

# Foundation for Appalachian Ohio

## *Consolidated Financial Statements*

As of and for the year ended  
December 31, 2016



Rea & associates

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FOUNDATION FOR  
APPALACHIAN OHIO  
Give. Grow. Create.

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2016**

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**FOUNDATION FOR APPALACHIAN OHIO**

**LIST OF TRUSTEES**

**DECEMBER 31, 2016**

Ronald Strickmaker, Chair

Christine W. Schmenk, Vice Chair

Nancy K. Lahmers, Secretary

TJ Conger, Treasurer

Mike Brooks

Jeffery Chaddock

Terry P. Fleming

Mike Moore

Alan Stockmeister

David Wilhelm

July 7, 2017

Board of Trustees  
Foundation for Appalachian Ohio  
Nelsonville, Ohio

INDEPENDENT AUDITOR'S REPORT

**Report on the Financial Statements**

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

**Management's Responsibility for the 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, 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.*

FOUNDATION FOR APPALACHIAN OHIO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2016

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 3,064,214
Pledges and grants receivable	590,472
Prepaid expense	5,569
Total current assets	<u>3,660,255</u>
OTHER ASSETS:	
Investments	20,902,196
Pledges receivable, net of current portion and allowance	524,100
Total other assets	<u>21,426,296</u>
PROPERTY AND EQUIPMENT:	
Property and equipment	702,999
Less accumulated depreciation	(201,175)
Total property and equipment	<u>501,824</u>
Total assets	<u><u>\$ 25,588,375</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Agency funds	\$ 3,330,185
Accounts payable	52,635
Grants payable	127,217
Accrued benefits	51,650
Deferred revenue	54,697
Total current liabilities	<u>3,616,384</u>
NET ASSETS:	
Unrestricted	8,750,657
Temporarily restricted	2,439,950
Permanently restricted	10,781,384
Total net assets	<u>21,971,991</u>
Total liabilities and net assets	<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, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUE AND SUPPORT:</b>				
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	539,733	-	-	539,733
Net assets released from restrictions:				
Satisfaction of program restrictions	1,212,663	(1,212,663)	-	-
Total revenue and support	3,304,388	1,374,307	1,165,812	5,844,507
<b>EXPENSES:</b>				
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
Other program expenses	370,764	-	-	370,764
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
Other fundraising expenses	42,602	-	-	42,602
	317,113	-	-	317,113
General and administrative expenses:				
Administrative fees	253,635	-	-	253,635
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
Salaries and fringe benefits	210,767	-	-	210,767
Supplies and office expense	149,393	-	-	149,393
Travel and meetings	41,779	-	-	41,779
Total general and administrative expenses	778,489	-	-	778,489
Total expenses	3,236,478	-	-	3,236,478
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 STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 2,608,029
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	36,076
Realized and unrealized gain on investments	(1,063,637)
Contributions restricted for endowment	(1,165,812)
(Increase) decrease in assets:	
Pledges and grant receivable	230,245
Accrued interest receivable	2,420
Prepaid expense	45,298
Increase (decrease) in liabilities:	
Agency funds	1,294,640
Accounts payable	22,716
Grants payable	127,217
Accrued benefits	(4,087)
Deferred revenue	54,697
Total adjustments	<u>(420,227)</u>
Net cash from operating activities	<u>2,187,802</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(8,278,679)
Proceeds from investments	5,828,598
Purchase of property and equipment	(5,537)
Proceeds from sale of property and equipment	<u>2,803</u>
Net cash from investing activities	<u>(2,452,815)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from contributions restricted for endowment	<u>1,165,812</u>
Net cash from financing activities	<u>1,165,812</u>
Net increase in cash and cash equivalents	900,799
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,163,415</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 3,064,214</u></u>

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 (FAO) 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. FAO'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 the FAO and FAO Property Holdings Ltd, its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated.

Financial Statement Presentation

FAO 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 FAO'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 FAO's Board of Trustees.

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

*Permanently Restricted* – Net assets that have been restricted by donors to be maintained by FAO 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, FAO considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.



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, 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 \$36,076 for the year ending December 31, 2016.

Uninsured Risk – Cash Deposits

FAO 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, FAO 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)

Income Taxes

FAO 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 FAO 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. FAO's management has analyzed the tax positions taken by FAO, and has concluded that as of December 31, 2016, 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. FAO is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Communications and Marketing

FAO expenses communications and marketing costs as they are incurred. These expenses totaled \$45,783 for the year ended December 31, 2016, including amounts in both fundraising and administrative expenses.

Risk and Uncertainties

FAO 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 statement of net assets available for benefits.

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 statement of financial position as follows:

	<u>2016</u>
Investments	\$ 4,223,309
Investments – endowment and agency	16,678,887
	<u>\$ 20,902,196</u>

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: RESTRICTIONS ON NET ASSETS

FAO's restricted assets have been classified into the Net Asset categories listed below as of December 31, 2016.

Temporarily restricted:	
Scholarships	\$ 488,740
Field of interest	1,308,083
Other grant making	643,127
Total temporarily restricted	<u>\$ 2,439,950</u>
Permanently restricted:	
Scholarships	\$ 4,786,317
Field of interest	2,101,484
Other grant making	3,893,583
Total permanently restricted	<u>\$ 10,781,384</u>

Permanently restricted net assets are used for permanent endowment. FAO 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, 2016:

Pledges and grants	\$ 1,206,372
Unamortized discount	(27,800)
	<u>1,178,572</u>
Allowance for uncollectible pledges	(64,000)
	<u>\$ 1,114,572</u>
Amounts due in:	
Less than one year	\$ 590,472
One to five years	615,200
More than five years	700
	<u>\$ 1,206,372</u>

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: INVESTMENTS

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

	As of December, 31, 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	<u>\$ 19,602,860</u>	<u>\$ 20,902,196</u>	<u>\$ 1,299,336</u>

The following schedule summarizes the investment return and its classification in the statement of activities for year ended December 31, 2016:

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

NOTE 6: AGENCY FUNDS

FAO acts as a fiduciary agent for other organizations. A fiduciary agent is responsible for safeguarding assets, recording transactions, investment management and making appropriate distributions. FAO's policy is to record funds received as an investment and an equal liability. FAO was the agent of 24 accounts at December 31, 2016.

Agency transactions are as follows:

	2016
Beginning balance	\$ 2,035,545
Contributions	1,234,226
Investment income	39,926
Net realized and unrealized gains (losses)	92,435
Grants, scholarships and fees	(71,947)
Ending balance	<u>\$ 3,330,185</u>

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: ENDOWMENTS

FAO 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 FAO's Business and Finance Committee and Chief Investment Officer. Additionally, FAO provides oversight of investment managers to ensure accountability, protect from unnecessary fees and ensure decisions lead to intergenerational value of the portfolio.

FAO's Investment Policy

- Endowment management must be a highly disciplined and well-monitored process.
- Must take long-term view (intergenerational equity)
- Not about market timing (our policy prohibits)
- Economies of scale should be leveraged for cost reduction.
- Funds should be buffered from fees associated with large volumes of trading and re-balancing activity.
- Diversified allocations of assets are essential and will generate returns that are more consistent and protect from extreme market fluctuation.

FAO's asset allocation for 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.

FAO's Spending Policy

FAO 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. This percentage was reduced from 5% in September of 2016 to provide additional future growth.

The tables below represent changes in endowment net assets for the year ended December 31, 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	<u>\$ 779,672</u>	<u>\$ 10,781,384</u>	<u>\$ 11,561,056</u>

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: ENDOWMENTS (continued)

BOARD DESIGNATED FUNDS

	<u>Unrestricted</u>	<u>Endowed</u>	<u>Total</u>
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	<u>(132,247)</u>	<u>-</u>	<u>(132,247)</u>
Balance, December 31, 2016	<u>\$ 478,845</u>	<u>\$ 1,308,820</u>	<u>\$ 1,787,646</u>

FAO manages endowment funds, whereby the principal is permanently restricted to the purpose outlined in the fund agreement. FAO 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. FAO did not have any funds below principal at December 31, 2016.

NOTE 8: RETIREMENT

FAO 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. FAO can make a 100% matching contribution for each participating employee up to 3% of compensation. Contributions were made to the plan of \$14,026 for the year ended December 31, 2016.

NOTE 9: 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 FAO has the ability to access.

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: 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, 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 FAO are deemed to be actively traded.

The table below presents the fair value hierarchy of FAO'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	<u>\$ 20,902,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,902,196</u>

FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: PROPERTY AND EQUIPMENT

These assets consist of the following as of December 31, 2016:

Land and building	\$	513,055
Office furniture and equipment		112,573
Computer hardware and software		77,371
		<u>702,999</u>
Accumulated depreciation		(201,175)
	\$	<u>501,824</u>

NOTE 11: CONCENTRATION OF RISK

FAO is located in Nelsonville, Ohio. A substantial amount of support is derived from the counties located in Appalachian Ohio and is dependent upon the economy of the region and the State of Ohio.

NOTE 12: CERTIFICATION BY THE COUNCIL ON FOUNDATIONS

The Foundation for Appalachian Ohio was reconfirmed 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.

NOTE 13: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU No. 2016-02 entitled "Leases (Topic 842)," which may change FAO's balance sheet 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.



FOUNDATION FOR APPALACHIAN OHIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)

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 FAO'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: SUBSEQUENT EVENTS

Management has evaluated its operations for subsequent events occurring after December 31, 2016, that would be required to be disclosed in the financial statements. This evaluation was made as of July 7, 2017, the date the financial statements were available to be issued.