FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

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CPAs / ADVISORS

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Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

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

Opinion

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, 2021 and 2020, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
July 3, 2023

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	2021	2020
Cash	$ 1,504,023	$ 620,242
Investments	16,463,897	8,992,504
Grants receivable	956,192	309,221
Contributions receivable, net	148,954	3,359
Interest in charitable lead annuity trust	2,441,625	2,627,031
Beneficial interest in charitable remainder trust	502,388	437,588
Notes receivable, net	967,105	663,717
Property and equipment, net	367,103	350,547
Total assets	$ 23,351,287	$ 14,004,209

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and other liabilities	$ 376,520	$ 411,985
Grants payable	248,863	183,242
Custodial funds	981,872	609,467
Deferred revenue	75,000	28,000
Notes payable	162,818	28,200
Total liabilities	1,845,073	1,260,894
Net assets		
Without donor restrictions		
Operating	1,268,830	251,165
Board designated endowment	10,000	10,000
Board designated operating reserve	139,601	140,637
Total net assets without donor restrictions	1,418,431	401,802
With donor restrictions		
Restricted for specified purpose	9,810,206	7,313,534
Restricted in perpetuity - endowment	8,368,999	3,452,166
Restricted subject to the Organization's spending policy	1,908,578	1,575,813
Total net assets with donor restrictions	20,087,783	12,341,513
Total net assets	21,506,214	12,743,315
Total liabilities and net assets	$ 23,351,287	$ 14,004,209

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenues				
Contributions and grants	$ 1,447,666	$ 9,834,804	$ 11,282,470	$ 3,022,960
Paycheck Protection Program Loan	108,900	-0-	108,900	103,100
Employee Retention Credit	123,439	-0-	123,439	-0-
Federal grants	-0-	657,909	657,909	1,023,464
Investment return, net	30,701	1,320,765	1,351,466	925,300
Administrative fees	280,350	23,575	303,925	178,267
Other revenue	152,321	-0-	152,321	72,681
Change in value of split-interest agreements	-0-	198,597	198,597	-0- 327,059
Net assets released from restrictions	4,289,380	(4,289,380)	-0-	-0-
Total support and revenues	6,432,757	7,746,270	14,179,027	5,652,831
Expenses				
Program services	4,562,920	-0-	4,562,920	4,242,370
General and administrative	496,480	-0-	496,480	401,610
Fundraising	356,728	-0-	356,728	230,389
Total expenses	5,416,128	-0-	5,416,128	4,874,369
Change in net assets	1,016,629	7,746,270	8,762,899	778,462
Net assets, beginning of year	401,802	12,341,513	12,743,315	11,964,853
Net assets, end of year	$ 1,418,431	$ 20,087,783	$ 21,506,214	$ 12,743,315

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions and grants	$ 321,996	$ 2,700,964	$ 3,022,960
Paycheck Protection Program Loan	103,100	-0-	103,100
Federal grants	-0-	1,023,464	1,023,464
Investment return, net	31,405	893,895	925,300
Administrative fees	178,267	-0-	178,267
Other revenue	72,681	-0-	72,681
Change in value of split-interest agreements	-0-	327,059	327,059
Net assets released from restrictions	4,124,649	(4,124,649)	-0-
Total support and revenues	4,832,098	820,733	5,652,831
Expenses			
Program services	4,242,370	-0-	4,242,370
General and administrative	401,610	-0-	401,610
Fundraising	230,389	-0-	230,389
Total expenses	4,874,369	-0-	4,874,369
Change in net assets	(42,271)	820,733	778,462
Net assets, beginning of year	444,073	11,520,780	11,964,853
Net assets, end of year	$ 401,802	$ 12,341,513	$ 12,743,315

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services			Supporting Services		
	Grantmaking	Appalachian Impact	Total	General and Administrative	Fundraising	Total
Grants and scholarships	$ 3,109,753	$ 65,500	$ 3,175,253	$ -0-	$ -0-	$ 3,175,253
Administrative fees	74,093	-0-	74,093	-0-	-0-	74,093
Salaries and wages	324,978	4,444	329,422	154,405	79,565	563,392
Payroll taxes	31,878	340	32,218	15,146	7,805	55,169
Employee benefits	80,369	-0-	80,369	38,185	19,677	138,231
Marketing	-0-	-0-	-	-0-	132,444	132,444
Office supplies	35,460	-0-	35,460	36,535	35,460	107,455
Postage and printing	3,930	-0-	3,930	4,049	3,930	11,909
Telephone	2,521	-0-	2,521	2,598	2,521	7,640
Utilities	11,206	-0-	11,206	5,324	2,744	19,274
Repairs and maintenance	6,347	-0-	6,347	12,693	6,347	25,387
Bank service charges	32,236	21	32,257	-0-	-0-	32,257
Licenses and fees	-0-	-0-	-	448	-0-	448
Professional fees	270,269	10,000	280,269	90,090	-0-	370,359
Technology support	9,698	-0-	9,698	9,992	9,698	29,388
Travel and entertainment	11,747	-0-	11,747	11,748	12,104	35,599
Special projects	434,560	-0-	434,560	-0-	-0-	434,560
Meetings and conferences	28,490	-0-	28,490	28,491	29,354	86,335
Insurance	-0-	-0-	-	71,241	-0-	71,241
Depreciation	6,543	-0-	6,543	6,741	6,543	19,827
Interest	6,952	-0-	6,952	7,163	6,952	21,067
Miscellaneous	1,585	-0-	1,585	1,631	1,584	4,800
	$ 4,482,615	$ 80,305	$ 4,562,920	$ 496,480	$ 356,728	$ 5,416,128

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services			Supporting Services		
	Grantmaking	Appalachian Impact	Total	General and Administrative	Fundraising	Total
Grants and scholarships	$ 2,762,222	$ 87,000	$ 2,849,222	$ -0-	$ -0-	$ 2,849,222
Administrative fees	133,905	-0-	133,905	-0-	-0-	133,905
Salaries and wages	258,513	-0-	258,513	133,544	64,500	456,557
Payroll taxes	18,496	-0-	18,496	9,555	4,615	32,666
Employee benefits	61,136	267	61,403	31,582	15,254	108,239
Marketing	-0-	33,670	33,670	-0-	59,384	93,054
Office supplies	23,944	-0-	23,944	24,670	23,944	72,558
Postage and printing	2,133	154	2,287	2,197	2,133	6,617
Telephone	2,524	-0-	2,524	2,600	2,524	7,648
Utilities	9,936	-0-	9,936	5,133	2,479	17,548
Repairs and maintenance	4,189	-0-	4,189	8,379	4,189	16,757
Bank service charges	14,201	13	14,214	-0-	-0-	14,214
Licenses and fees	-0-	-0-	-0-	2,368	-0-	2,368
Professional fees	317,409	150,000	467,409	105,803	-0-	573,212
Technology support	16,436	-0-	16,436	16,934	16,436	49,806
Travel and entertainment	7,715	1,936	9,651	7,715	7,949	25,315
Special projects	298,819	10,000	308,819	-0-	-0-	308,819
Meetings and conferences	17,275	1,299	18,574	17,275	17,799	53,648
Insurance	-0-	-0-	-0-	24,393	-0-	24,393
Depreciation	6,125	-0-	6,125	6,310	6,125	18,560
Interest	3,042	-0-	3,042	3,134	3,042	9,218
Miscellaneous	11	-0-	11	18	16	45
	$ 3,958,031	$ 284,339	$ 4,242,370	$ 401,610	$ 230,389	$ 4,874,369

See accompanying notes to financial statements.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Operating activities		
Change in net assets	$ 8,762,899	$ 778,462
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	19,827	18,560
Reinvested interest and dividends received on investments	(165,635)	(153,679)
Realized and unrealized losses (gains) on investments	(1,227,452)	(806,290)
Contributions restricted to endowment fund	(4,916,833)	(600,538)
Change in value of split-interest agreements	(129,394)	(327,059)
Changes in assets and liabilities:		
Grants receivable	(646,971)	38,942
Contributions receivable	(145,595)	2,387
Custodial funds	372,405	238,382
Accounts payable and other liabilities	(35,465)	273,847
Grants payable	65,621	183,242
Deferred revenue	47,000	28,000
Net cash flows from operating activities	2,000,407	(325,744)
Investing activities		
Purchases of property and equipment	(36,383)	(32,132)
Purchases of investments	(11,231,705)	(1,981,136)
Proceeds from sale of investments	5,153,399	1,981,352
Issuance of notes receivable	(303,388)	(513,717)
Net cash flows from investing activities	(6,418,077)	(545,633)
Financing activities		
Contributions restricted to endowment fund	4,916,833	600,538
Payments received from charitable lead annuity trust	250,000	250,000
Proceeds from promissory notes	151,113	28,200
Principal payments on promissory notes	(16,495)	-0-
Net cash flows from financing activities	5,301,451	878,738
Net change in cash	883,781	7,361
Cash, beginning of year	620,242	612,881
Cash, end of year	$ 1,504,023	$ 620,242
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 21,067	$ 9,218

See accompanying notes to financial statements.

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.

Appalachian Community Development Core, Inc. ("ACDC") (formally known as Philanthropic Capital Fund for Southeast Kentucky) was founded in January 2017 as a supporting organization of the Foundation. The mission of ACDC 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 ACDC is now to hold real estate that the Foundation occupies.

Consolidated Financial Statements

ACDC 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 ACDC. Based on these factors, the Foundation and ACDC (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 consolidated 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

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.

Notes Receivables

Notes receivables are stated at unpaid principal balances, less an allowance for losses. The allowance is based on management's assessment of the current status of the individual receivable. There was no allowance for losses at December 31, 2021 and 2020, respectively. Notes receivables are considered delinquent based on specific circumstances of the borrower and are written off when the balance is considered uncollectible. Notes receivable bear interest at rates ranging from 2% to 5%. Criteria for notes receivable include whether the borrower has a financially sustainable development and operating plan. The Organization measures credit quality based on payment history and annual review of the borrower's financial information. The notes receivable are not considered impaired and no allowance for uncollectible notes has been recorded.

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.

Grants Payable

Grants payable consist of funds to be disbursed to grant recipients of the Energizing Entrepreneurial Communities ("E2C") Grant.

Deferred Revenue (Contract Liability)

Deferred income, consisting of funds received in advance from federal grants. These amounts represent revenues collected in advance of the period to which it relates. The contract liability on January 1, 2020, was $-0-.

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. Conditional promises to give—that is, those with a measurable performance or other barrier and a right of return—are not recognized until the conditions on which they depend have been met. Federal grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses.

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.

All other revenue is recorded when earned.

Income Taxes

Both the Foundation and ACDC are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. 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.

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, 2021 and 2020, 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.

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.

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 statements 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 and require allocation on a reasonable basis that is consistently applied. These expenses include salaries and wages, payroll taxes, employee benefits, marketing, office supplies, various occupancy expenses, certain professional fees, meetings and conferences and depreciation, which 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.

Recently Issued Accounting Standard

On September 17, 2020, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2020-07 *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This new standard is intended to increase transparency around contributed nonfinancial assets (also known as "gifts in-kind") received by not-for-profit (NFP) organizations, including information on how those assets are used and how they are valued. This new standard requires that an NFP present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition, there are expanded disclosure requirements. The Organization will be required to adopt this new standard in the year ending December 31, 2022.

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

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 were 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 were available to be issued, which is July 3, 2023.

2. INVESTMENTS

Investments consist of the following at December 31, 2021 and 2020:

	2021	2020
Cash and cash equivalents	$ 31,127	$ 66,915
Money market mutual fund	1,118,473	512,469
Common stocks:		
Consumer goods	892,899	581,893
Healthcare	1,205,779	788,864
Services	1,222,469	760,385
Industrial goods	1,372,532	686,352
Technology	2,264,036	1,244,199
Financial	841,448	564,392
Basic materials	665,466	429,571
Energy	313,268	197,137
Other	677,967	366,891
Equity exchange traded funds	251,132	142,333
Fixed income mutual funds:		
Short term	-0-	9,113
Intermediate term	-0-	34,172
Other	-0-	8,913
Equity mutual funds	258,831	175,248
Corporate bonds:		
AAA	-0-	160,540
AA+	931,451	193,536
AA	145,899	57,584
Aa2	-0-	147,022
AA-	70,969	321,066
A+	138,411	-0-
A	230,548	296,652
A-	608,447	341,809
BBB+	550,190	207,599
BBB	149,911	76,418
Not rated	2,513,320	621,431
U.S. Treasury notes	9,324	-0-
	$ 16,463,897	$ 8,992,504

The investments in which the Organization holds 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.

Investment income earned by these investments for the years ended December 31, 2021 and 2020, is reported net on the accompanying consolidated statement of activities in net assets as follows:

	2021	2020
Interest and dividend income	$ 189,635	$ 166,262
Realized and unrealized gains	1,227,452	806,290
Investment fees	(65,621)	(47,252)
	$ 1,351,466	$ 925,300

3. 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 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, 2021 and 2020.

- *Money market mutual fund*: Generally transact subscription and redemption activity at a $1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated by dividing the total market value of all securities in the portfolio, less any liabilities, by the number of fund shares outstanding.

- *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 and closed-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, 2021 and 2020:

	2021			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Money market mutual fund	$ 1,118,473	$ 1,118,473	$ -0-	$ -0-
Common stocks	9,455,864	9,455,864	-0-	-0-
Exchange traded funds	251,132	251,132	-0-	-0-
Mutual funds	258,831	258,831	-0-	-0-
Corporate bonds	5,339,146	-0-	5,339,146	-0-
U.S. Treasury notes	9,324	-0-	9,324	-0-
Interest in charitable lead annuity trust	2,441,625	-0-	-0-	2,441,625
Beneficial interest in charitable remainder trust	502,388	-0-	-0-	502,388

	2020			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Money market mutual fund	$ 512,469	$ 512,469	$ -0-	$ -0-
Common stocks	5,619,684	5,619,684	-0-	-0-
Exchange traded funds	142,333	142,333	-0-	-0-
Mutual funds	227,446	227,446	-0-	-0-
Corporate bonds	2,423,657	-0-	2,423,657	-0-
Interest in charitable lead annuity trust	2,627,031	-0-	-0-	2,627,031
Beneficial interest in charitable remainder trust	437,588	-0-	-0-	437,588

The progression of interest in charitable lead annuity trust during the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Beginning balance	$ 2,627,031	$ 2,807,828
Trust payment received	(250,000)	(250,000)
Change in present value	64,594	69,203
	$ 2,441,625	$ 2,627,031

The progression of beneficial interest in charitable remainder trust during the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Beginning balance	$ 437,588	$ 179,732
Change in present value	64,800	257,856
	$ 502,388	$ 437,588

4. GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2021 and 2020:

	2021	2020
Appalachian Regional Commission (ARC)	$ 81,046	$ 287,189
United States Department of Agriculture	114,136	22,032
James Graham Brown Foundation	750,000	-0-
AmeriCorps	11,010	-0-
Total grants receivable	$ 956,192	$ 309,221

5. 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 $2,441,625 and $2,627,031 at December 31, 2021 and 2020, 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, 2021 and 2020.

6. 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 $502,388 and $437,588 at December 31, 2021 and 2020, respectively.

7. NOTES RECEIVABLE

Notes receivable consist of the following at December 31:

	2021	2020
In 2020, ReVitalize, ReInvest, ReDevelop Appalachia (R3) Initiative loans were issued to various unrelated organizations. The notes mature in October 2025 and have a 0% interest rate and require monthly principal payments totaling $13,700 in 2022, 2023, and 2024, and $11,417 in 2025. In 2021, two additional R3 Initiative loans were issued to various unrelated organizations. The notes mature in August 2026, one with an interest rate of 1.50% and the other with an interest rate of 1.00%. These loans require monthly principal payments totaling $3,298 in 2022, 2023, 2024, and 2025, and $2,198 in 2026.	$ 401,105	$ 363,717
In 2019, Program Related Investment (PRI) notes were issued to various unrelated organizations. The notes bear interest at rates ranging from 2% to 5%. Monthly interest-only payments are to be received with a balloon principal payment due at the maturity date for each note ($100,000 in July 2023 and $200,000 in July 2024). In 2021 an additional PRI note was issued. The note bears interest at 5% with monthly interest-only payments. If the borrower is current on monthly interest payments at the end of 5 years, $100,000 of the principal will be forgiven.	500,000	300,000
In 2021, three Rural Business Development Grant (RBDG) Initiative loans were issued to various unrelated organizations. The notes mature in between 5 to 7 years, and all bear interest of 2.00%. These loans require monthly principal and interest payments between $319 and $438.	74,000	-
Total notes receivable	975,105	663,717
Less allowance for uncollectible	(8,000)	-0-
Net notes receivable	$ 967,105	$ 663,717

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2021 and 2020 is as follows:

	2021	2020
Building	$ 395,156	$ 328,129
Equipment	55,747	43,229
Construction in progress	-0-	43,162
	450,903	414,520
Less accumulated depreciation	83,800	63,973
	$ 367,103	$ 350,547

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 2021 and 2020:

	2021	2020
Beginning balance	$ 609,467	$ 371,085
Contributions and other revenue	1,095,564	621,047
Investment return, net	37,532	27,822
Administrative fees	(61,861)	(36,112)
Other expenses	(437,300)	(374,039)
Grants	(261,530)	(336)
	$ 981,872	$ 609,467

10. NOTES PAYABLE

In May 2020, the Organization entered into an unsecured promissory note agreement for $51,010. The note bears interest at 5% and is payable in monthly installments of principal and interest payments of $552 beginning on June 27, 2020, and maturing on May 27, 2030.

In November 2020, the Organization entered into a second promissory note agreement for $128,303. This note bears interest at 4% and is payable in monthly installments of principal and interest payments of $784 beginning on December 12, 2020, and maturing on November 12, 2040. This note is secured by certain real property.

Future maturities due on the notes payable are as follows:

Fiscal years ending December 31:	
2022	$ 9,059
2023	9,475
2024	9,910
2025	10,633
2026	10,843
Thereafter	112,898
	$ 162,818

11. NET ASSETS RESTRICTED FOR SPECIFIED PURPOSE

Net assets with donor restrictions are available for the following specified purposes at December 31, 2021 and 2020:

	2021	2020
Appalachian Impact	$ 1,267,120	$ 417,701
Entrepreneur-in-Residence Incubator program	210,521	291,309
Various based on fund agreements	8,332,564	6,604,524
	$ 9,810,206	$ 7,313,534

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in 2021 and 2020 by expiration on the following purposes:

	2021	2020
Appalachian Impact	$ 233,306	$ 228,523
Entrepreneur-in-Residence Incubator program	94,787	161,859
Various based on fund agreements	3,961,287	3,734,267
	$ 4,289,380	$ 4,124,649

13. 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

From time to time, due to unfavorable market fluctuations, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. The Organization has a policy that does not permit spending from underwater endowment funds, unless otherwise permitted by donor intent or relevant laws and regulations. There were no deficiencies of this nature at December 31, 2021 and 2020.

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.

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 twelve 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, 2021 and 2020 were as follows:

	2021	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	$ 10,000	$ -0-
Donor Restricted Funds	-0-	10,277,577
	$ 10,000	$ 10,277,577

	2020	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	$ 10,000	$ -0-
Donor Restricted Funds	-0-	5,027,979
	$ 10,000	$ 5,027,979

Changes in endowment funds for the years ended December 31, 2021 and 2020 were as follows:

	2021	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	$ 10,000	$ 5,027,979
Contributions and other revenue	-0-	4,916,833
Investment return, net	-0-	1,131,640
Appropriation of endowment assets for expenditure	-0-	(798,875)
Endowment net assets, end of year	$ 10,000	$ 10,277,577

	2020	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	$ 10,000	$ 4,320,538
Contributions and other revenue	-0-	600,536
Investment return, net	-0-	819,321
Appropriation of endowment assets for expenditure	-0-	(712,416)
Endowment net assets, end of year	$ 10,000	$ 5,027,979

14. PAYCHECK PROTECTION PROGRAM

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act. One component of the CARES Act was the paycheck protection program (PPP) which provides small business with the resources needed to maintain payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration (SBA) with support from the Department of the Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs, including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities. The Organization applied for and was accepted to participate in this program.

The PPP loans are unsecured bear interest at 1% and funds advanced under the program are subject to forgiveness if certain criteria are met with the remaining balance within two years from the date of disbursement. The PPP loans may be forgivable to the extent that employers incur and spend the funds on qualified expenditures during the covered period, as defined. In addition, employers must maintain specified employment and wage levels, and submit adequate documentation of such expenditures to qualify for loan forgiveness.

During the year ended December 31, 2020, the Organization received its first PPP loan in the amount of $103,100. The Organization applied for forgiveness in March 2021 under the PPP, which was granted by the SBA on March 30, 2021, for the full amount. The Organization has elected to treat the loan under FASB ASC 958-605 as a conditional grant. The Organization has evaluated the loan's criteria and determined that the conditions for forgiveness were substantially met at December 31, 2020, and therefore recognized as revenue the full amount of the loan under contributions and grants on the statement of activities for the year ended December 31, 2020.

During the year ended December 31, 2021, the Organization received its second PPP loan in the amount of $108,900. The Organization applied for loan forgiveness under provisions of Section 1106 of the CARES Act and on November 4, 2021, was granted SBA forgiveness for the full amount.

The SBA will have the right to audit the Organization's compliance with the PPP for a period of up to six years. Any unfavorable outcome resulting from the SBA's review or audit will be reported once known and may materially impact the Organization's financial position and/or results of future operations.

15. EMPLOYEE RETRENTION CREDIT

The CARES Act included a provision for the Employee Retention Credit (ERC). The ERC is a fully refundable tax credit for employers equal to 70 percent of qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees. The ERC applies to qualified wages paid after March 13, 2020, until September 30, 2021. The Organization recognized $123,439 of ERC revenue during 2021.

16. 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.

Financial assets available for general expenditures that is not subject to donor or other contractual restrictions within one year of the consolidated statement of financial position date comprise of the following:

	2021	2020
Cash	$ 9,659	$ 620,242
Operating investments	1,082,545	81,273
Grants receivable	750,000	-0-
	$ 1,842,204	$ 701,515

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 the endowed and non-endowed fund balance and 5% to 10% of contributions to fiscal sponsorship funds to fund operational expenditures.

17. 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.

18. CONTINGENCIES

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 impacts the Organization's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, increased demand for grants, delays, loss of, or reduction to contributions and funding, and investment portfolio declines. Management believes the Organization is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

Program Title	Federal Assistance Listing Number	Grant ID Number	Total Federal Expenditures	Passed Through to Subreceipient
Appalachian Regional Commission				
Appalachian Area Development - ReVitalize, ReInvest and ReDevelop (R3) Appalachia Initiative	23.002	PW-19712-IM-19	$ 1,021,844	$ 753,383
Passthrough from Appalachian Community Capital Appalachain Research, Technical Assistance and Demostration Projetcs	23.011	N/A	28,000	-0-
Total Appalachian Regional Commission			1,049,844	753,383
United States Department of Agriculture				
Farmers Market Promotion Program	10.168	AM180100XXXG100	53,125	-0-
Farmers Market Promotion Program	10.175	21FMPPKY1079-00	638	-0-
Rural Business Development Grant	10.351	20-097-991846759	115,675	74,000
Total United States Department of Agriculture			169,438	74,000
AmeriCorps State and National				
Passthrough from Commonwealth of Kentucky	94.006	20AFHKY001	11,010	-0-
Total Expenditures of Federal Awards			$ 1,230,292	$ 827,383

See report of independent auditors and accompanying notes to the schedule.

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Foundation for Appalachian Kentucky, Inc. and Affiliate (collectively referred to as the "Organization"). The grant revenue amounts received and expensed are subject to audit and adjustment. If any expenditure is disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Organization. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations. The Organization did not elect to use the 10% de minimis indirect cost rate and no amounts were provided to subrecipients.

2. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

3. BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

4. REVOLVING LOAN PROGRAM

The Organization administers the Appalachian Regional Commission Appalachian Area Development ReVitalize, ReInvest, and ReDevelop (R3) Appalachia Initiative Loan Program. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Current year loan expenditures and disbursements totaled $827,383. The balance of loans outstanding at December 31, 2021, consists of:

Federal Assistance Listing Number	Program Name	Outstanding Balance as of December 31, 2021
23.002	R3 Appalachian Initiative Loan Program	$753,383
10.351	Rural Business Development Grant	$74,000

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Foundation for Appalachian Kentucky, Inc. and Affiliate (collectively referred to as the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 3, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Foundation for Appalachian Kentucky Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
July 3, 2023

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Foundation for Appalachian Kentucky, Inc. and Affiliate's (collectively referred to as the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the *Uniform Guidance*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the *Uniform Guidance* and which are described in the accompanying schedule of findings and questioned costs as item 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
July 3, 2023

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? __X__Yes _____No

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____Yes ___X__None Reported

Noncompliance material to financial statements noted? _____Yes __X___No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____Yes __X___No

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____Yes __X__None Reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? __X__Yes _____No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
23.002	Appalachian Area Development

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee: _____Yes __X____No

Section II - Findings - Financial Statement Audit

2021-001 Finding: Preparation of Financial Statements

Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that supports accurate external financial reporting.

Condition: The Organization does not have in place the processes and controls that would assure the preparation of external year-end financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America.

Cause: Such preparation would require the in-house ability to maintain appropriate technical knowledge, including the ability to research current and changing accounting standards as well as unique industry considerations.

Effect: Recognizing the above condition, the Organization engages the external independent auditors to assist with the drafting of the year-end external financial statements. Once drafted, the financial statements are submitted to management for review, revision, and approval. While this practice is common and practical, it is considered a material weakness in internal control over financial reporting since the year-end external financial statement preparation cannot be performed in-house.

Recommendation: We recommend management review, and if practical, enhance the external financial reporting procedures and controls in place to address the preparation and review of external year-end financial statements.

Views of responsible officials and planned corrective actions: Management concurs with the above finding and, accordingly, has engaged the auditors to assist with the preparation of the 2021 year-end external financial statements. Management is currently reviewing the procedures and controls in place to address the preparation and review of external year-end financial statements and will revise and enhance as warranted.

Section III - Findings and Questioned Costs - Major Federal Awards Program Audit

2021-002 Single Audit Submission Deadline

Criteria or specific requirement: 2 CFR Section 200.512(a) requires the Data Collection form and Single Audit reporting package be submitted the earlier of 30 days after the reports are received from the auditors or nine months after the end of the audit period. Accordingly, the due date for the Single Audit submission for the year ended December 31, 2021, is September 30, 2022.

Condition: The reporting package for the year ended December 31, 2021, was not submitted by the September 30, 2022, reporting deadline.

Cause: The audit report on the financial statements for the year ended December 31, 2021, was issued subsequent to the September 30, 2022, deadline.

Effect: The Organization is not in compliance with the provisions of 2 CFR Section 200.512(a) for the year ended December 31, 2021.

Views of responsible officials and planned corrective actions: The audit report on the financial statements for the year ended December 31, 2021, was issued on July 3, 2023. The Data Collection form and reporting package will be submitted within 30 days thereafter.

2020-001 Finding: Preparation of Financial Statements

Condition: The Organization did not have in place the processes and controls that would assure the preparation of external year-end financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America.

Status: Unresolved. See finding 2021-001

2020-002 Single Audit Submission Deadline

Condition: The reporting package for the year ended December 31, 2020, was not submitted by the March 31, 2021, extended reporting deadline.

Status: Resolved. Reporting package submitted on July 22, 2022.

2021 CORRECTIVE ACTION PLAN

July 3, 2023

Appalachian Regional Commission

Foundation for Appalachian Kentucky respectfully submits the following Corrective Action Plan for the year ended December 31, 2021.

Name and address of independent public accounting firm:

Blue & Co., LLC
250 West Main Street, Suite 2900
Lexington, KY 40507

Audit period: January 1, 2021 – December 31, 2021

The findings from the July 3, 2023, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS-FINANCIAL STATEMENT AUDIT

2021-001 Finding: Preparation of Financial Statements

Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that supports accurate external financial reporting. We are required to give consideration to the Organization's ability to prepare external year-end financial statements and related note disclosures, as well as the oversight of the external financial reporting process by those charged with governance.

Condition: The Organization does not have in place the processes and controls that would assure the preparation of external year-end financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America.

Effect: As with many entities, the Organization engages the auditors to draft the year-end external financial statements and to perform the necessary steps to ensure the disclosures are complete. Once drafted, the financial statements are submitted to management for review and approval. While this practice is common and practical, we must inform those charged with governance that this must be considered a material weakness in internal control over financial reporting since the year-end external financial statement preparation cannot be performed in-house.

Cause: Such preparation would require the in-house ability to maintain appropriate technical knowledge, including the ability to research current and changing accounting standards as well as unique industry considerations.

Recommendation: We recommend the Organization review and enhance the external financial reporting procedures and controls in place to address the preparation and review of external year-end financial statements.

Views of responsible officials and planned corrective actions: Management concurs with the above finding and, accordingly, has engaged the auditors to assist with the preparation of the 2021 year-end external financial statements. Management is currently reviewing the procedures and controls in place to address the preparation and review of external year-end financial statements and will revise and enhance as warranted.

Section III - Findings and Questioned Costs - Major Federal Awards Program Audit

2021-002 Single Audit Submission Deadline

Major Program: 2 CFR Section 200.512(a) requires the data collection form and Single Audit reporting package be submitted the earlier of 30 days after the reports are received from the auditors or nine months after the end of the audit period. Accordingly, the due date for the Single Audit submission for the year ended December 31, 2021, is September 20, 2022.

Condition: The reporting package for the year ended December 31, 2021, was not submitted by the September 30, 2022, extended reporting deadline.

Cause: The audit report on the financial statements for the year ended December 31, 2021, was issued after the September 30, 2022, deadline.

Effect: The Organization is not in compliance with the provisions of 2 CFR Section 200.512(a) for the year ended December 31, 2021.

Context: Not applicable.

Management's Response: The audit report on the financial statements for the year ended December 31, 2021, was issued on July 3, 2023. The Data Collection Form and reporting package will be submitted within 30 days thereafter.

Respectfully submitted,

Gerry R. Roll
CEO