

**FOUNDATION FOR APPALACHIAN OHIO
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014**

**FOUNDATION FOR APPALACHIAN OHIO
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Jeanette R. Addington, MBA, CPA, CGFM • Brian D. Long, CPA, PFS, CFF • Keith A. Lewis, CPA

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Foundation for Appalachian Ohio (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from 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, 2015 and 2014, 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.

A handwritten signature in cursive script that reads "JC & Company".

JC & Company
Lancaster, Ohio
May 12, 2016

FOUNDATION FOR APPALACHIAN OHIO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 2,163,415 | \$ 1,901,421 |
| Investments | 17,388,478 | 16,756,856 |
| Pledges and grants receivable | 1,344,817 | 1,498,553 |
| Accrued interest receivable | 2,420 | 1,802 |
| Prepaid expense | 50,867 | 32,935 |
| Property and equipment, net | 535,166 | 559,309 |
| TOTAL ASSETS | \$ 21,485,163 | \$ 20,750,876 |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable | \$ 29,919 | \$ 37,223 |
| Grants payable | - | 41,745 |
| Accrued benefits | 55,737 | 45,090 |
| Agency funds | 2,035,545 | 1,852,481 |
| TOTAL LIABILITIES | 2,121,201 | 1,976,539 |
| NET ASSETS | | |
| Unrestricted net assets | 6,862,721 | 7,286,522 |
| Unrestricted net assets, board designated | 1,820,026 | 1,762,988 |
| Temporarily restricted | 1,065,643 | 1,300,684 |
| Permanently restricted | 9,615,572 | 8,424,143 |
| TOTAL NET ASSETS | 19,363,962 | 18,774,337 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 21,485,163 | \$ 20,750,876 |

See notes to financial statements

FOUNDATION FOR APPALACHIAN OHIO
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>PERMANENTLY RESTRICTED</u> | <u>TOTALS</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUE, SUPPORT AND RECLASSIFICATION | | | | |
| Contributions | \$ 1,758,668 | \$ 4,743 | \$ 1,191,429 | 2,954,840 |
| Investment income | 147,802 | 480,509 | - | 628,311 |
| Net realized and unrealized gains on investments | (178,408) | (532,022) | - | (710,430) |
| Miscellaneous | 481,366 | - | - | 481,366 |
| Contributed services | 1,000 | - | - | 1,000 |
| Net assets released from restriction | 188,271 | (188,271) | - | - |
| | <u>2,398,699</u> | <u>(235,041)</u> | <u>1,191,429</u> | <u>3,355,087</u> |
| PROGRAM EXPENSES | | | | |
| Grants | 1,135,775 | - | - | 1,135,775 |
| Salaries and fringe benefits | 478,850 | - | - | 478,850 |
| Professional fees | 105,918 | - | - | 105,918 |
| Other program expense | 229,344 | - | - | 229,344 |
| | <u>1,949,887</u> | <u>-</u> | <u>-</u> | <u>1,949,887</u> |
| SUPPORT SERVICES EXPENSES | | | | |
| Salaries and fringe benefits | 257,842 | - | - | 257,842 |
| Professional fees | 57,033 | - | - | 57,033 |
| Administrative fees | 244,843 | - | - | 244,843 |
| Advertising and communications | 23,600 | - | - | 23,600 |
| Travel and meetings | 37,037 | - | - | 37,037 |
| Supplies and office expenses | 158,648 | - | - | 158,648 |
| Contributed services | 1,000 | - | - | 1,000 |
| Depreciation | 35,572 | - | - | 35,572 |
| | <u>815,575</u> | <u>-</u> | <u>-</u> | <u>815,575</u> |
| | <u>2,765,462</u> | <u>-</u> | <u>-</u> | <u>2,765,462</u> |
| INCREASE (DECREASE) IN NET ASSETS | (366,763) | (235,041) | 1,191,429 | 589,625 |
| NET ASSETS AT BEGINNING OF YEAR | 9,049,510 | 1,300,684 | 8,424,143 | 18,774,337 |
| | <u>\$ 8,682,747</u> | <u>\$ 1,065,643</u> | <u>\$ 9,615,572</u> | <u>\$ 19,363,962</u> |

See notes to financial statements

FOUNDATION FOR APPALACHIAN OHIO
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTALS |
|---|---------------------|---------------------------|---------------------------|----------------------|
| REVENUE, SUPPORT AND RECLASSIFICATION | | | | |
| Contributions | \$ 3,636,691 | \$ 70,611 | \$ 2,491,963 | \$ 6,199,265 |
| Investment income | 82,056 | 191,132 | - | 273,188 |
| Net realized and unrealized gains on investments | 129,598 | 285,314 | - | 414,912 |
| Miscellaneous | 471,368 | - | - | 471,368 |
| Contributed services | 6,175 | - | - | 6,175 |
| Net assets released from restriction | 902,468 | (902,468) | - | - |
| TOTAL REVENUE AND SUPPORT | 5,228,356 | (355,411) | 2,491,963 | 7,364,908 |
| PROGRAM EXPENSES | | | | |
| Grants | 672,943 | - | - | 672,943 |
| Salaries and fringe benefits | 499,519 | - | - | 499,519 |
| Professional fees | 178,205 | - | - | 178,205 |
| Other program expenses | 272,699 | - | - | 272,699 |
| | 1,623,366 | - | - | 1,623,366 |
| SUPPORT SERVICES EXPENSES | | | | |
| Salaries and fringe benefits | 89,709 | - | - | 89,709 |
| Professional fees | 32,004 | - | - | 32,004 |
| Administrative fees | 220,452 | - | - | 220,452 |
| Advertising and communications | 11,646 | - | - | 11,646 |
| Travel and meetings | 23,234 | - | - | 23,234 |
| Supplies and office expenses | 67,241 | - | - | 67,241 |
| Contributed services | 6,175 | - | - | 6,175 |
| Depreciation | 36,230 | - | - | 36,230 |
| Provision for uncollectible pledges | 64,000 | - | - | 64,000 |
| | 550,691 | - | - | 550,691 |
| TOTAL EXPENSES | 2,174,057 | - | - | 2,174,057 |
| INCREASE (DECREASE) IN NET ASSETS | 3,054,299 | (355,411) | 2,491,963 | 5,190,851 |
| NET ASSETS AT BEGINNING OF YEAR | 5,995,211 | 1,656,095 | 5,932,180 | 13,583,486 |
| NET ASSETS AT END OF YEAR | \$ 9,049,510 | \$ 1,300,684 | \$ 8,424,143 | \$ 18,774,337 |

See notes to financial statements

FOUNDATION FOR APPALACHIAN OHIO
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 589,625 | \$ 5,190,851 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities | | |
| Depreciation | 35,572 | 36,230 |
| Net realized and unrealized (gains) loss on investments | 898,701 | (414,912) |
| Contributions restricted for endowment | (1,191,429) | (2,491,963) |
| (Increase) decrease in | | |
| Pledges and grants receivable | 153,736 | (1,333,713) |
| Accrued interest receivable | (618) | (489) |
| Prepaid expenses | (17,932) | (32,354) |
| Increase (decrease) in | | |
| Accounts payable | (7,304) | 16,224 |
| Grants payable | (41,745) | 35,105 |
| Accrued benefits | 10,647 | 22,050 |
| Agency funds | 183,064 | 36,683 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 612,317 | 1,063,712 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (4,488,229) | (8,560,181) |
| Proceeds from sale of investments | 2,957,906 | 5,246,850 |
| Purchase of property and equipment | (11,429) | (6,305) |
| NET CASH (USED) BY INVESTING ACTIVITIES | (1,541,752) | (3,319,636) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from contributions restricted for endowment | 1,191,429 | 2,491,963 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 261,994 | 236,039 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 1,901,421 | 1,665,382 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 2,163,415 | \$ 1,901,421 |

See notes to financial statements

**FOUNDATION FOR APPALACHIAN OHIO
NOTES TO FINANCIAL STATEMENTS**

1. DESCRIPTION OF THE ORGANIZATION

The Foundation for Appalachian Ohio (FAO) was 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method 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 FAO and FAO Property Holdings Ltd, its wholly owned subsidiary. All material 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 net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, FAO is required to present a statement of cash flows.

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 net assets, 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 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, 2015 and \$64,000 at December 31, 2014.

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 |
| Equipment | 7 years |
| Furniture and fixtures | 5 – 7 years |
| Computer hardware and software | 5 years |

**FOUNDATION FOR APPALACHIAN OHIO
NOTES TO FINANCIAL STATEMENTS**

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 require 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, 2015, 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. Management believes it is no longer subject to income tax examinations for years prior to 2012.

Cash and Cash Equivalents

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

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:

| | 2015 | 2014 |
|------------------------------------|---------------|---------------|
| Investments | \$ 3,801,461 | \$ 3,952,781 |
| Investments - endowment and agency | 13,587,017 | 12,804,075 |
| | \$ 17,388,478 | \$ 16,756,856 |

Advertising

The Foundation expenses advertising costs as they are incurred.

3. INVESTMENTS

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

| | 2015 | | | 2014 | | |
|----------------------------------|---------------|---------------|--|---------------|---------------|--|
| | Cost | Fair Value | Unrealized Appreciation (Depreciation) | Cost | Fair Value | Unrealized Appreciation (Depreciation) |
| Cash - restricted | \$ 608,459 | \$ 608,459 | \$ - | \$ 450,497 | \$ 450,497 | \$ - |
| Equity funds | 10,112,297 | 10,686,924 | 574,627 | 8,460,298 | 10,638,405 | 2,178,107 |
| Municipal and corporate bonds | 97,320 | 110,641 | 13,321 | - | - | - |
| Bonds and government funds | 3,781,397 | 3,162,318 | (619,079) | 3,373,531 | 3,390,962 | 17,431 |
| Common Stock | 2,429,646 | 2,136,208 | (293,438) | 1,657,581 | 1,779,488 | 121,907 |
| Alternative investments | 686,452 | 683,928 | (2,524) | 495,211 | 497,504 | 2,293 |
| | \$ 17,715,571 | \$ 17,388,478 | \$ (327,093) | \$ 14,437,118 | \$ 16,756,856 | \$ 2,319,738 |

**FOUNDATION FOR APPALACHIAN OHIO
NOTES TO FINANCIAL STATEMENTS**

3. INVESTMENTS – CONTINUED

The following schedule summarizes the investment return and its classification in the statement of activities for year ended December 31, 2015 and 2014:

| | 2015 | | | 2014 | | |
|----------------------------------|--------------------|---------------------|---------------------|-------------------|-------------------|-------------------|
| | Unrestricted | Restricted | Total | Unrestricted | Restricted | Total |
| Investment income | \$ 147,802 | \$ 480,509 | \$ 628,311 | \$ 82,056 | \$ 191,132 | \$ 273,188 |
| Net realized and unrealized gain | (178,408) | (720,293) | (898,701) | 129,598 | 285,314 | 414,912 |
| | <u>\$ (30,606)</u> | <u>\$ (239,784)</u> | <u>\$ (270,390)</u> | <u>\$ 211,654</u> | <u>\$ 476,446</u> | <u>\$ 688,100</u> |

4. PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable consist of the following:

| | 2015 | 2014 |
|-------------------------------------|---------------------|---------------------|
| Pledges | \$ 1,437,917 | \$ 1,615,175 |
| Unamortized discount | (29,100) | (52,622) |
| | <u>1,408,817</u> | <u>1,562,553</u> |
| Allowance for uncollectible pledges | (64,000) | (64,000) |
| | <u>\$ 1,344,817</u> | <u>\$ 1,498,553</u> |
| Amounts due in: | | |
| Less than one year | \$ 480,550 | \$ 159,048 |
| One to five years | 955,767 | 1,453,827 |
| More than five years | 1,600 | 2,300 |
| | <u>\$ 1,437,917</u> | <u>\$ 1,615,175</u> |

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using rates on U.S. government issues with similar terms as the receivables.

5. PROPERTY AND EQUIPMENT

These assets consist of the following:

| | 2015 | 2014 |
|--------------------------------|-------------------|-------------------|
| Land and building | \$ 511,016 | \$ 511,016 |
| Office furniture and equipment | 120,693 | 123,042 |
| Computer hardware and software | 77,394 | 75,412 |
| | <u>709,103</u> | <u>709,470</u> |
| Accumulated depreciation | (173,937) | (150,161) |
| | <u>\$ 535,166</u> | <u>\$ 559,309</u> |

**FOUNDATION FOR APPALACHIAN OHIO
NOTES TO FINANCIAL STATEMENTS**

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 twenty-one accounts at December 31, 2015.

Agency transactions for the periods are as follows:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Beginning balance | \$ 1,852,481 | \$ 1,815,798 |
| Contributions | 233,386 | 30,945 |
| Investment income | 57,117 | 36,946 |
| Net realized and unrealized gains (losses) on investments | (79,071) | 47,627 |
| Grants, scholarships and fees | (28,368) | (78,835) |
| Ending balance | <u>\$ 2,035,545</u> | <u>\$ 1,852,481</u> |

7. ENDOWMENTS

FAO prudently manages endowments to 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 Philosophy

- Endowment management must be a highly disciplined, 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 fixed 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

The Foundation establishes a conservative policy for distributing (granting) from endowment funds, with up to 5% of a three-year rolling average of a fund's balance available annually for distributions.

**FOUNDATION FOR APPALACHIAN OHIO
NOTES TO FINANCIAL STATEMENTS**

7. ENDOWMENTS - CONTINUED

Changes in endowment net assets are as follows:

| Donor restricted endowment funds | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------------|---------------------------|---------------------|
| Endowment net assets December 31, 2013 | 717,850 | 5,932,180 | 6,650,030 |
| Contributions | 19,320 | 2,491,963 | 2,511,283 |
| Investment income | 164,066 | - | 164,066 |
| Net appreciation | 250,759 | - | 250,759 |
| Amounts appropriated for expenditure | (391,332) | - | (391,332) |
| Endowment net assets December 31, 2014 | 760,663 | 8,424,143 | 9,184,806 |
| Contributions | 84,716 | 1,191,429 | 1,276,145 |
| Investment income | 445,957 | - | 445,957 |
| Net depreciation | (670,698) | - | (670,698) |
| Amounts appropriated for expenditure | (500,181) | - | (500,181) |
| Endowment net assets December 31, 2015 | <u>\$ 120,457</u> | <u>\$ 9,615,572</u> | <u>\$ 9,736,029</u> |
| | | | |
| Board designated funds | Unrestricted | Endowed | Total |
| Board designated net assets December 31, 2013 | \$ 574,646 | \$ 1,157,112 | \$ 1,731,758 |
| Contributions | 2,000 | 42,578 | 44,578 |
| Investment income | 32,749 | - | 32,749 |
| Net appreciation | 35,341 | - | 35,341 |
| Amounts appropriated for expenditure | (81,438) | - | (81,438) |
| Board designated net assets December 31, 2014 | 563,298 | 1,199,690 | 1,762,988 |
| Contributions | 1,450 | 107,200 | 108,650 |
| Investment income | 53,640 | - | 53,640 |
| Net depreciation | (77,392) | - | (77,392) |
| Amounts appropriated for expenditure | (27,860) | - | (27,860) |
| Board designated net assets December 31, 2015 | <u>\$ 513,136</u> | <u>\$ 1,306,890</u> | <u>\$ 1,820,026</u> |

The Foundation manages endowed funds, whereby the principal is permanently restricted to the purpose outlined in the fund agreement. The Foundation employs prudent management of endowed funds in order to grow the fund's principle 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, 2015 or 2014.

**FOUNDATION FOR APPALACHIAN OHIO
NOTES TO FINANCIAL STATEMENTS**

8. NET ASSETS

Temporarily restricted net assets consist of the following:

| | <u>2015</u> | <u>2014</u> |
|--------------------|---------------------|---------------------|
| Scholarships | \$ 317,007 | \$ 639,520 |
| Field of interest | 527,776 | 227,604 |
| Other grant making | 220,860 | 433,560 |
| | <u>\$ 1,065,643</u> | <u>\$ 1,300,684</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.

Permanently restricted net assets consist of the following:

| | <u>2015</u> | <u>2014</u> |
|--------------------|---------------------|---------------------|
| Scholarship | \$ 4,826,133 | \$ 4,911,007 |
| Field of interest | 1,080,099 | 1,214,445 |
| Other grant making | 3,709,340 | 2,298,691 |
| | <u>\$ 9,615,572</u> | <u>\$ 8,424,143</u> |

9. FUNDRAISING EXPENSES

FAO expends resources in fundraising efforts. Expenses associated with those efforts were as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|-------------------|-------------------|
| Salaries | \$ 77,353 | \$ 89,709 |
| Professional fees | 17,110 | 32,004 |
| Advertising and communications | 7,080 | 11,646 |
| Travel and meetings | 11,111 | 23,234 |
| Supplies and office expenses | 47,594 | 10,382 |
| | <u>\$ 160,248</u> | <u>\$ 166,975</u> |

10. RETIREMENT PLAN

FAO has a Simple IRA Savings 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 at least \$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 for the year ended December 31, 2015 of \$11,003 and for the year ended December 31, 2014 of \$8,940.

11. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

**FOUNDATION FOR APPALACHIAN OHIO
NOTES TO FINANCIAL STATEMENTS**

11. FAIR VALUE MEASUREMENTS - CONTINUED

Level 1 –Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

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 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 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 at December 31, 2015 or 2014.

Common Stock – Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds and Hedge 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 daily net asset values (NAV) and to transact at that price. Hedge funds also publish their daily net asset values and are transacted on that price. The above funds held by the Foundation are deemed to be actively traded.

Assets at Fair Value as of December 31, 2015

| Description | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|----------------------|----------------|----------------|----------------------|
| Money market accounts - restricted | \$ 608,459 | \$ - | \$ - | \$ 608,459 |
| Equity mutual funds | 10,686,924 | - | - | 10,686,924 |
| Municipal and corporate bonds | 110,641 | - | - | 110,641 |
| Bond and government mutual funds | 3,162,318 | - | - | 3,162,318 |
| Common stock | 2,136,208 | - | - | 2,136,208 |
| Alternative investments | 683,928 | - | - | 683,928 |
| | <u>\$ 17,388,478</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 17,388,478</u> |

Assets at Fair Value as of December 31, 2014

| Description | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|----------------------|----------------|----------------|----------------------|
| Money market accounts - restricted | \$ 450,497 | \$ - | \$ - | \$ 450,497 |
| Equity mutual funds | 10,638,405 | - | - | 10,638,405 |
| Bond and government mutual funds | 3,390,962 | - | - | 3,390,962 |
| Common stock | 1,779,488 | - | - | 1,779,488 |
| Alternative investments | 497,504 | - | - | 497,504 |
| | <u>\$ 16,756,856</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,756,856</u> |

12. 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.

13. 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.

14. RELATIONSHIP WITH APPALACHIAN PARTNERSHIP FOR ECONOMIC GROWTH (APEG)

FAO provided various operational and development services for APEG for a monthly fee. FAO received \$122,118 and \$119,851 for these services for the years ended December 31, 2015 and 2014, respectively.

FAO rents office space to APEG under an operating lease arrangement on an annual basis, through 2015. Rental income was \$26,400 and \$24,300 for the years ended December 31, 2015 and 2014, respectively.

15. CONDITIONAL PLEDGE

A donor informed FAO of its intent to make a total contribution of \$1,000,000 over a five year period of \$200,000 per year. The first installment is recorded as a pledge receivable at December 31, 2014 and was paid in January of 2016. The remaining four payments of \$200,000 per year over the subsequent four years are contingent upon certain events taking place. Final determination of future payments will be made by the donor on a year to year basis.

16. RECLASSIFICATIONS

Certain balances from the December 31, 2014 financial statements were reclassified to agree with classifications on the December 31, 2015 financial statements.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 12, 2016, the date the financial statements were available to be issued.