

Foundation for Appalachian Ohio

Audited Consolidated Financial Statements

As of and for the Years Ended
December 31, 2019 and 2018



Rea & associates

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FOUNDATION FOR
APPALACHIAN OHIO
Give. Grow. Create.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

CONTENTS

PAGE

| | |
|---|------|
| List of Trustees | 1 |
| Independent Auditor's Report..... | 2 |
| Consolidated Statements of Financial Position..... | 3 |
| Consolidated Statements of Activities and Changes in Net Assets | 4-5 |
| Consolidated Statements of Functional Expenses..... | 6-7 |
| Consolidated Statements of Cash Flows | 8 |
| Notes to the Consolidated Financial Statements | 9-19 |

FOUNDATION FOR APPALACHIAN OHIO

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DECEMBER 31, 2019

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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, 2019 and 2018, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements (the "financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for Appalachian Ohio as of December 31, 2019 and 2018, 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.

Dublin, Ohio

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

| | <u>ASSETS</u> | |
|--|----------------------|----------------------|
| | 2019 | 2018 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 9,169,335 | \$ 3,077,669 |
| Current portion of pledges and grants receivable | 350,513 | 415,501 |
| Current portion of note receivable | 227,860 | - |
| Prepaid expenses | 46,446 | 46,375 |
| Total current assets | <u>9,794,154</u> | <u>3,539,545</u> |
| OTHER ASSETS: | | |
| Investments in marketable securities | 33,600,059 | 26,873,649 |
| Pledges receivable, net of current portion and allowance | 295,700 | 209,450 |
| Note receivable, net of current portion | 1,502,992 | - |
| Total other assets | <u>35,398,751</u> | <u>27,083,099</u> |
| PROPERTY AND EQUIPMENT: | | |
| Property and equipment | 1,245,998 | 1,225,831 |
| Less accumulated depreciation | (323,094) | (283,066) |
| Property and equipment, net | <u>922,904</u> | <u>942,765</u> |
| Total assets | <u>\$ 46,115,809</u> | <u>\$ 31,565,409</u> |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------------|----------------------|----------------------|
| CURRENT LIABILITIES: | | |
| Agency funds | \$ 4,822,252 | \$ 3,973,230 |
| Accounts payable | 45,373 | 27,347 |
| Grants payable | 61,954 | 92,452 |
| Accrued benefits | 27,440 | 13,012 |
| Total current liabilities | <u>4,957,019</u> | <u>4,106,041</u> |
| NET ASSETS: | | |
| Without donor restrictions | 13,731,343 | 9,168,540 |
| With donor restrictions | 27,427,447 | 18,290,828 |
| Total net assets | <u>41,158,790</u> | <u>27,459,368</u> |
| Total liabilities and net assets | <u>\$ 46,115,809</u> | <u>\$ 31,565,409</u> |

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

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|----------------------------------|-------------------------------|---------------|
| REVENUE AND SUPPORT: | | | |
| Contributions | \$ 6,587,020 | \$ 6,923,637 | \$ 13,510,657 |
| Interest and dividends | 139,196 | 717,304 | 856,500 |
| Realized and unrealized gains on marketable securities | 873,354 | 2,966,829 | 3,840,183 |
| Other revenue and support | 193,065 | 2,461 | 195,526 |
| Net assets released from restrictions | 1,473,612 | (1,473,612) | - |
| | <hr/> | <hr/> | <hr/> |
| Total revenue and support | 9,266,247 | 9,136,619 | 18,402,866 |
| EXPENSES: | | | |
| Program services | 3,715,426 | - | 3,715,426 |
| Management and general | 366,288 | - | 366,288 |
| Fundraising | 621,730 | - | 621,730 |
| | <hr/> | <hr/> | <hr/> |
| Total expenses | 4,703,444 | - | 4,703,444 |
| | <hr/> | <hr/> | <hr/> |
| Change in net assets | 4,562,803 | 9,136,619 | 13,699,422 |
| NET ASSETS, beginning of year | 9,168,540 | 18,290,828 | 27,459,368 |
| | <hr/> | <hr/> | <hr/> |
| NET ASSETS, end of year | \$ 13,731,343 | \$ 27,427,447 | \$ 41,158,790 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|----------------------------------|-------------------------------|---------------|
| REVENUE AND SUPPORT: | | | |
| Contributions | \$ 947,576 | \$ 5,125,595 | \$ 6,073,171 |
| Interest and dividends | 170,487 | 748,404 | 918,891 |
| Realized and unrealized losses on marketable securities | (451,260) | (1,584,569) | (2,035,829) |
| Other revenue and support | 320,487 | 17,571 | 338,058 |
| Net assets released from restrictions | 1,571,446 | (1,571,446) | - |
| | <hr/> | <hr/> | <hr/> |
| Total revenue and support | 2,558,736 | 2,735,555 | 5,294,291 |
| EXPENSES: | | | |
| Program services | 2,357,650 | - | 2,357,650 |
| Management and general | 299,351 | - | 299,351 |
| Fundraising | 434,074 | - | 434,074 |
| | <hr/> | <hr/> | <hr/> |
| Total expenses | 3,091,075 | - | 3,091,075 |
| | <hr/> | <hr/> | <hr/> |
| Change in net assets | (532,339) | 2,735,555 | 2,203,216 |
| NET ASSETS, beginning of year | 9,700,879 | 15,555,273 | 25,256,152 |
| | <hr/> | <hr/> | <hr/> |
| NET ASSETS, end of year | \$ 9,168,540 | \$ 18,290,828 | \$ 27,459,368 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| FUNCTIONAL EXPENSES: | | | | |
| Grants | \$ 3,103,191 | \$ - | \$ - | \$ 3,103,191 |
| Salaries and benefits | 331,559 | 255,756 | 498,696 | 1,086,011 |
| Other direct program expenses | 125,322 | - | - | 125,322 |
| Professional fees | 19,706 | 34,878 | 18,041 | 72,625 |
| Advertising and communications | 33,459 | - | - | 33,459 |
| Travel and meetings | 21,903 | 2,891 | 39,537 | 64,331 |
| Supplies and office expense | 62,179 | 59,097 | 53,749 | 175,025 |
| Depreciation | 18,107 | 13,666 | 11,707 | 43,480 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total functional expenses | <u>\$ 3,715,426</u> | <u>\$ 366,288</u> | <u>\$ 621,730</u> | <u>\$ 4,703,444</u> |

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

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|--------------------------------|---------------------|---------------------------|-------------------|---------------------|
| FUNCTIONAL EXPENSES: | | | | |
| Grants | \$ 1,652,391 | \$ - | \$ - | \$ 1,652,391 |
| Salaries and benefits | 446,890 | 197,220 | 323,542 | 967,652 |
| Other direct program expenses | 89,114 | - | - | 89,114 |
| Professional fees | 12,496 | 39,862 | 11,166 | 63,524 |
| Advertising and communications | 24,086 | - | - | 24,086 |
| Travel and meetings | 28,954 | 2,768 | 41,274 | 72,996 |
| Supplies and office expense | 70,637 | 25,638 | 45,223 | 141,498 |
| Depreciation | 33,082 | 6,963 | 12,869 | 52,914 |
| Bad debt | - | 26,900 | - | 26,900 |
| Total functional expenses | <u>\$ 2,357,650</u> | <u>\$ 299,351</u> | <u>\$ 434,074</u> | <u>\$ 3,091,075</u> |

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

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|--|---------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 13,699,422 | \$ 2,203,216 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 43,480 | 52,914 |
| Bad debt expense | - | 26,900 |
| Realized and unrealized (gain) losses on investments | (3,840,183) | 2,003,580 |
| Contributions restricted for endowment | (5,456,891) | (3,233,689) |
| Contributions of property and equipment | (18,750) | - |
| Contributions of marketable securities | (2,044,633) | - |
| (Increase) decrease in operating assets: | | |
| Pledges and grants receivable | (21,262) | 111,091 |
| Prepaid expenses | (71) | (39,812) |
| Increase (decrease) in operating liabilities: | | |
| Agency funds | 849,022 | 523,422 |
| Accounts payable | 18,026 | (37,517) |
| Grants payable | (30,498) | (6,829) |
| Accrued benefits | 14,428 | (2,136) |
| Total adjustments | (10,487,332) | (602,076) |
| Net cash provided by operating activities | 3,212,090 | 1,601,140 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for the purchase of investments | (14,454,178) | (13,688,200) |
| Proceeds from the sale of investments | 11,798,534 | 8,755,882 |
| Payments for the purchase of property and equipment | (4,869) | (11,837) |
| Proceeds from receipt on notes receivable | 83,198 | - |
| Net cash used by investing activities | (2,577,315) | (4,944,155) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from contributions restricted for endowment | 5,456,891 | 3,233,689 |
| Net cash provided by financing activities | 5,456,891 | 3,233,689 |
| Net increase (decrease) in cash and cash equivalents | 6,091,666 | (109,326) |
| CASH AND CASH EQUIVALENTS, beginning of year | 3,077,669 | 3,186,995 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 9,169,335 | \$ 3,077,669 |

SUMMARY OF NON-CASH TRANSACTIONS:

During the year ended December 31, 2019, the Organization sold private company stock in the amount of \$1,814,050 in exchange for a note receivable for this amount.

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

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: NATURE OF ACTIVITIES

The Foundation for Appalachian Ohio (the “Foundation”) 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 Foundation’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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and FAO Property Holdings Ltd, (collectively, the “Organization”) its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

Net Assets and Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction – Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the “Board”) and/or management for general operating purposes. From time to time, the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management’s discretion. See Note 4 for more information on the composition of net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. If restrictions are met in the same year as the restricted contributions are received, the contribution is recorded as revenue and support without donor restriction. See Note 4 for more information on the composition of net assets with donor restrictions.

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 FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted

In June 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Revenue and Support Recognition

The Foundation’s specific revenue and support recognition policies are as follows:

Contributions

Contributions are recognized when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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.

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 \$35,000 and \$30,000 as of December 31, 2019 and 2018, respectively.

Donated Materials

Donated property, marketable securities, and other non-cash donations are recorded as contributions at their fair market value at the date the promise to give has been received.

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 less accumulated depreciation. 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 |

Advertising and Communications

The Organization expenses communications and marketing costs as they are incurred. These expenses totaled \$33,459 and \$24,086 for the years ended December 31, 2019 and 2018, respectively, including amounts in both fundraising and administrative expenses.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2019, 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.

Pledges Receivable

Pledges to give are recognized as revenue in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Pledges to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year.

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>2019</u> | <u>2018</u> |
|------------------------------------|----------------------|----------------------|
| Investments | \$ 2,273,858 | \$ 6,790,551 |
| Investments – endowment and agency | 31,326,201 | 20,083,098 |
| | <u>\$ 33,600,059</u> | <u>\$ 26,873,649</u> |

Recently Issued Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which may change the Organization's statement of financial position by requiring lessees to record all leases as a lease liability and corresponding right-of-use asset. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for the Organization for fiscal years beginning after December 15, 2021, with early adoption permitted. 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.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through September 16, 2020, which is the date the financial statements were available to be issued. See Note 17 for subsequent events disclosed.

NOTE 3: PROPERTY AND EQUIPMENT

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

| | 2019 | 2018 |
|--------------------------------|--------------|------------|
| Land and building | \$ 1,010,318 | \$ 988,685 |
| Office furniture and equipment | 159,842 | 158,141 |
| Computer hardware and software | 75,838 | 79,005 |
| | 1,245,998 | 1,225,831 |
| Accumulated depreciation | (323,094) | (283,066) |
| Ending balance | \$ 922,904 | \$ 942,765 |

NOTE 4: NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS

Net assets consisted of the following as of December 31:

| | 2019 | 2018 |
|--|---------------|---------------|
| Without donor restrictions: | | |
| General | \$ 13,731,343 | \$ 9,168,540 |
| With donor restrictions: | | |
| Scholarships | 9,951,437 | 8,748,161 |
| Field of interest | 5,910,895 | 1,971,611 |
| Other grant making | 11,565,115 | 7,571,056 |
| Total net assets with donor restrictions | 27,427,447 | 18,290,828 |
| Total net assets | \$ 41,158,790 | \$ 27,459,368 |

NOTE 5: PLEDGES AND GRANTS RECEIVABLE

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

| | 2019 | 2018 |
|---|------------|------------|
| Pledges and grants | \$ 706,013 | \$ 672,251 |
| Unamortized discount | (24,800) | (17,300) |
| | 681,213 | 688,951 |
| Less: allowance for uncollectible pledges | (35,000) | (30,000) |
| | \$ 646,213 | \$ 624,951 |
| Amounts due in: | | |
| Less than one year | \$ 350,513 | \$ 415,501 |
| One to five years | 355,400 | 256,450 |
| More than five years | 100 | 300 |
| | \$ 706,013 | \$ 672,251 |

FOUNDATION FOR APPALACHIAN OHIO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: INVESTMENTS

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

| | 2019 | | |
|-------------------------------|---------------|---------------|----------------------------|
| | Cost | Fair Value | Unrealized Appreciation |
| Cash – restricted | \$ 1,166,422 | \$ 1,166,422 | \$ - |
| Stocks and ETFs | 6,824,262 | 7,329,383 | 505,121 |
| Mutual funds | 21,038,943 | 22,877,221 | 1,838,278 |
| Municipal and corporate bonds | 2,197,718 | 2,227,033 | 29,315 |
| Total | \$ 31,227,345 | \$ 33,600,059 | \$ 2,372,714 |

| | 2018 | | |
|-------------------------------|---------------|---------------|----------------------------|
| | Cost | Fair Value | Unrealized Appreciation |
| Cash – restricted | \$ 1,560,777 | \$ 1,560,777 | \$ - |
| Stocks and ETFs | 6,312,688 | 5,218,966 | (1,093,722) |
| Mutual funds | 20,024,321 | 20,011,717 | (12,604) |
| Municipal and corporate bonds | 67,223 | 82,189 | 14,966 |
| Total | \$ 27,965,009 | \$ 26,873,649 | \$ (1,091,360) |

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

| | 2019 | | |
|----------------------------------|----------------------------------|----------------------------|--------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Investment income | \$ 139,196 | \$ 717,304 | \$ 856,500 |
| Net realized and unrealized gain | 873,354 | 2,966,829 | 3,840,183 |
| | \$ 1,012,550 | \$ 3,684,133 | \$ 4,696,683 |

| | 2018 | | |
|----------------------------------|----------------------------------|----------------------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Investment income | \$ 170,487 | \$ 748,404 | \$ 918,891 |
| Net realized and unrealized loss | (451,260) | (1,584,569) | (2,035,829) |
| | \$ (280,773) | \$ (836,165) | \$ (1,116,938) |

NOTE 7: LINE OF CREDIT

The Organization has a \$200,000 line of credit with a financial institution due on demand and that requires monthly interest payments at Prime (5.00% at December 31, 2019). This line of credit is collateralized by all property and assets. There was no balance outstanding on the line of credit at December 31, 2019 and 2018.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: 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 41 and 30 agency funds as of December 31, 2019 and 2018, respectively. Agency transactions are as follows for the years ended December 31:

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Beginning balance | \$ 3,973,230 | \$ 3,449,808 |
| Contributions | 899,975 | 1,522,152 |
| Investment income | 87,354 | 16,606 |
| Net realized and unrealized gains (losses) | 692,056 | (208,579) |
| Grants, scholarships and fees | (820,363) | (806,757) |
| Ending balance | <u>\$ 4,822,252</u> | <u>\$ 3,973,230</u> |

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.

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:

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS (Continued)

| | 2019 | | |
|---------------------------------------|----------------------------|-------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | \$ - | \$ 23,595,646 | \$ 23,595,646 |
| Board-designated endowment funds | 2,908,302 | - | 2,908,302 |
| Total endowment funds | <u>\$ 2,908,302</u> | <u>\$ 23,595,646</u> | <u>\$ 26,503,948</u> |
| Endowment assets, beginning of year | \$ 2,031,043 | \$ 16,109,868 | \$ 18,140,911 |
| Contributions | 637,973 | 5,143,095 | 5,781,068 |
| Investment income | 44,642 | 668,702 | 713,344 |
| Net appreciation | 368,211 | 2,646,772 | 3,014,983 |
| Amounts appropriated for expenditures | (173,567) | (972,791) | (1,146,358) |
| Balance, December 31, 2019 | <u>\$ 2,908,302</u> | <u>\$ 23,595,646</u> | <u>\$ 26,503,948</u> |
| | 2018 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | \$ - | \$ 1,6109,868 | \$ 16,109,868 |
| Board-designated endowment funds | 2,031,043 | - | 2,031,043 |
| Total endowment funds | <u>\$ 2,031,043</u> | <u>\$ 1,6109,868</u> | <u>\$ 18,140,911</u> |
| Endowment assets, beginning of year | \$ 2,105,862 | \$ 14,196,296 | \$ 16,302,158 |
| Contributions | 128,313 | 3,390,302 | 3,518,615 |
| Investment income | 51,885 | 10,078 | 61,963 |
| Net appreciation | (152,181) | (705,225) | (857,406) |
| Amounts appropriated for expenditures | (102,836) | (781,583) | (884,419) |
| Balance, December 31, 2018 | <u>\$ 2,031,043</u> | <u>\$ 16,109,868</u> | <u>\$ 18,140,911</u> |

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. From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of December 31, 2019, there were no endowment funds with deficient balances.

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 \$13,439 and \$12,775 for the years ended December 31, 2019 and 2018, respectively.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

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.

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, 2019 and 2018.

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, 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|----------------------|----------------|----------------|----------------------|
| Cash – restricted | \$ 1,166,422 | \$ - | \$ - | \$ 1,166,422 |
| Stocks and ETFs | 7,329,383 | - | - | 7,329,383 |
| Mutual funds | 22,877,221 | - | - | 22,877,221 |
| Municipal and corporate bonds | 2,227,033 | - | - | 2,227,033 |
| Total assets at fair value | <u>\$ 33,600,059</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 33,600,059</u> |

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: FAIR VALUE MEASUREMENTS (Continued)

The table below presents the fair value hierarchy of the Organization's assets as of December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------------|-------------|-------------|----------------------|
| Cash – restricted | \$ 1,560,777 | \$ - | \$ - | \$ 1,560,777 |
| Stocks and ETFs | 5,218,966 | - | - | 5,218,966 |
| Mutual funds | 20,011,717 | - | - | 20,011,717 |
| Municipal and corporate bonds | 82,189 | - | - | 82,189 |
| Total assets at fair value | <u>\$ 26,873,649</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 26,873,649</u> |

NOTE 12: CERTIFICATION BY THE COUNCIL ON FOUNDATIONS

The Foundation 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's practices must adhere to the highest standards in order to receive approval.

NOTE 13: LIQUIDITY AND AVAILABILITY OF FUNDS

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of December 31, 2019 because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside by the Board for growth and sustainability of the Organization that could be drawn upon if the Board approves the action.

The Organization's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

| | |
|--|---------------------|
| Financial Assets: | |
| Cash and cash equivalents | \$ 9,169,335 |
| Pledges and other receivables | 578,373 |
| Investments, at fair value | <u>33,600,059</u> |
| Financial Assets, at year-end | 43,347,767 |
| Less those unavailable for general expenditure within one year, due to: | |
| Contractual or donor-imposed restrictions: | |
| Restriction by donor with purpose restrictions | 27,427,447 |
| Agency funds | 4,822,252 |
| Board designations: | |
| Endowment funds | <u>2,908,302</u> |
| | <u>35,158,001</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 8,189,766</u> |

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: LIQUIDITY AND AVAILABILITY OF FUNDS (Continued)

Liquidity Policy

As part of the Organization's liquidity management, it maintains a sufficient level of operating cash and short-term investments to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the Organization has the Board designated endowment fund, while the Organization does not intend to spend this fund for purposes other than those identified, the amounts could be made available for current operations, if necessary.

NOTE 14: OPERATING LEASES

The Organization rents the second story of their office building to a non-related party under a non-cancellable lease agreement. The lease requires the lessee to pay, as additional rent, its portion of utilities and maintenance expenses. Rental income was \$35,815 and \$30,379 for the years ended December 31, 2019 and 2018, respectively. The future lease payments expected to be received in subsequent years on long-term lease agreements are as follows:

| | | |
|------|----|----------------|
| 2020 | \$ | 34,824 |
| 2021 | | 34,824 |
| 2022 | | 34,824 |
| 2023 | | 23,216 |
| | \$ | <u>127,688</u> |

NOTE 15: NOTE RECEIVABLE

On October 1, 2019, the Organization entered into an agreement with a privately owned company to sell back previously donated shares of company stock for \$1,814,050. The note requires monthly payments of \$22,749 including interest at 1.50%. The note matures on September 1, 2026. The note balance as of December 31, 2019 was \$1,730,852.

NOTE 16: STATE OF OHIO APPROPRIATION

The Organization received, through Ohio Amended Substitute House Bill No. 166 passed by the 133rd General Assembly, a \$10 million budget appropriation - \$5 million per year of the 2019-2020 Biennium. The purpose of the funds are to support the Organization's work with individual donors to build regional and grant making funds across five areas essential to quality of life – Arts and Culture; Community and Economic Development; Education; Environmental Stewardship; and Health and Human Services, in addition to fueling the Organization's leadership in the region. The first \$5 million was received in December 2019, and the second installment will be received after June 30, 2020.

NOTE 17: SUBSEQUENT EVENTS

In April 2020, the Organization entered into a note payable agreement with a bank under the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act"). The unsecured note has a principal amount of \$165,980 maturing in April 2025. The note requires monthly payments of principal and accrued interest at 1.0% beginning in October 2020. The Organization plans to use the loan proceeds for allowable payroll and other costs to qualify for loan forgiveness as specified in the CARES Act.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: SUBSEQUENT EVENTS Continued)

Uncertainties

On March 10, 2020, the World Health Organization recognized the outbreak of COVID-19 disease as a pandemic. Governments worldwide have taken actions to prevent the spread of the outbreak, including event cancellations and quarantines that have created widespread adverse impacts to the global economy as well as business interruptions. Given the dynamic nature of these circumstances and the duration of business disruption, the financial impact on the Organization cannot be reasonably estimated at this time.