b>					
Grants	851,416	-0-	-0-	851,416	345,671
Administrative fees	27,411	-0-	-0-	27,411	22,755
Programs	231,539	-0-	-0-	231,539	170,261
Salaries and wages	283,426	-0-	-0-	283,426	187,211
Payroll taxes	19,745	-0-	-0-	19,745	15,007
Employee benefits	53,173	-0-	-0-	53,173	47,094
Marketing	18,428	-0-	-0-	18,428	5,339
Advertising	8,624	-0-	-0-	8,624	3,991
Office supplies	9,251	-0-	-0-	9,251	4,369
Postage and printing	8,223	-0-	-0-	8,223	8,523
Telephone	7,708	-0-	-0-	7,708	6,181
Rent and utilities	15,685	-0-	-0-	15,685	18,050
Repairs and maintenance	38,353	-0-	-0-	38,353	-0-
Professional fees	25,524	-0-	-0-	25,524	39,774
Technology support	10,975	-0-	-0-	10,975	4,796
Travel and entertainment	32,671	-0-	-0-	32,671	27,047
Meetings and conferences	30,649	-0-	-0-	30,649	20,399
Insurance	21,252	-0-	-0-	21,252	3,962
Depreciation	8,337	-0-	-0-	8,337	3,170
Miscellaneous	6,167	-0-	-0-	6,167	4,123
<b>Total expenses</b>	<b>1,708,557</b>	<b>-0-</b>	<b>-0-</b>	<b>1,708,557</b>	<b>937,723</b>
Change in net assets	718	1,888,512	217,392	2,106,622	1,059,070
<b>Net assets, beginning of year</b>	<b>445,073</b>	<b>4,407,667</b>	<b>2,338,576</b>	<b>7,191,316</b>	<b>6,132,246</b>
<b>Net assets, end of year</b>	<b>\$ 445,791</b>	<b>\$ 6,296,179</b>	<b>\$ 2,555,968</b>	<b>\$ 9,297,938</b>	<b>\$ 7,191,316</b>

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenues</b>				
Contributions and grants	\$ 597,953	\$ 754,170	\$ 344,494	\$ 1,696,617
Investment return, net	1,719	178,005	-0-	179,724
Administrative fees	22,963	-0-	-0-	22,963
In-kind revenue	12,000	-0-	-0-	12,000
Change in value of split-interest agreement	-0-	85,489	-0-	85,489
Net assets released from restrictions	<u>714,814</u>	<u>(714,814)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	1,349,449	302,850	344,494	1,996,793
<b>Expenses</b>				
Grants	345,671	-0-	-0-	345,671
Administrative fees	22,755	-0-	-0-	22,755
Programs	170,261	-0-	-0-	170,261
Salaries and wages	187,211	-0-	-0-	187,211
Payroll taxes	15,007	-0-	-0-	15,007
Employee benefits	47,094	-0-	-0-	47,094
Marketing	5,339	-0-	-0-	5,339
Advertising	3,991	-0-	-0-	3,991
Office supplies	4,369	-0-	-0-	4,369
Postage and printing	8,523	-0-	-0-	8,523
Telephone	6,181	-0-	-0-	6,181
Rent and utilities	18,050	-0-	-0-	18,050
Professional fees	39,774	-0-	-0-	39,774
Technology support	4,796	-0-	-0-	4,796
Travel and entertainment	27,047	-0-	-0-	27,047
Meetings and conferences	20,399	-0-	-0-	20,399
Insurance	3,962	-0-	-0-	3,962
Depreciation	3,170	-0-	-0-	3,170
Miscellaneous	<u>4,123</u>	<u>-0-</u>	<u>-0-</u>	<u>4,123</u>
Total expenses	<u>937,723</u>	<u>-0-</u>	<u>-0-</u>	<u>937,723</u>
Change in net assets	411,726	302,850	344,494	1,059,070
<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>
<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>

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Operating activities</b>		
Change in net assets	\$ 2,106,622	\$ 1,059,070
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Receipt of interest in charitable remainder trust	-0-	(53,515)
Depreciation	8,337	3,170
Reinvested interest and dividends received on investments	(94,672)	(81,525)
Realized and unrealized gains on investments	(407,044)	(105,859)
Contributions restricted to endowment fund	(217,392)	(344,494)
Change in value of split-interest agreements	(124,827)	(85,489)
Changes in assets and liabilities:		
Grants receivable	(56,488)	5,148
Custodial funds	56,116	23,828
Accounts payable	3,292	9,686
Accrued expenses	2,904	(251)
Net cash flows from operating activities	1,276,848	429,769
<b>Investing activities</b>		
Purchases of property and equipment	(43,162)	(300,540)
Purchases of investments	(2,293,505)	(598,811)
Proceeds from sale of investments	248,447	359,135
Net cash flows from investing activities	(2,088,220)	(540,216)
<b>Financing activities</b>		
Contributions restricted to endowment fund	217,392	344,494
Payments received from charitable lead annuity trust	250,000	250,000
Net cash flows from financing activities	467,392	594,494
Net change in cash	(343,980)	484,047
<b>Cash, beginning of year</b>	700,093	216,046
<b>Cash, end of year</b>	\$ 356,113	\$ 700,093

*See accompanying notes to financial statements.*



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

### 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.

Philanthropic Capital Fund for Southeast Kentucky ("PhilCap") was founded in January 2017 as a supporting organization of the Foundation. The mission of PhilCap is to advance opportunities in the Southeast Kentucky region that support economic diversification and build community capacity through place-based investing and grantmaking.

#### Consolidated Financial Statements

PhilCap was founded to support the functions and purposes of the Foundation. The Foundation also has the authority to appoint a majority of the members of the Board of Directors of PhilCap. Based on these factors, the Foundation and PhilCap (collectively referred to as the "Organization") present consolidated financial statements with any inter-entity transactions and balances eliminated as part of the consolidated financial statements.

#### Management's Estimates

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

#### Basis of Presentation

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 Organization are classified and reported as follows:

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

*Operating* – used to fund current operations of the Organization

*Board designated* - funding to benefit future operations

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

Temporarily restricted net assets – Net assets not yet appropriated for expenditure by the Organization’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.

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

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

---

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

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

All other revenue is recorded when earned.

### Income Taxes

Both the Foundation and PhilCap are organized as not-for-profit corporations 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 Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2017 and 2016, 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 Organization is generally exempt from income taxes. However, the Organization is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Organization 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 consolidated 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 Organization's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are available to be issued.

### Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the Consolidated Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the consolidated financial statements are available to be issued, which is July 18, 2018.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 2. INVESTMENTS

Investments consist of the following at December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents	\$ 380,088	\$ 229,080
Common stocks		
Consumer goods	294,867	108,234
Healthcare	271,094	82,901
Services	183,571	123,145
Industrial goods	256,109	67,910
Technology	489,889	130,469
Financial	327,002	79,347
Basic materials	98,809	32,757
Energy	132,242	-0-
Other	72,254	23,892
Equity exchange traded funds		
Large	202,483	252,494
Small/Mid	355,851	272,487
Other	33,479	60,263
Fixed income mutual funds		
Short term	584,528	350,023
Intermediate term	640,398	487,623
Other	21,884	11,766
Equity mutual funds		
Large	584,293	487,136
Small/Mid	79,127	59,233
Other	10,577	-0-
Corporate bonds	352,852	-0-
U.S. Treasury notes	34,137	-0-
	\$ 5,405,534	\$ 2,858,760

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

The following schedule summarizes the investment return and its classification in the Consolidated Statements of Activities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 94,295	\$ 81,447
Realized and unrealized gains	405,905	105,773
Investment fees	<u>(18,083)</u>	<u>(7,496)</u>
	<u>\$ 482,117</u>	<u>\$ 179,724</u>

### 3. RISKS AND UNCERTAINTIES

The Organization 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 consolidated financial statements.

### 4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The Organization'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 2017 and 2016. 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 Organization 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.
-

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

- *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 Organization are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.
- *Corporate bonds and U.S. Treasury notes:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *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 Organization's assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

	2017			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Common stocks	\$ 2,125,837	\$ 2,125,837	\$ -0-	\$ -0-
Exchange traded funds	591,813	591,813	-0-	-0-
Mutual funds	1,920,807	1,920,807	-0-	-0-
Corporate bonds	352,852	-0-	352,852	-0-
U.S. Treasury notes	34,137	-0-	34,137	-0-
Interest in charitable lead annuity trust	3,113,476	-0-	-0-	3,113,476
Beneficial interest in charitable remainder trust	97,046	-0-	-0-	97,046

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

	2016			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Common stocks	\$ 648,655	\$ 648,655	\$ -0-	\$ -0-
Exchange traded funds	585,244	585,244	-0-	-0-
Mutual funds	1,395,781	1,395,781	-0-	-0-
Interest in charitable lead annuity trust	3,282,180	-0-	-0-	3,282,180
Beneficial interest in charitable remainder trust	53,515	-0-	-0-	53,515

The progression of interest in charitable lead annuity trust during the year ended December 31, 2017 and 2016 is as follows:

	2017	2016
Beginning balance	\$ 3,282,180	\$ 3,446,691
Trust payment received	(250,000)	(250,000)
Change in present value	81,296	85,489
	\$ 3,113,476	\$ 3,282,180

The progression of beneficial interest in charitable remainder trust during the year ended December 31, 2017 is as follows:

	2017	2016
Beginning balance	\$ 53,515	\$ -0-
Receipt of gift	-0-	53,515
Change in present value	43,531	-0-
	\$ 97,046	\$ 53,515

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

### 5. GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Appalachian Regional Commission (ARC)	\$ 20,588	\$ 24,100
Appalachian Rural Development Philanthropy Initiative	20,833	20,833
University of Kentucky Research Foundation (pass-through entity of ARC)	<u>60,000</u>	<u>-0-</u>
	<u>\$ 101,421</u>	<u>\$ 44,933</u>

### 6. INTEREST IN CHARITABLE LEAD ANNUITY TRUST

During 2012, the Organization 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 Organization's interest under this trust was \$3,113,476 and \$3,282,180 at December 31, 2017 and 2016, 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 Organization is not the trustee of this trust, therefore, the fair value of the trust assets has not been recorded in the Consolidated Statements of Financial Position at December 31, 2017 and 2016.

### 7. INTEREST IN CHARITABLE REMAINDER TRUST

The Organization has been named beneficiary of a charitable remainder trust. The Organization 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 Organization. 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 \$97,046 and \$53,515 at December 31, 2017 and 2016, respectively.



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

### 8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Building	\$ 300,329	\$ 300,329
Equipment	43,664	43,664
Construction in progress	<u>43,162</u>	<u>-0-</u>
	387,155	343,993
Less accumulated depreciation	<u>50,841</u>	<u>42,504</u>
	<u>\$ 336,314</u>	<u>\$ 301,489</u>

### 9. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Organization by other organizations based on their individual board resolutions. The Organization accounts for these transfers as a liability in accordance with applicable accounting standards. Income is added to these funds periodically in accordance with the Organization'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 Consolidated Statements of Activities.

Following is a progression of custodial funds during 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 35,907	\$ 12,079
Contributions and other revenue	326,796	89,238
Interest and dividend income	377	78
Realized and unrealized gains	1,139	86
Administrative fees	(318)	(208)
Other expenses	(251,579)	(64,196)
Grants	<u>(20,299)</u>	<u>(1,170)</u>
	<u>\$ 92,023</u>	<u>\$ 35,907</u>

### 10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$6,296,179 and \$4,407,667 consist of endowment funds not yet appropriated for expenditure at December 31, 2017 and 2016.

---

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

Permanently restricted net assets in the amount of \$2,555,968 and \$2,338,576 at December 31, 2017 and 2016, 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 \$1,191,218 and \$714,814 based on endowment funds appropriated for expenditure for the years ended December 31, 2017 and 2016.

### **12. ENDOWMENT**

The Organization maintains endowment funds that 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 Organization 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets

---

## FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

of donor-restricted funds that the Organization must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

The Organization has a policy of appropriating for distribution each year 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 Organization considered the long-term expected return on its endowments.

The endowment funds by net asset type at December 31, 2017 and 2016 were as follows:

	2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 10,000	\$ -0-	\$ -0-
Donor Restricted Funds	-0-	6,296,179	2,555,968
	\$ 10,000	\$ 6,296,179	\$ 2,555,968
	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

## FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Changes in endowment funds for the years ended December 31, 2017 and 2016 were as follows:

	2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 10,000	\$ 4,407,667	\$ 2,338,576
Contributions and other revenue	-0-	2,601,141	217,392
Investment return, net	-0-	478,589	-0-
Appropriation of endowment assets for expenditure	-0-	(1,191,218)	-0-
Endowment net assets, end of year	\$ 10,000	\$ 6,296,179	\$ 2,555,968

	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

### 13. FUNCTIONAL EXPENSES

The Organization 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:

	2017	2016
Development of Appalachian Kentucky	\$ 1,363,627	\$ 655,940
Fundraising expenses	164,375	140,936
General and administrative expenses	180,555	140,847
	\$ 1,708,557	\$ 937,723

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

### **14. RELATED PARTY TRANSACTIONS**

The Organization received \$306,715 and \$2,765 in contributions from members of the Organization's board of directors and staff during the years ended December 31, 2017 and 2016, respectively.

### **15. CONCENTRATIONS**

The Organization maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. The Organization 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. 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 Organization 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.

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

SUPPLEMENTARY INFORMATION

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017

**ASSETS**

	Foundation for Appalachian Kentucky	Philanthropic Capital Fund for Southeast Kentucky	Consolidated
Cash	\$ 251,880	\$ 104,233	\$ 356,113
Investments	5,390,017	15,517	5,405,534
Grants receivable	101,421	-0-	101,421
Interest in charitable lead annuity trust	3,113,476	-0-	3,113,476
Beneficial interest in charitable remainder trust	97,046	-0-	97,046
Property and equipment, net	<u>293,152</u>	<u>43,162</u>	<u>336,314</u>
	<u>\$ 9,246,992</u>	<u>\$ 162,912</u>	<u>\$ 9,409,904</u>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable	\$ 12,978	\$ -0-	\$ 12,978
Custodial funds	92,023	-0-	92,023
Accrued expenses	<u>6,965</u>	<u>-0-</u>	<u>6,965</u>
Total liabilities	111,966	-0-	111,966

**Net assets**

Unrestricted net assets			
Operating	289,940	107,358	397,298
Board designated:			
Unrestricted endowment	10,000	-0-	10,000
Operating reserve	<u>38,493</u>	<u>-0-</u>	<u>38,493</u>
	338,433	107,358	445,791
Temporarily restricted net assets	6,240,625	55,554	6,296,179
Permanently restricted net assets	<u>2,555,968</u>	<u>-0-</u>	<u>2,555,968</u>
Total net assets	<u>9,135,026</u>	<u>162,912</u>	<u>9,297,938</u>
	<u>\$ 9,246,992</u>	<u>\$ 162,912</u>	<u>\$ 9,409,904</u>

*See Report of Independent Auditors on pages 1 and 2.*

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

**CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017**

	Unrestricted				Temporarily Restricted			Permanently Restricted
	Foundation for Appalachian Kentucky	Philanthropic Capital Fund for	Eliminating Entries	Consolidated	Foundation for Appalachian Kentucky	Philanthropic Capital Fund for	Consolidated	Foundation for Appalachian Kentucky
		Southeast Kentucky				Southeast Kentucky		
<b>Support and revenues</b>								
Contributions and grants	\$ 370,343	\$ 301,492	\$ (190,000)	\$ 481,835	\$ 2,262,705	\$ 213,508	\$ 2,476,213	\$ 217,392
Investment return, net	3,500	28	-0-	3,528	477,876	713	478,589	-0-
Administrative fees	27,113	-0-	-0-	27,113	-0-	-0-	-0-	-0-
Other revenue	5,581	-0-	-0-	5,581	101	-0-	101	-0-
Change in value of split-interest agreement	-0-	-0-	-0-	-0-	124,827		124,827	-0-
Net assets released from restrictions	1,032,551	158,667	-0-	1,191,218	(1,032,551)	(158,667)	(1,191,218)	-0-
<b>Total support and revenues</b>	<b>1,439,088</b>	<b>460,187</b>	<b>(190,000)</b>	<b>1,709,275</b>	<b>1,832,958</b>	<b>55,554</b>	<b>1,888,512</b>	<b>217,392</b>
<b>Expenses</b>								
Grants	807,749	233,667	(190,000)	851,416	-0-	-0-	-0-	-0-
Administrative fees	27,411	-0-	-0-	27,411	-0-	-0-	-0-	-0-
Programs	231,539	-0-	-0-	231,539	-0-	-0-	-0-	-0-
Salaries and wages	225,734	57,692	-0-	283,426	-0-	-0-	-0-	-0-
Payroll taxes	15,449	4,296	-0-	19,745	-0-	-0-	-0-	-0-
Employee benefits	44,985	8,188	-0-	53,173	-0-	-0-	-0-	-0-
Marketing	5,128	13,300	-0-	18,428	-0-	-0-	-0-	-0-
Advertising	8,043	581	-0-	8,624	-0-	-0-	-0-	-0-
Office supplies	9,092	159	-0-	9,251	-0-	-0-	-0-	-0-
Postage and printing	8,216	7	-0-	8,223	-0-	-0-	-0-	-0-
Telephone	7,708	-0-	-0-	7,708	-0-	-0-	-0-	-0-
Rent and utilities	8,691	6,994	-0-	15,685	-0-	-0-	-0-	-0-
Repairs and maintenance	33,695	4,658	-0-	38,353	-0-	-0-	-0-	-0-
Professional fees	21,193	4,331	-0-	25,524	-0-	-0-	-0-	-0-
Technology support	10,830	145	-0-	10,975	-0-	-0-	-0-	-0-
Travel and entertainment	27,683	4,988	-0-	32,671	-0-	-0-	-0-	-0-
Meetings and conferences	25,897	4,752	-0-	30,649	-0-	-0-	-0-	-0-
Insurance	12,181	9,071	-0-	21,252	-0-	-0-	-0-	-0-
Depreciation	8,337	-0-	-0-	8,337	-0-	-0-	-0-	-0-
Miscellaneous	6,167	-0-	-0-	6,167	-0-	-0-	-0-	-0-
<b>Total expenses</b>	<b>1,545,728</b>	<b>352,829</b>	<b>(190,000)</b>	<b>1,708,557</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
Change in net assets	(106,640)	107,358	-0-	718	1,832,958	55,554	1,888,512	217,392
<b>Net assets, beginning of year</b>	<b>445,073</b>	<b>-0-</b>	<b>-0-</b>	<b>445,073</b>	<b>4,407,667</b>	<b>-0-</b>	<b>4,407,667</b>	<b>2,338,576</b>
<b>Net assets, end of year</b>	<b>\$ 338,433</b>	<b>\$ 107,358</b>	<b>\$ -0-</b>	<b>\$ 445,791</b>	<b>\$ 6,240,625</b>	<b>\$ 55,554</b>	<b>\$ 6,296,179</b>	<b>\$ 2,555,968</b>

See Report of Independent Auditors on pages 1 and 2.