

Foundation for Appalachian Ohio and Subsidiary

Audited Consolidated Financial Statements

As of and for the Years Ended
December 31, 2022 and 2021



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FOUNDATION FOR
APPALACHIAN OHIO
Give. Grow. Create.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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**FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY
LIST OF TRUSTEES
DECEMBER 31, 2022**

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TJ Conger, Treasurer

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Cara Dingus Brook, President and CEO, ex officio

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Foundation for Appalachian Ohio and Subsidiary
Nelsonville, Ohio

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the Foundation for Appalachian Ohio and Subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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 (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, 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 ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Foundation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
September 19, 2023

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021

	<u>ASSETS</u>	
	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17,833,620	\$ 8,422,393
Current portion of pledges and grants receivable	496,693	355,804
Current portion of note receivable	260,171	256,300
Grant receivable	164,039	263,799
Prepaid expenses	22,794	39,048
Total current assets	<u>18,777,317</u>	<u>9,337,344</u>
OTHER ASSETS:		
Investments in marketable securities	59,647,234	63,398,616
Pledges receivable, net of current portion and allowance	1,120,299	194,284
Note receivable, net of current portion	713,163	973,335
Total other assets	<u>61,480,696</u>	<u>64,566,235</u>
PROPERTY AND EQUIPMENT:		
Property and equipment	1,209,131	1,212,094
Less accumulated depreciation	(376,628)	(350,251)
Property and equipment, net	<u>832,503</u>	<u>861,843</u>
Total assets	<u>\$ 81,090,516</u>	<u>\$ 74,765,422</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Agency funds	\$ 6,295,351	\$ 7,187,031
Accounts payable	81,702	57,237
Grants payable	47,458	68,208
Accrued benefits	45,522	26,156
Total current liabilities	<u>6,470,033</u>	<u>7,338,632</u>
NET ASSETS:		
Without donor restrictions	14,540,621	14,732,767
With donor restrictions	60,079,862	52,694,023
Total net assets	<u>74,620,483</u>	<u>67,426,790</u>
Total liabilities and net assets	<u>\$ 81,090,516</u>	<u>\$ 74,765,422</u>

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE, GAINS, AND SUPPORT:			
Contributions	\$ 2,862,946	\$ 17,219,988	\$ 20,082,934
Interest and dividends	168,715	946,411	1,115,126
Realized and unrealized losses on marketable securities	(1,902,353)	(7,486,910)	(9,389,263)
Other revenue and support	88,432	40,080	128,512
Net assets released from restrictions	3,333,730	(3,333,730)	-
Total revenue, gains, and support	4,551,470	7,385,839	11,937,309
EXPENSES:			
Program services	3,598,636	-	3,598,636
Management and general	649,426	-	649,426
Fundraising	495,554	-	495,554
Total expenses	4,743,616	-	4,743,616
Change in net assets	(192,146)	7,385,839	7,193,693
NET ASSETS, beginning of year	14,732,767	52,694,023	67,426,790
NET ASSETS, end of year	\$ 14,540,621	\$ 60,079,862	\$ 74,620,483

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE, GAINS, AND SUPPORT:			
Contributions	\$ 4,907,147	\$ 19,325,130	\$ 24,232,277
Interest and dividends	157,932	626,586	784,518
Realized and unrealized gains on marketable securities	784,770	3,638,631	4,423,401
Other revenue and support	211,337	13,085	224,422
Net assets released from restrictions	5,087,665	(5,087,665)	-
Total revenue, gains, and support	11,148,851	18,515,767	29,664,618
EXPENSES:			
Program services	7,817,865	-	7,817,865
Management and general	532,072	-	532,072
Fundraising	374,054	-	374,054
Total expenses	8,723,991	-	8,723,991
Change in net assets	2,424,860	18,515,767	20,940,627
NET ASSETS, beginning of year	12,307,907	34,178,256	46,486,163
NET ASSETS, end of year	<u>\$ 14,732,767</u>	<u>\$ 52,694,023</u>	<u>\$ 67,426,790</u>

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUNCTIONAL EXPENSES:				
Grants	\$ 1,985,790	\$ -	\$ -	\$ 1,985,790
Salaries and benefits	695,214	489,690	312,162	1,497,066
Other direct program expenses	646,013	-	-	646,013
Professional fees	38,010	78,595	65,798	182,403
Advertising and communications	92,468	-	-	92,468
Travel and meetings	12,844	1,269	21,730	35,843
Supplies and office expense	111,416	67,132	84,951	263,499
Depreciation	16,881	12,740	10,913	40,534
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total functional expenses	<u>\$ 3,598,636</u>	<u>\$ 649,426</u>	<u>\$ 495,554</u>	<u>\$ 4,743,616</u>

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUNCTIONAL EXPENSES:				
Grants	\$ 6,896,480	\$ -	\$ -	\$ 6,896,480
Salaries and benefits	553,528	412,194	230,257	1,195,979
Other direct program expenses	194,260	-	-	194,260
Professional fees	28,922	59,804	50,067	138,793
Advertising and communications	36,984	-	-	36,984
Travel and meetings	14,572	1,440	24,653	40,665
Supplies and office expense	76,523	46,109	58,348	180,980
Depreciation	16,596	12,525	10,729	39,850
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total functional expenses	<u>\$ 7,817,865</u>	<u>\$ 532,072</u>	<u>\$ 374,054</u>	<u>\$ 8,723,991</u>

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 7,193,693	\$ 20,940,627
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	40,534	39,850
Realized and unrealized (gain) losses on investments	9,389,263	(4,423,401)
Loss on disposal of property and equipment	1,872	-
Contributions restricted for endowment	(13,695,551)	(16,403,272)
Contributions of marketable securities	(420,594)	(2,293,277)
(Increase) decrease in operating assets:		
Pledges and grants receivable	(1,066,904)	214,994
Grant receivable	99,760	(263,799)
Prepaid expenses	16,254	13,298
Increase (decrease) in operating liabilities:		
Agency funds	(891,680)	1,327,610
Accounts payable	24,465	32,717
Grants payable	(20,750)	(49,890)
Accrued benefits	19,366	(14,107)
Total adjustments	(6,503,965)	(21,819,277)
Net cash provided by (used in) operating activities	689,728	(878,650)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the purchase of investments	(32,763,123)	(23,596,728)
Proceeds from the sale of investments	27,545,836	10,217,525
Payments for the purchase of property and equipment	(13,066)	(9,379)
Proceeds from receipt on notes receivable	256,301	250,687
Net cash used in investing activities	(4,974,052)	(13,137,895)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for endowment	13,695,551	16,403,272
Net cash provided by financing activities	13,695,551	16,403,272
Net increase in cash and cash equivalents	9,411,227	2,386,727
CASH AND CASH EQUIVALENTS, beginning of year	8,422,393	6,035,666
CASH AND CASH EQUIVALENTS, end of year	\$ 17,833,620	\$ 8,422,393

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF ACTIVITIES

The Foundation for Appalachian Ohio 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 for Appalachian Ohio'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 for Appalachian Ohio and FAO Property Holdings Ltd, (collectively, the "Foundation") 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 Foundation 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 Foundation 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.

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.

Cash and Cash Equivalents

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uninsured Risk – Cash Deposits

The Foundation 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 Foundation may have balances that exceed the insured limit.

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

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 \$45,100 and \$45,800 as of December 31, 2022 and 2021, 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.

Allocation of Functional Expenses

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting principles generally accepted in the United States of America requires management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service. The Foundation's management has analyzed the tax positions taken by the Foundation and its wholly owned subsidiary, FAO Property Holdings, Ltd. and has concluded that as of December 31, 2022, 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 Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Advertising and Communications

The Foundation expenses communications and advertising costs as they are incurred. These expenses totaled \$92,648 and \$36,984 for the years ended December 31, 2022 and 2021, respectively, including amounts in both fundraising and administrative expenses.

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.

Risks and Uncertainties – Market Risk

The Foundation 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.

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.

Accounting Standards Adopted

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which specifies the accounting and disclosures for leases with the objective reporting useful information to the users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The Foundation adopted the ASU on January 1, 2022. The adoption of this ASU did not have a material impact on the financial statements.

Subsequent Events

Subsequent events have been evaluated through September 19, 2023, which is the date the financial statements were available to be issued. Management determined there were no subsequent events requiring disclosure through the evaluation date.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: PROPERTY AND EQUIPMENT

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

	2022	2021
Land and building	\$ 1,007,437	\$ 1,007,436
Office furniture and equipment	147,911	154,244
Computer hardware and software	53,783	50,414
Property and equipment, at cost	1,209,131	1,212,094
Less: accumulated depreciation	(376,628)	(350,251)
Property and equipment, net	<u>\$ 832,503</u>	<u>\$ 861,843</u>

NOTE 4: NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS

Net assets consisted of the following as of December 31:

	2022	2021
Without donor restrictions:		
General	\$ 14,540,621	\$ 14,732,767
With donor restrictions:		
Scholarships	9,198,636	11,435,506
Field of interest	26,014,298	20,850,004
Other grant making	24,866,928	20,408,513
Total net assets with donor restrictions	60,079,862	52,694,023
Total net assets	<u>\$ 74,620,483</u>	<u>\$ 67,426,790</u>

NOTE 5: PLEDGES AND GRANTS RECEIVABLE

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

	2022	2021
Pledges and grants	\$ 1,720,612	\$ 602,188
Unamortized discount	(58,487)	(6,300)
	1,662,125	595,888
Less: allowance for uncollectible pledges	(45,133)	(45,800)
	<u>\$ 1,616,992</u>	<u>\$ 550,088</u>
Amounts due in:		
Less than one year	\$ 496,693	\$ 355,804
One to five years	1,218,719	246,084
More than five years	5,200	300
	<u>\$ 1,720,612</u>	<u>\$ 602,188</u>

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: NOTE RECEIVABLE

On October 1, 2019, the Foundation 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 was \$973,334 and \$1,229,635 as of December 31, 2022 and 2021, respectively.

NOTE 7: LINE OF CREDIT

The Foundation has a \$200,000 line of credit with a financial institution due on demand and that requires monthly interest payments at a variable rate of WSJ Prime (7.50% as of December 31, 2022). This line of credit is collateralized by all property and assets. There was no balance outstanding on the line of credit as of December 31, 2022 and 2021.

NOTE 8: AGENCY FUNDS

The Foundation 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 Foundation's policy is to record funds received as an investment and an equal liability. There were 61 and 66 agency funds as of December 31, 2022 and 2021, respectively.

Agency transactions are as follows for the years ended December 31:

	2022	2021
Beginning balance	\$ 7,187,031	\$ 5,859,421
Contributions	734,558	1,066,203
Investment income	135,571	117,786
Net realized and unrealized gains (losses)	(1,271,454)	624,537
Grants, scholarships and fees	(490,355)	(480,916)
Ending balance	\$ 6,295,351	\$ 7,187,031

NOTE 9: ENDOWMENTS

The Foundation has guidelines for the endowed investable assets (the Fund Portfolios) as well as any assets donors wish to be managed as endowment even though a formal restriction of principal protection has not been adopted. These guidelines apply to two investment "Pools" (Growth and Aggressive).

Investment Policy

- Objective is to provide for an optimal level of total return, in real terms after inflation, and long-term growth of capital, for an acceptable level of and exposure to risk, while maintaining the ability to support distributions.
- Provide returns sufficient to meet the Foundation's spending needs.
- Maintain capital preservation with an indefinite time horizon.
- The objective for each Pool shall be accomplished through a mix of equity, fixed income, real assets and cash. Equity investments will target growth within a long term horizon and fixed income and cash investments will serve as a source of liquidity, income, and capital preservation.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS (CONTINUED)

- Specific Pool objectives (Growth and Aggressive Pools) are as follows:
 - Growth Portfolio – The goal is to grow the purchasing power over time and to produce a modest stream of current income. Asset allocation between equities and fixed income will emphasize equities to produce capital appreciation. Total principal value can fluctuate noticeably due to the magnitude of the portfolio exposure to equities.
 - Aggressive Portfolio – The goal is to achieve capital appreciation over a relatively long time horizon. Asset allocation will be heavily skewed towards equities which may cause substantial short term fluctuation in total principal value.

Spending Policy

The Foundation has a spending policy in place to determine distributions (grants) that can be disbursed each year. It is the purpose of the spending policy to maintain the balance between making yearly distributions and future growth. The spending policy allows for an annual distribution rate between 3.5%-4.5% for the Growth Pool and 4.5%-5.5% for the Aggressive Pool.

The Foundation operates under the guidance of the Uniform Prudent Management of Institutional Funds (“UPMIFA”). This requires institutions to act in good faith and with the care of a prudent person when making a decision regarding payout and investment of funds.

The Board of Trustees reviews the spending policy annually and uses a twelve-quarter rolling average of each fund’s market value.

The recommended distribution rate will be established by the Board of Trustees annually using a twelve-quarter rolling average of each fund’s market value.

The tables below represent changes in endowment net assets for the years ended December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 52,989,051	\$ 52,989,051
Board-designated endowment funds	2,982,241	-	2,982,241
Total endowment funds	<u>\$ 2,982,241</u>	<u>\$ 52,989,051</u>	<u>\$ 55,971,292</u>
Endowment assets, beginning of year	\$ 3,517,050	\$ 46,555,388	\$ 50,072,438
Contributions	115,082	13,695,551	13,810,633
Investment income	64,743	878,118	942,861
Net appreciation	(638,146)	(6,747,993)	(7,386,139)
Amounts appropriated for expenditures	(76,488)	(1,392,013)	(1,468,501)
Balance, December 31, 2022	<u>\$ 2,982,241</u>	<u>\$ 52,989,051</u>	<u>\$ 55,971,292</u>

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS (CONTINUED)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 46,555,388	\$ 46,555,388
Board-designated endowment funds	3,517,050	-	3,517,050
Total endowment funds	<u>\$ 3,517,050</u>	<u>\$ 46,555,388</u>	<u>\$ 50,072,438</u>
Endowment assets, beginning of year	\$ 3,166,325	\$ 30,026,639	\$ 33,192,964
Contributions	69,787	16,194,634	16,264,421
Investment income	60,177	573,873	634,050
Net appreciation	334,303	3,343,253	3,677,556
Amounts appropriated for expenditures	(113,542)	(3,583,011)	(3,696,553)
Balance, December 31, 2021	<u>\$ 3,517,050</u>	<u>\$ 46,555,388</u>	<u>\$ 50,072,438</u>

Underwater Endowed Funds

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). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of December 31, 2022, funds with original gift values of \$6,491,700, fair values of \$4,918,581, and deficiencies of \$1,573,119 were reported in net assets with donor restrictions.

NOTE 10: RETIREMENT PLAN

The Foundation 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 Foundation can make a 100% matching contribution for each participating employee up to 3% of compensation. Contributions were made to the plan of \$23,764 and \$18,315 for the years ended December 31, 2022 and 2021, 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 Foundation has the ability to access.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: FAIR VALUE MEASUREMENTS (CONTINUED)

- 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, 2022 and 2021.

Stocks, bonds, REITs 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 Foundation are deemed to be actively traded.

The table below presents the fair value hierarchy of the Foundation's assets as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Cash - restricted	\$ 2,357,763	\$ -	\$ -	\$ 2,357,763
Stocks and ETFs	22,193,332	-	-	22,193,332
Mutual funds	34,657,003	-	-	34,657,003
REITs	179,667	-	-	179,667
Municipal and corporate bonds	259,469	-	-	259,469
Total assets at fair value	<u>\$ 59,647,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,647,234</u>

The table below presents the fair value hierarchy of the Foundation's assets as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Cash - restricted	\$ 12,981,470	\$ -	\$ -	\$ 12,981,470
Stocks and ETFs	16,639,419	-	-	16,639,419
Mutual funds	33,531,587	-	-	33,531,587
Municipal and corporate bonds	246,140	-	-	246,140
Total assets at fair value	<u>\$ 63,398,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,398,616</u>

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Foundation'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, 2022 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 Foundation that could be drawn upon if the Board approves the action.

The Foundation'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	\$ 17,833,620
Pledges and other receivables	920,903
Investments, at fair value	59,647,234
Financial Assets, at year-end	<u>78,401,757</u>
Less those unavailable for general expenditure within one year, due to:	
Contractual or donor-imposed restrictions:	
Restriction by donor with purpose restrictions	(60,079,862)
Agency funds	(6,295,351)
Board designations:	
Endowment funds	<u>(2,982,241)</u>
	<u>(69,357,454)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 9,044,303</u></u>

Liquidity Policy

As part of the Foundation'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 Foundation has the Board designated endowment fund, and while the Foundation does not intend to spend this fund for purposes other than those identified, the amounts could be made available for current operations, if necessary.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: OPERATING LEASES

The Foundation 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 \$12,550 and \$37,751 for the years ended December 31, 2022 and 2021, respectively.

In 2022, the Tennant and the Foundation mutually agreed to terminate the lease agreement with the Tennant vacating its area and moving to a different location.

NOTE 15: STATE OF OHIO APPROPRIATION

The Foundation 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 2019-2021 Biennium. The purpose of the funds are to support the Foundation'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 Foundation's leadership in the region. The first \$5 million was received in December 2019. The second installment was reduced to \$4,500,000 due to State budget cuts resulting from the COVID-19 shut-down. The Foundation received the majority of the second payment in January 2021 and the balance in April 2021.

The Foundation also received, through Ohio Amended Substitute House Bill No. 110 passed by the 134th General Assembly, a \$20 million budget appropriation - \$10 million per year of the 2021-2023 Biennium. The funds are to be used in the same manner as the prior grant through the Ohio General Assembly. The first \$10 million was received in December 2021. The second installment of \$10 million was received during the year ended December 31, 2022.

NOTE 16: GOVERNMENT ASSISTANCE

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed. The CARES Act had impact on several matters. The Payroll Protection Program ("PPP"), administered by the Small Business Administration ("SBA"), allows eligible organizations to apply for government assistance to help keep their workforce employed during the Coronavirus ("COVID-19") crisis.

In April 2020, the Foundation entered into a note payable agreement with a bank under the PPP of the CARES Act. The unsecured note had a principal amount of \$165,980 and was originally set to mature in April 2025. A second note payable arrangement in March of 2021 for \$195,858. Management elected to apply Accounting Standard Codification ("ASC") 958-605 to the funds earned as part of the PPP as it has high confidence that the Foundation is an eligible recipient and met conditions for forgiveness of the loan. The Foundation recognized \$195,858 in 2021 and \$165,980 in 2020 of grant income as it incurred allowable expenses to qualify for loan forgiveness as specified in the PPP.

The Foundation received notification from the SBA that both notes had been forgiven.