

Foundation for Appalachian Ohio

Consolidated financial statements

December 31, 2017 and 2016



Rea & associates

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FOUNDATION FOR
APPALACHIAN OHIO
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**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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FOUNDATION FOR APPALACHIAN OHIO

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DECEMBER 31, 2017

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June 12, 2018

Board of Trustees
Foundation for Appalachian Ohio
Nelsonville, Ohio

INDEPENDENT AUDITOR'S REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Foundation for Appalachian Ohio (FAO), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 Foundation for Appalachian Ohio as of December 31, 2017 and 2016, 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.

Rea & Associates, Inc.

Cambridge, Ohio

FOUNDATION FOR APPALACHIAN OHIO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,186,995	\$ 3,064,214
Pledges and grants receivable	503,075	590,472
Prepaid expense	6,563	5,569
Total current assets	<u>3,696,633</u>	<u>3,660,255</u>
OTHER ASSETS:		
Investments	23,944,911	20,902,196
Pledges receivable, net of current portion and allowance	259,867	524,100
Total other assets	<u>24,204,778</u>	<u>21,426,296</u>
PROPERTY AND EQUIPMENT:		
Property and equipment	1,226,297	702,999
Less accumulated depreciation	(242,455)	(201,175)
Net property and equipment	<u>983,842</u>	<u>501,824</u>
Total assets	<u><u>\$ 28,885,253</u></u>	<u><u>\$ 25,588,375</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Agency funds	\$ 3,449,808	\$ 3,330,185
Accounts payable	64,864	52,635
Grants payable	99,281	127,217
Accrued benefits	15,148	51,650
Deferred revenue	-	54,697
Total current liabilities	<u>3,629,101</u>	<u>3,616,384</u>
NET ASSETS:		
Unrestricted	9,700,879	8,750,657
Temporarily restricted	2,978,360	2,439,950
Permanently restricted	12,576,913	10,781,384
Total net assets	<u>25,256,152</u>	<u>21,971,991</u>
Total liabilities and net assets	<u><u>\$ 28,885,253</u></u>	<u><u>\$ 25,588,375</u></u>

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR APPALACHIAN OHIO
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE AND SUPPORT:				
Contributions	\$ 1,781,004	\$ 553,337	\$ 1,795,529	\$ 4,129,870
Interest and dividends	30,650	40,767	-	71,417
Realized and unrealized gains	614,228	1,645,100	-	2,259,328
Miscellaneous revenues	243,536	-	-	243,536
Net assets released from restrictions:				
Satisfaction of program restrictions	1,700,794	(1,700,794)	-	-
Total revenue and support	4,370,212	538,410	1,795,529	6,704,151
EXPENSES:				
Program expenses:				
Grants, distributions and scholarships	1,652,331	-	-	1,652,331
Salaries and fringe benefits	429,549	-	-	429,549
Professional fees	28,881	-	-	28,881
Investment management fees	15,151	-	-	15,151
IBelieve expenses	428,533	-	-	428,533
Other program expenses	56,843	-	-	56,843
Total program expenses	2,611,288	-	-	2,611,288
Fundraising expenses:				
Salaries and fringe benefits	218,137	-	-	218,137
Fundraising event expenses	30,778	-	-	30,778
IBelieve expenses	60,668	-	-	60,668
Other fundraising expenses	14,739	-	-	14,739
Total fundraising expenses	324,322	-	-	324,322
General and administrative expenses:				
Salaries and fringe benefits	193,516	-	-	193,516
Communications and marketing	15,411	-	-	15,411
Contributed services	4,609	-	-	4,609
Depreciation	41,280	-	-	41,280
Investment management fees	15,769	-	-	15,769
Professional fees	44,224	-	-	44,224
Office expense	145,131	-	-	145,131
Travel and meetings	24,440	-	-	24,440
Total general and administrative expenses	484,380	-	-	484,380
Total expenses	3,419,990	-	-	3,419,990
Change in net assets	950,222	538,410	1,795,529	3,284,161
NET ASSETS, beginning of year	8,750,657	2,439,950	10,781,384	21,971,991
NET ASSETS, end of year	\$ 9,700,879	\$ 2,978,360	\$ 12,576,913	\$ 25,256,152

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE AND OTHER SUPPORT:				
Contributions	\$ 1,283,127	\$ 1,576,572	\$ 1,165,812	\$ 4,025,511
Interest and dividends	77,822	137,804	-	215,626
Realized and unrealized gains	191,043	872,594	-	1,063,637
Miscellaneous revenues	286,098	-	-	286,098
Net assets released from restrictions:				
Satisfaction of program restrictions	1,212,663	(1,212,663)	-	-
Total revenue and other support	3,050,753	1,374,307	1,165,812	5,590,872
EXPENSES:				
Program expenses:				
Grants, distributions and scholarships	1,316,250	-	-	1,316,250
Salaries and fringe benefits	403,028	-	-	403,028
Professional fees	37,165	-	-	37,165
Investment management fees	13,669	-	-	13,669
IBelieve expenses	325,036	-	-	325,036
Other program expenses	45,728	-	-	45,728
Total program expenses	2,140,876	-	-	2,140,876
Fundraising expenses:				
Salaries and fringe benefits	223,875	-	-	223,875
Fundraising event expenses	50,636	-	-	50,636
IBelieve expenses	14,789	-	-	14,789
Other fundraising expenses	27,813	-	-	27,813
Total fundraising expenses	317,113	-	-	317,113
General and administrative expenses:				
Salaries and fringe benefits	210,767	-	-	210,767
Communications and marketing	33,422	-	-	33,422
Contributed services	509	-	-	509
Depreciation	36,076	-	-	36,076
Investment management fees	14,227	-	-	14,227
Professional fees	38,681	-	-	38,681
Office expense	149,393	-	-	149,393
Travel and meetings	41,779	-	-	41,779
Total general and administrative expenses	524,854	-	-	524,854
Total expenses	2,982,843	-	-	2,982,843
Change in net assets	67,910	1,374,307	1,165,812	2,608,029
NET ASSETS, beginning of year	8,682,747	1,065,643	9,615,572	19,363,962
NET ASSETS, end of year	\$ 8,750,657	\$ 2,439,950	\$ 10,781,384	\$ 21,971,991

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR APPALACHIAN OHIO

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 3,284,161	\$ 2,608,029
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	41,280	36,076
Realized and unrealized gain on investments	(2,259,328)	(1,063,637)
Contributions restricted for endowment	(1,795,529)	(1,165,812)
(Increase) decrease in operating assets:		
Pledges and grants receivable	351,630	230,245
Accrued interest receivable	-	2,420
Prepaid expense	(994)	45,298
Increase (decrease) in operating liabilities:		
Agency funds	119,623	1,294,640
Accounts payable	12,229	22,716
Grants payable	(27,936)	127,217
Accrued benefits	(36,502)	(4,087)
Deferred revenue	(54,697)	54,697
Total adjustments	(3,650,224)	(420,227)
Net cash from operating activities	(366,063)	2,187,802
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,153,153)	(8,278,679)
Proceeds from investments	2,369,767	5,828,598
Purchase of property and equipment	(523,299)	(5,537)
Proceeds from sale of property and equipment	-	2,803
Net cash from investing activities	(1,306,685)	(2,452,815)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for endowment	1,795,529	1,165,812
Net cash from financing activities	1,795,529	1,165,812
Net increase in cash and cash equivalents	122,781	900,799
CASH AND CASH EQUIVALENTS, beginning of year	3,064,214	2,163,415
CASH AND CASH EQUIVALENTS, end of year	\$ 3,186,995	\$ 3,064,214

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF ACTIVITIES

The Foundation for Appalachian Ohio (the "Organization") is a non-profit organization established in 1998 as a 501(c)(3) regional community foundation serving to enrich quality of life in the 32 counties of Appalachian Ohio. The Organization's mission is to create opportunities for Appalachian Ohio's citizens and communities by inspiring and supporting philanthropy.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting records are maintained on the accrual basis for financial statement purposes.

Principles of Consolidation

The consolidated financial statements include the accounts of Foundation for Appalachian Ohio and FAO Property Holdings Ltd, its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted – Net assets that are neither temporarily nor permanently restricted by donor imposed stipulations. Assets are maintained and distributed at the discretion of the Organization's Board of Trustees. Unrestricted net assets also include designated assets. Assets are designated for a general purpose and are also maintained and distributed at the discretion of the Organization's Board of Trustees.

Temporarily Restricted – Net assets whose use by the Organization has been limited by donor-imposed restrictions. These restrictions can be fulfilled by actions of the Organization and/or expire by the passage of time.

Permanently Restricted – Net assets that have been restricted by donors to be maintained by the Organization in perpetuity. Contributions and gains necessary to maintain corpus under the Uniform Prudent Management of Institutional Funds Act are reflected as additions to permanently restricted net assets. Investment income is an addition to temporarily restricted net assets, which may be used for donor-designated purposes.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Uninsured Risk – Cash Deposits

The Organization maintains its cash and cash equivalent balances in financial institutions located in Ohio. Deposits in interest-bearing and non-interest-bearing accounts are collectively insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000 at each FDIC-insured depository institution. As a result, the Organization may have balances that exceed the insured limit.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions." If restrictions are met in the same year as the restricted contribution, the contribution is recorded as unrestricted revenue.

Unconditional promises to give (pledges) are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using the risk free interest rates applicable to the years in which the promises are received to discount the amounts. A provision for uncollectible receivables is estimated to be \$64,000 at December 31, 2017 and 2016.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Purchased equipment is recorded at cost. Expenditures for replacements are capitalized and the replaced items are retired. Donated equipment is recorded at the fair market value of the equipment when donated. Expenditures for equipment of \$1,000 or more are capitalized and depreciated. Maintenance and repairs are charged to operations. Depreciation is computed using principally the straight-line method over the useful lives of the assets:

Building and improvements	15-39 years
Office furniture and equipment	5-7 years
Computer hardware and software	5 years

Depreciation expense was \$41,280 and \$36,076 for the years ending December 31, 2017 and 2016, respectively.

Communications and Marketing

The Organization expenses communications and marketing costs as they are incurred. These expenses totaled \$21,111 and \$45,783 for the years ended December 31, 2017 and 2016, respectively, including amounts in both fundraising and administrative expenses.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America requires management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service. The Organization's management has analyzed the tax positions taken by FAO and its wholly owned subsidiary, FAO Property Holdings, Ltd. and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Risk and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment account balances and the amounts reported in the statements of financial position.

Allocation of Functional Expenses

The Organization allocates expenses using percentages based on estimated costs associated with each function. Management believes this is a reasonable approximation of actual costs.

Investments

Unrealized gains and losses are included in the change in net assets. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position as follows:

	<u>2017</u>	<u>2016</u>
Investments	\$ 4,192,945	\$ 4,223,309
Investments – endowment and agency	19,751,966	16,678,887
	<u>\$ 23,944,911</u>	<u>\$ 20,902,196</u>

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: RESTRICTIONS ON NET ASSETS

The Organization's restricted assets have been classified into the Net Asset categories listed below as of December 31:

	2017	2016
Temporarily restricted:		
Scholarships	\$ 939,817	\$ 488,740
Field of interest	1,027,186	1,308,083
Other grant making	1,011,357	643,127
Total temporarily restricted	\$ 2,978,360	\$ 2,439,950
Permanently restricted:		
Scholarships	\$ 5,449,903	\$ 4,786,317
Field of interest	1,264,400	1,136,484
Other grant making	5,862,610	4,858,583
Total permanently restricted	\$ 12,576,913	\$ 10,781,384

Permanently restricted net assets are used for permanent endowment. The Organization has variance power over these and all other assets should certain events take place.

NOTE 4: PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable consists of the following as of December 31:

	2017	2016
Pledges and grants	\$ 845,142	\$ 1,206,372
Unamortized discount	(18,200)	(27,800)
	826,942	1,178,572
Allowance for uncollectible pledges	(64,000)	(64,000)
	\$ 762,942	\$ 1,114,572
Amounts due in:		
Less than one year	\$ 503,075	\$ 590,472
One to five years	341,467	615,200
More than five years	600	700
	\$ 845,142	\$ 1,206,372

NOTE 5: INVESTMENTS

Investments are recorded at fair value and are summarized as follows:

	2017		
	Cost	Fair Value	Unrealized Appreciation
Cash – restricted	\$ 491,216	\$ 491,216	\$ -
Stocks and ETFs	10,211,327	10,799,357	588,030
Mutual funds	11,306,137	12,541,489	1,235,352
Municipal and corporate bonds	97,231	112,849	15,618
Total	\$ 22,105,911	\$ 23,944,911	\$ 1,839,000

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: INVESTMENTS (Continued)

	2016		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash – restricted	\$ 1,914,622	\$ 1,914,622	\$ -
Stocks and ETFs	6,595,076	8,534,080	1,939,004
Mutual funds	10,995,916	10,343,376	(652,540)
Municipal and corporate bonds	97,246	110,118	12,872
Total	\$ 19,602,860	\$ 20,902,196	\$ 1,299,336

The following schedule summarizes the investment return and its classification in the statement of activities for year ended December 31:

	2017		
	Unrestricted	Restricted	Total
Investment income	\$ 30,650	\$ 40,767	\$ 71,417
Net realized and unrealized gain	614,228	1,645,100	2,259,328
	\$ 644,878	\$ 1,685,867	\$ 2,330,745

	2016		
	Unrestricted	Restricted	Total
Investment income	\$ 77,822	\$ 137,804	\$ 215,626
Net realized and unrealized gain	191,043	872,594	1,063,637
	\$ 268,865	\$ 1,010,398	\$ 1,279,263

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2017	2016
Land and building	\$ 986,990	\$ 513,055
Office furniture and equipment	161,936	112,573
Computer hardware and software	77,371	77,371
	1,226,297	702,999
Accumulated depreciation	(242,455)	(201,175)
Ending balance	\$ 983,842	\$ 501,824

NOTE 7: AGENCY FUNDS

The Organization acts as a fiduciary agent for other organizations. A fiduciary agent is responsible for safeguarding assets, recording transactions, investment management and making appropriate distributions. The Organization's policy is to record funds received as an investment and an equal liability. There were 27 agency funds at December 31, 2017 and 24 agency funds at December 31, 2016.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: AGENCY FUNDS (Continued)

Agency transactions are as follows:

	2017	2016
Beginning balance	\$ 3,330,185	\$ 2,035,545
Contributions	84,252	1,234,226
Investment income	28,620	39,926
Net realized and unrealized gains	443,666	92,435
Grants, scholarships and fees	(436,915)	(71,947)
Ending balance	\$ 3,449,808	\$ 3,330,185

NOTE 8: LINE OF CREDIT

The Organization has a \$200,000 line of credit with a financial institution that requires monthly interest payments at Prime (4.50% at December 31, 2017). This line of credit is collateralized by all property and assets. There was no balance outstanding on the line of credit at December 31, 2017 and 2016.

NOTE 9: ENDOWMENTS

The Organization prudently manages endowments with the goal of growing the funds' principal while producing interest and earnings to support charitable activities now, and in the future. This requires a disciplined, diversified investment approach, guided by sound policy that is constantly monitored and adapted to address evolving market conditions and realities by the Organization's Business and Finance Committee and independent investment advisors. Additionally, the Organization provides oversight of investment managers to ensure accountability, protect from unnecessary fees and ensure decisions lead to maintaining and growing portfolio assets in real terms (after inflation and expenses).

Investment Policy

- Objective to maintain and grow the purchasing power of the Endowment's investments
- Endowment management must be a highly disciplined and well-monitored process
- Maintains a long-term view (Maintain and grow assets in real-terms)
- Prohibits market timing. Where possible, economies of scale should be leveraged for cost reduction
- Avoidance of excessive trading
- Diversified allocations of assets are essential for dampening volatility of markets in pursuit of the long-term objectives.

The Organization's asset allocation of invested funds supports today's needs by investing in less volatile assets that provide current return – like income and dividend paying U.S. equities, and also tomorrow's needs by investing in assets that will contribute to growth to keep ahead of inflation – international equities and alternative assets.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS (Continued)

Spending Policy

The Organization establishes a conservative policy for distributing (granting) from endowment funds, with up to 4% of the three-year rolling average of a fund's balance available annually for distributions.

The tables below represent changes in endowment net assets for the years ended December 31, 2017 and 2016.

DONOR-RESTRICTED ENDOWMENTS

	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2015	\$ 225,457	\$ 9,615,572	\$ 9,841,029
Contributions	269,109	1,165,812	1,434,921
Investment income	129,499	-	129,499
Net appreciation	843,714	-	843,714
Amounts appropriated for expenditures	(688,107)	-	(688,107)
Balance, December 31, 2016	779,672	10,781,384	11,561,056
Contributions	56,600	1,795,529	1,852,129
Investment income	20,525	-	20,525
Net appreciation	1,450,970	-	1,450,970
Amounts appropriated for expenditures	(688,384)	-	(688,384)
Balance, December 31, 2017	\$ 1,619,383	\$ 12,576,913	\$ 14,196,296

BOARD DESIGNATED FUNDS

	Unrestricted	Quasi- Endowments	Total
Balance, December 31, 2015	\$ 513,136	\$ 1,306,890	\$ 1,820,026
Contributions	26,050	1,912	27,962
Investment income	31,991	-	31,991
Net appreciation	39,914	-	39,914
Amounts appropriated for expenditures	(132,247)	-	(132,247)
Balance, December 31, 2016	478,844	1,308,802	1,787,646
Contributions	6,031	125,478	131,509
Investment income	32,851	-	32,851
Net appreciation	257,396	-	257,396
Amounts appropriated for expenditures	(103,540)	-	(103,540)
Balance, December 31, 2017	\$ 671,582	\$ 1,434,280	\$ 2,105,862

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS (Continued)

The Organization manages endowment funds, whereby the principal is permanently restricted to the purpose outlined in the fund agreement. The Organization employs prudent management of endowed funds in order to grow the fund's principal while producing interest and earnings to support charitable activities now, and in the future. The Organization did not have any funds below principal at December 31, 2017 and 2016, respectively.

NOTE 10: RETIREMENT

The Organization has a SIMPLE IRA Incentive Match Plan in place. The plan covers all eligible employees who receive at least \$5,000 in compensation during any one preceding year and who are reasonably expected to receive \$5,000 in compensation during the current year. Employees may make elective salary deferrals to the plan up to a maximum of \$12,500. The Organization can make a 100% matching contribution for each participating employee up to 3% of compensation. Contributions were made to the plan of \$13,259 and \$14,026 for the years ended December 31, 2017 and 2016, respectively.

NOTE 11: FAIR VALUE MEASUREMENTS

Generally accepted accounting principles include a framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: FAIR VALUE MEASUREMENTS (Continued)

The asset's or liability'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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Stocks, bonds, and exchange-traded funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their net asset values (NAV) and to transact at that price. The above funds held by the Organization are deemed to be actively traded.

The table below presents the fair value hierarchy of the Organization's assets as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Cash – restricted	\$ 491,216	\$ -	\$ -	\$ 491,216
Stocks and ETFs	10,799,357	-	-	10,799,357
Mutual funds	12,541,489	-	-	12,541,489
Municipal and corporate bonds	112,849	-	-	112,849
Total assets at fair value	\$ 23,944,911	\$ -	\$ -	\$ 23,944,911

The table below presents the fair value hierarchy of the Organization's assets as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash – restricted	\$ 1,914,622	\$ -	\$ -	\$ 1,914,622
Stocks and ETFs	8,534,080	-	-	8,534,080
Mutual funds	10,343,376	-	-	10,343,376
Municipal and corporate bonds	110,118	-	-	110,118
Total assets at fair value	\$ 20,902,196	\$ -	\$ -	\$ 20,902,196

NOTE 12: CERTIFICATION BY THE COUNCIL ON FOUNDATIONS

The Foundation for Appalachian Ohio is in compliance with National Standards for U.S. Community Foundations. The National Standards for U.S. Community Foundations Program requires community foundations to document their policies for donor services, investments, grant making and administration. The program is designed to provide quality assurance to donors, as well as to their legal and financial advisors. Rigorously reviewed by community foundation professionals from across the country, the Foundation for Appalachian Ohio's practices must adhere to the highest standards in order to receive approval.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 entitled "Revenue from Contracts with Customers (Topic 606)," which may change the Organization's method of revenue recognition. In August 2015, the FASB deferred the effective date of the new standard by one year. This new standard is effective for annual reporting periods beginning after December 15, 2017, while allowing nonpublic companies an additional year to implement this new standard. Early implementation is permitted, but not before the original implementation date for periods beginning before December 15, 2016. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02 entitled "Leases (Topic 842)," which may change the Organization's statement of financial position by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants. This new standard is effective for annual periods reporting periods beginning after December 15, 2018 while allowing nonpublic companies an additional year to implement this new standard. Early implementation is permitted. Management has not yet determined whether this new standard will have a material effect on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14 entitled "Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)" which will, among other changes, change the presentation of the Organization's classifications of net assets from three classes to two (with donor restrictions and without donor restrictions) and require a schedule of expenses by both natural and functional classification. This new standard is effective for annual reporting periods beginning after December 15, 2017. Early implementation is permitted. Management has not yet determined whether this new standard will have a material effect on its financial statements.

NOTE 14: RECLASSIFICATION

Certain prior year balances have been reclassified to conform to current year presentation.

NOTE 15: SUBSEQUENT EVENTS

In evaluating events that may have a material impact on the financial statements, the Organization has considered activities through June 12, 2018, the date the financial statements were available to be released.