

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2018 AND 2017**

*CPAs / ADVISORS*



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

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DECEMBER 31, 2018 AND 2017

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## 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, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related consolidated statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2018, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

**Blue & Co., LLC**

Seymour, Indiana

July 19, 2019

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

	<b>ASSETS</b>	
	2018	2017 As Restated
Cash	\$ 230,257	\$ 356,113
Investments	5,190,412	5,405,534
Grants receivable	27,668	101,421
Interest in charitable lead annuity trust	2,984,131	3,113,476
Beneficial interest in charitable remainder trust	117,812	97,046
Property and equipment, net	351,990	336,314
Other assets	12,924	-0-
	<u>\$ 8,915,194</u>	<u>\$ 9,409,904</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 41,569	\$ 12,978
Custodial funds	93,851	92,023
Accrued expenses	3,312	6,965
Total liabilities	138,732	111,966
<b>Net assets</b>		
Without donor restrictions		
Operating	357,650	560,359
Board designated endowment	10,000	10,000
Board designated operating reserve	35,881	38,493
	403,531	608,852
With donor restrictions		
Restricted for specified purpose	5,212,468	5,501,979
Restricted in perpetuity - endowment	2,809,901	2,456,395
Restricted subject to the Organization's spending policy	350,562	730,712
	8,372,931	8,689,086
Total net assets	8,776,462	9,297,938
	<u>\$ 8,915,194</u>	<u>\$ 9,409,904</u>

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## CONSOLIDATED STATEMENTS OF ACTIVITIES YEAR ENDED DECEMBER 31, 2018

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	2018			2017
	Without	With Donor	Total	As Restated
	Donor Restrictions	Restrictions		Total
<b>Support and revenues</b>				
Contributions and grants	\$ 327,612	\$ 1,773,082	\$ 2,100,694	\$ 3,175,440
Investment return, net	(2,611)	(327,761)	(330,372)	482,117
Administrative fees	49,405	-0-	49,405	27,113
Other revenue	8	1,074	1,082	5,682
Change in value of split-interest agreement	-0-	78,921	78,921	124,827
Net assets released from restrictions	<u>1,841,471</u>	<u>(1,841,471)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	2,215,885	(316,155)	1,899,730	3,815,179
<b>Expenses</b>				
Program services	1,962,475	-0-	1,962,475	1,382,716
General and administrative	252,919	-0-	252,919	205,908
Fundraising	<u>205,812</u>	<u>-0-</u>	<u>205,812</u>	<u>119,933</u>
Total expenses	<u>2,421,206</u>	<u>-0-</u>	<u>2,421,206</u>	<u>1,708,557</u>
Change in net assets	(205,321)	(316,155)	(521,476)	2,106,622
<b>Net assets, beginning of year</b>	<u>608,852</u>	<u>8,689,086</u>	<u>9,297,938</u>	<u>7,191,316</u>
<b>Net assets, end of year</b>	<u>\$ 403,531</u>	<u>\$ 8,372,931</u>	<u>\$ 8,776,462</u>	<u>\$ 9,297,938</u>

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017 (AS RESTATED)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and revenues</b>			
Contributions and grants	\$ 481,835	\$ 2,693,605	\$ 3,175,440
Investment return, net	3,528	478,589	482,117
Administrative fees	27,113	-0-	27,113
Other revenue	5,581	101	5,682
Change in value of split-interest agreement	-0-	124,827	124,827
Net assets released from restrictions	<u>1,191,218</u>	<u>(1,191,218)</u>	<u>-0-</u>
Total support and revenues	1,709,275	2,105,904	3,815,179
<b>Expenses</b>			
Program services	1,382,716	-0-	1,382,716
General and administrative	205,908	-0-	205,908
Fundraising	<u>119,933</u>	<u>-0-</u>	<u>119,933</u>
Total expenses	<u>1,708,557</u>	<u>-0-</u>	<u>1,708,557</u>
Change in net assets	718	2,105,904	2,106,622
<b>Net assets, beginning of year</b>	<u>608,134</u>	<u>6,583,182</u>	<u>7,191,316</u>
<b>Net assets, end of year</b>	<u>\$ 608,852</u>	<u>\$ 8,689,086</u>	<u>\$ 9,297,938</u>

*See accompanying notes to financial statements.*

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2018

	Program Services			General and Administrative	Fundraising	Total
	Grantmaking	Appalachian Impact	Total			
Grants	\$ 932,897	\$ 194,337	\$ 1,127,234	\$ -0-	\$ -0-	\$ 1,127,234
Administrative fees	48,952	-0-	48,952	-0-	-0-	48,952
Salaries and wages	90,723	84,000	174,723	134,008	86,615	395,346
Payroll taxes	7,241	6,637	13,878	10,695	6,913	31,486
Employee benefits	19,716	9,999	29,715	29,122	18,823	77,660
Marketing	-0-	300	300	-0-	25,785	26,085
Advertising	-0-	-0-	-0-	-0-	21,771	21,771
Office supplies	4,627	2	4,629	4,767	4,627	14,023
Postage and printing	1,318	-0-	1,318	1,358	1,318	3,994
Telephone	2,623	-0-	2,623	2,703	2,623	7,949
Rent and utilities	5,447	10,859	16,306	8,046	5,200	29,552
Repairs and maintenance	1,479	1,067	2,546	2,958	1,479	6,983
Professional fees	339,608	110,811	450,419	18,260	3,652	472,331
Technology support	2,052	-0-	2,052	2,114	2,052	6,218
Travel and entertainment	14,298	14,659	28,957	14,298	14,732	57,987
Special projects	37,001	-0-	37,001	-0-	-0-	37,001
Meetings and conferences	4,400	6,680	11,080	4,400	4,534	20,014
Insurance	-0-	-0-	-0-	14,328	-0-	14,328
Depreciation	3,608	-0-	3,608	3,717	3,608	10,933
Miscellaneous	2,082	5,052	7,134	2,145	2,080	11,359
Total expenses	<u>\$ 1,518,072</u>	<u>\$ 444,403</u>	<u>\$ 1,962,475</u>	<u>\$ 252,919</u>	<u>\$ 205,812</u>	<u>\$ 2,421,206</u>

*See accompanying notes to financial statements.*



## FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<b>Operating activities</b>		
Change in net assets	\$ (521,476)	\$ 2,106,622
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	10,933	8,337
Reinvested interest and dividends received on investments	(108,047)	(94,672)
Realized and unrealized losses (gains) on investments	404,812	(407,044)
Contributions restricted to endowment fund	(225,482)	(138,359)
Change in value of split-interest agreements	(78,921)	(124,827)
Changes in assets and liabilities:		
Grants receivable	73,753	(56,488)
Other assets	(12,924)	-0-
Custodial funds	1,828	56,116
Accounts payable	28,591	3,292
Accrued expenses	(3,653)	2,904
Net cash flows from operating activities	(430,586)	1,355,881
<b>Investing activities</b>		
Purchases of property and equipment	(26,609)	(43,162)
Purchases of investments	(3,803,933)	(2,293,505)
Proceeds from sale of investments	3,722,290	248,447
Net cash flows from investing activities	(108,252)	(2,088,220)
<b>Financing activities</b>		
Contributions restricted to endowment fund	225,482	138,359
Payments received from charitable lead annuity trust	187,500	250,000
Net cash flows from financing activities	412,982	388,359
Net change in cash	(125,856)	(343,980)
<b>Cash, beginning of year</b>	356,113	700,093
<b>Cash, end of year</b>	\$ 230,257	\$ 356,113

*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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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.

Philanthropic Capital Fund for Southeast Kentucky ("PhilCap") was founded in January 2017 as a supporting organization of the Foundation. The mission of PhilCap was to impact the Appalachian community by advancing opportunities in the Southeast Kentucky region that support economic diversification and building community capacity through place-based investing and grantmaking. In late 2018, this initiative was moved to the Foundation and the purpose of PhilCap is now to hold real estate that the Foundation occupies.

#### 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

The accompanying financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use. The Organization maintains net assets without donor restrictions as follow:

Operating – used to fund current operations of the Organization

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# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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Board designated endowment – established with the expectation that the principal be maintained and the income used to support the general operations of the Organization as designated by the Board of Directors

Board designated operating reserve - funding to benefit future operations

Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term to support operations or specific purposes. The Organization maintains net assets with donor restrictions as follows:

Restricted for specified purpose – all contributions to the Organization with the intention of the donor to be held for a specific program or in a donor-restricted non-endowed fund

Restricted in perpetuity – endowment – all contributions to the Organization with the intention of the donor that the assets to be held in perpetuity and managed in accordance with the Organization's spending policy

Restricted subject to the Organization's spending policy – investment earnings on assets restricted in perpetuity – endowment and managed in accordance with the Organization's spending policy

### Investments and Investment Return

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

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as net assets with or without donor restrictions based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Organization's spending policy.

### 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.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### 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 net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either net assets with or without donor restrictions in accordance with the classification of the fund or the existence of donor-imposed restrictions.

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, 2018 and 2017, 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.

### Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Organization and are considered program expenses. Administrative fees from all funds are reflected as revenue on the Consolidated Statements of Activities. The administrative fees from the custodial funds are not included as expenses on the Consolidated Statements of Activities because they are included in the change in custodial funds.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Consolidated Statements of Activities and Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated on the basis of estimates of time, effort, and usage. While the methods of allocation are considered appropriate, other methods could produce different results.

### Reclassifications

Certain prior year amounts have been reclassified herein to conform to the current method of presentation.

### 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 19, 2019.

In July 2019, the Organization issued program related investments of \$150,000 to two unrelated organizations.

## **2. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT**

Effective January 1, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. The Organization has adjusted the presentation of its 2018 financial statements herein and retrospectively restated the prior year financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the

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# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

availability of resources (Note 14), and disclosures related to the functional allocation of expenses were expanded (Note 1).

During the adoption of this standard, the Organization identified a correction needed for proper net asset classifications as of January 1, 2017. The correction resulted in an increase in net assets without donor restrictions and a corresponding decrease in net assets with donor restrictions by \$163,061. This restatement had no effect on the overall change in net assets.

The impact of this correction and the adoption of ASU No. 2016-14 on the Organization's net assets is as follows:

### Statement of Financial Position

	As previously stated, December 31, 2017	Adjustment	As restated December 31, 2017
Unrestricted net assets	\$ 445,791	\$ (445,791)	\$ -0-
Temporarily restricted net assets	6,296,179	(6,296,179)	-0-
Permanently restricted net assets	2,555,968	(2,555,968)	-0-
Without donor restrictions	-0-	608,852	608,852
With donor restrictions	-0-	8,689,086	8,689,086
Total net assets	\$ 9,297,938	\$ -0-	\$ 9,297,938

### Statement of Activities

	As previously stated, December 31, 2017	Adjustment	As restated December 31, 2017
Changes in unrestricted net assets	\$ 718	\$ (718)	\$ -0-
Changes in temporarily restricted net assets	1,888,512	(1,888,512)	-0-
Changes in permanently restricted net assets	217,392	(217,392)	-0-
Changes in net assets without donor restrictions	-0-	718	718
Changes in net assets with donor restrictions	-0-	2,105,904	2,105,904
Total changes in net assets	\$ 2,106,622	\$ -0-	\$ 2,106,622

There was no significant impact to the consolidated statement of cash flows as a result of adopting this ASU.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

### 3. INVESTMENTS

Investments consist of the following at December 31, 2018 and 2017:

	2018	2017
Cash and cash equivalents	\$ 201,324	\$ 380,088
Certificates of deposit	39,949	-0-
Common stocks		
Consumer goods	433,193	294,867
Healthcare	384,640	271,094
Services	214,844	183,571
Industrial goods	407,590	256,109
Technology	611,817	489,889
Financial	393,795	327,002
Basic materials	128,830	98,809
Energy	208,581	132,242
Other	190,791	72,254
Equity exchange traded funds		
Large	83,811	202,483
Small/Mid	37,054	355,851
Other	6,504	33,479
Fixed income mutual funds		
Short term	155,727	584,528
Intermediate term	449,633	640,398
Other	20,230	21,884
Equity mutual funds		
Large	-0-	584,293
Small/Mid	-0-	79,127
Other	-0-	10,577
Corporate bonds		
AAA	87,308	38,993
AA+	48,807	-0-
AA	85,971	20,131
AA-	44,372	-0-
A+	59,287	36,389
A	183,893	36,253
A-	421,736	134,043
BBB+	151,068	61,696
BBB	42,374	20,027
Not rated	5,230	5,320
U.S. Treasury notes	92,053	34,137
	\$ 5,190,412	\$ 5,405,534

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### 4. RISKS AND UNCERTAINTIES

The Organization holds investments (Note 3). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

### 5. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets 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 2018 and 2017. 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.

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, 2018 and 2017.

- *Certificates of deposit*: Valued at amortized cost, which approximates fair value.
- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

- *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, 2018 and 2017:

	2018			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Certificates of deposit	\$ 39,949	\$ -0-	\$ 39,949	\$ -0-
Common stocks	2,974,081	2,974,081	-0-	-0-
Exchange traded funds	127,369	127,369	-0-	-0-
Mutual funds	625,590	625,590	-0-	-0-
Corporate bonds	1,130,046	-0-	1,130,046	-0-
U.S. Treasury notes	92,053	-0-	92,053	-0-
Interest in charitable lead annuity trust	2,984,131	-0-	-0-	2,984,131
Beneficial interest in charitable remainder trust	117,812	-0-	-0-	117,812

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

	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

The progression of interest in charitable lead annuity trust during the year ended December 31, 2018 and 2017 is as follows:

	2018	2017
Beginning balance	\$ 3,113,476	\$ 3,282,180
Trust payment received	(187,500)	(250,000)
Change in present value	58,155	81,296
	\$ 2,984,131	\$ 3,113,476

The progression of beneficial interest in charitable remainder trust during the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Beginning balance	\$ 97,046	\$ 53,515
Change in present value	20,766	43,531
	\$ 117,812	\$ 97,046

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### 6. GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2018 and 2017:

	2018	2017
Appalachian Regional Commission (ARC)	\$ 27,668	\$ 20,588
Appalachian Rural Development Philanthropy Initiative	-0-	20,833
University of Kentucky Research Foundation (pass-through entity of ARC)	-0-	60,000
	<u>\$ 27,668</u>	<u>\$ 101,421</u>

### 7. 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 for a specific donor-restricted non-endowed fund. Upon termination of the trust, the trust assets revert to the beneficiaries named by the donor. The Organization's interest under this trust was \$2,984,131 and \$3,113,476 at December 31, 2018 and 2017, 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, 2018 and 2017.

### 8. 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 to donor-restricted funds specified by the donors. 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 \$117,812 and \$97,046 at December 31, 2018 and 2017, respectively.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### 9. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Building	\$ 300,329	\$ 300,329
Equipment	41,873	43,664
Construction in progress	<u>43,162</u>	<u>43,162</u>
	385,364	387,155
Less accumulated depreciation	<u>33,374</u>	<u>50,841</u>
	<u>\$ 351,990</u>	<u>\$ 336,314</u>

### 10. 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 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 92,023	\$ 35,907
Contributions and other revenue	148,501	326,796
Investment return, net	(814)	1,516
Administrative fees	(454)	(318)
Other expenses	(141,152)	(251,579)
Grants	<u>(4,253)</u>	<u>(20,299)</u>
	<u>\$ 93,851</u>	<u>\$ 92,023</u>

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### 11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amounts of \$1,841,471 and \$1,191,218 based on funds appropriated for expenditure primarily consisting of grants, management fees and other program expenses for the years ended December 31, 2018 and 2017, respectively.

### 12. ENDOWMENT

The Organization maintains donor-restricted endowment funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. Donor-restricted endowment funds are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate 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 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.

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

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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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 to 6 percent of its endowment funds' average fair value over the prior 12 quarters, 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, 2018 and 2017 were as follows:

	2018	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	\$ 10,000	\$ -0-
Donor Restricted Funds	-0-	3,160,463
	\$ 10,000	\$ 3,160,463
	2017 (As Restated)	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	\$ 10,000	\$ -0-
Donor Restricted Funds	-0-	3,187,107
	\$ 10,000	\$ 3,187,107

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Changes in endowment funds for the years ended December 31, 2018 and 2017 were as follows:

	2018	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 10,000	\$ 3,187,107
Contributions and other revenue	-0-	296,731
Investment return, net	-0-	(190,246)
Appropriation of endowment assets for expenditure	-0-	(133,129)
Endowment net assets, end of year	<u>\$ 10,000</u>	<u>\$ 3,160,463</u>

  

	2017 (As Restated)	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 10,000	\$ 2,615,454
Contributions and other revenue	-0-	326,892
Investment return, net	-0-	395,802
Appropriation of endowment assets for expenditure	-0-	(151,041)
Endowment net assets, end of year	<u>\$ 10,000</u>	<u>\$ 3,187,107</u>

### 13. RELATED PARTY TRANSACTIONS

The Organization received \$4,700 and \$306,715 in contributions from members of the Organization's board of directors and staff during the years ended December 31, 2018 and 2017, respectively.

### 14. LIQUIDITY AND AVAILABILITY

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its awarded grants, general expenditures, and other obligations become due. The Organization invests cash in excess of daily requirements in short-term investments.

The Organization has \$86,964 of financial assets available within one year of the Consolidated Statement of Financial Position date to meet cash needed for general expenditures consisting of

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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investments and grants receivable of \$59,296 and \$27,668, respectively, that is not subject to donor or other contractual restrictions.

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The Organization approves grants and scholarships quarterly based on the spending rate approved quarterly grant and scholarship approval processes. This process includes evaluating a number of factors relative to the spending rate to be applied to the Organization's fund balances in accordance with its spending policy. Once the Organization's Board approves the spending rate, the related dollar amount of the funds becomes available for general expenditures.

While not subject to the Organization's spending policy, expenditures from donor-restricted non-endowed funds must be approved by the Board and, therefore, are not available for general expenditure until that time. Non-endowed funds are held in cash or liquid investments and are made available upon appropriation.

The Foundation also relies on the administrative fees it charges its funds annually ranging from 1% to 1.75% of fund balance to fund operational expenditures.

### **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.