

Foundation for Appalachian Ohio and Subsidiary

Audited Consolidated Financial Statements

As of and for the Years Ended
December 31, 2021 and 2020



Rea & associates

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FOUNDATION FOR
APPALACHIAN OHIO
Give. Grow. Create.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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**FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY
LIST OF TRUSTEES
DECEMBER 31, 2021**

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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

Opinions

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, 2021 and 2020, 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, 2021 and 2020, 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 Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
December 15, 2022

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021 AND 2020

| | <u>ASSETS</u> | |
|--|----------------------|----------------------|
| | 2021 | 2020 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 8,422,393 | \$ 6,035,666 |
| Current portion of pledges and grants receivable | 355,804 | 388,485 |
| Current portion of note receivable | 256,300 | 231,302 |
| Grant receivable | 263,799 | - |
| Prepaid expenses | 39,048 | 52,346 |
| Total current assets | <u>9,337,344</u> | <u>6,707,799</u> |
| OTHER ASSETS: | | |
| Investments in marketable securities | 63,398,616 | 43,302,735 |
| Pledges receivable, net of current portion and allowance | 194,284 | 376,597 |
| Note receivable, net of current portion | 973,335 | 1,249,020 |
| Total other assets | <u>64,566,235</u> | <u>44,928,352</u> |
| PROPERTY AND EQUIPMENT: | | |
| Property and equipment | 1,212,094 | 1,249,825 |
| Less accumulated depreciation | (350,251) | (357,511) |
| Property and equipment, net | <u>861,843</u> | <u>892,314</u> |
| Total assets | <u>\$ 74,765,422</u> | <u>\$ 52,528,465</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Agency funds | \$ 7,187,031 | \$ 5,859,421 |
| Accounts payable | 57,237 | 24,520 |
| Grants payable | 68,208 | 118,098 |
| Accrued benefits | 26,156 | 40,263 |
| Total current liabilities | <u>7,338,632</u> | <u>6,042,302</u> |
| NET ASSETS: | | |
| Without donor restrictions | 14,732,767 | 12,307,907 |
| With donor restrictions | 52,694,023 | 34,178,256 |
| Total net assets | <u>67,426,790</u> | <u>46,486,163</u> |
| Total liabilities and net assets | <u>\$ 74,765,422</u> | <u>\$ 52,528,465</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, 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 | <u>11,148,851</u> | <u>18,515,767</u> | <u>29,664,618</u> |
| EXPENSES: | | | |
| Program services | 7,817,865 | - | 7,817,865 |
| Management and general | 532,072 | - | 532,072 |
| Fundraising | 374,054 | - | 374,054 |
| Total expenses | <u>8,723,991</u> | <u>-</u> | <u>8,723,991</u> |
| Change in net assets | 2,424,860 | 18,515,767 | 20,940,627 |
| NET ASSETS, beginning of year | <u>12,307,907</u> | <u>34,178,256</u> | <u>46,486,163</u> |
| NET ASSETS, end of year | <u><u>\$ 14,732,767</u></u> | <u><u>\$ 52,694,023</u></u> | <u><u>\$ 67,426,790</u></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, 2020

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|--|----------------------------------|-------------------------------|---------------|
| REVENUE, GAINS, AND SUPPORT: | | | |
| Contributions | \$ 1,598,498 | \$ 6,946,899 | \$ 8,545,397 |
| Interest and dividends | 150,574 | 559,641 | 710,215 |
| Realized and unrealized gains on marketable securities | 721,173 | 1,496,848 | 2,218,021 |
| Other revenue and support | 169,412 | 17,753 | 187,165 |
| Net assets released from restrictions | 2,270,332 | (2,270,332) | - |
| Total revenue, gains, and support | 4,909,989 | 6,750,809 | 11,660,798 |
| EXPENSES: | | | |
| Program services | 5,500,691 | - | 5,500,691 |
| Management and general | 389,531 | - | 389,531 |
| Fundraising | 443,203 | - | 443,203 |
| Total expenses | 6,333,425 | - | 6,333,425 |
| Change in net assets | (1,423,436) | 6,750,809 | 5,327,373 |
| NET ASSETS, beginning of year | 13,731,343 | 27,427,447 | 41,158,790 |
| NET ASSETS, end of year | \$ 12,307,907 | \$ 34,178,256 | \$ 46,486,163 |

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 STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| FUNCTIONAL EXPENSES: | | | | |
| Grants | \$ 4,881,034 | \$ - | \$ - | \$ 4,881,034 |
| Salaries and benefits | 411,205 | 292,831 | 348,178 | 1,052,214 |
| Other direct program expenses | 54,644 | - | - | 54,644 |
| Professional fees | 30,009 | 41,121 | 22,388 | 93,518 |
| Advertising and communications | 31,474 | - | - | 31,474 |
| Travel and meetings | 3,180 | 530 | 6,891 | 10,601 |
| Supplies and office expense | 72,984 | 42,852 | 55,298 | 171,134 |
| Depreciation | 16,161 | 12,197 | 10,448 | 38,806 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total functional expenses | <u>\$ 5,500,691</u> | <u>\$ 389,531</u> | <u>\$ 443,203</u> | <u>\$ 6,333,425</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, 2021 AND 2020

| | 2021 | 2020 |
|--|---------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 20,940,627 | \$ 5,327,373 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 39,850 | 38,806 |
| Realized and unrealized (gain) losses on investments | (4,423,401) | (2,218,021) |
| Loss on disposal of property and equipment | - | 1,255 |
| Contributions restricted for endowment | (16,403,272) | (5,782,918) |
| Contributions of marketable securities | (2,293,277) | (714,322) |
| (Increase) decrease in operating assets: | | |
| Pledges and grants receivable | 214,994 | (118,869) |
| Grant receivable | (263,799) | - |
| Prepaid expenses | 13,298 | (5,900) |
| Increase (decrease) in operating liabilities: | | |
| Agency funds | 1,327,610 | 1,037,169 |
| Accounts payable | 32,717 | (20,853) |
| Grants payable | (49,890) | 56,144 |
| Accrued benefits | (14,107) | 12,823 |
| Total adjustments | (21,819,277) | (7,714,686) |
| Net cash provided by (used in) operating activities | (878,650) | (2,387,313) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for the purchase of investments | (23,596,728) | (18,277,325) |
| Proceeds from the sale of investments | 10,217,525 | 11,506,992 |
| Payments for the purchase of property and equipment | (9,379) | (9,471) |
| Proceeds from receipt on notes receivable | 250,687 | 250,530 |
| Net cash used in investing activities | (13,137,895) | (6,529,274) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from contributions restricted for endowment | 16,403,272 | 5,782,918 |
| Net cash provided by financing activities | 16,403,272 | 5,782,918 |
| Net increase (decrease) in cash and cash equivalents | 2,386,727 | (3,133,669) |
| CASH AND CASH EQUIVALENTS, beginning of year | 6,035,666 | 9,169,335 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 8,422,393 | \$ 6,035,666 |

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

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE 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 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 \$45,800 and \$42,600 as of December 31, 2021 and 2020, 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 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, 2021, 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 \$36,984 and \$31,474 for the years ended December 31, 2021 and 2020, 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.

Risks and Uncertainties – Pandemic

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

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.

Recently Issued Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which may change the Foundation's statement of financial position by requiring lessees to record all leases as a lease liability and corresponding right-of-use asset. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for the Foundation for fiscal years beginning after December 15, 2021, with early adoption permitted. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent events have been evaluated through December 15, 2022, 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.

NOTE 3: PROPERTY AND EQUIPMENT

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

| | 2021 | 2020 |
|---------------------------------|--------------|--------------|
| Land and building | \$ 1,007,436 | \$ 1,007,436 |
| Office furniture and equipment | 154,244 | 154,244 |
| Computer hardware and software | 50,414 | 88,145 |
| Property and equipment, at cost | 1,212,094 | 1,249,825 |
| Less: accumulated depreciation | (350,251) | (357,511) |
| Property and equipment, net | \$ 861,843 | \$ 892,314 |

NOTE 4: NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS

Net assets consisted of the following as of December 31:

| | 2021 | 2020 |
|--|---------------|---------------|
| Without donor restrictions: | | |
| General | \$ 14,732,767 | \$ 12,307,907 |
| With donor restrictions: | | |
| Scholarships | 11,435,506 | 11,974,556 |
| Field of interest | 20,850,004 | 7,711,239 |
| Other grant making | 20,408,513 | 14,492,461 |
| Total net assets with donor restrictions | 52,694,023 | 34,178,256 |
| Total net assets | \$ 67,426,790 | \$ 46,486,163 |

NOTE 5: PLEDGES AND GRANTS RECEIVABLE

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

| | 2021 | 2020 |
|---|------------|------------|
| Pledges and grants | \$ 602,188 | \$ 831,882 |
| Unamortized discount | (6,300) | (24,200) |
| | 595,888 | 807,682 |
| Less: allowance for uncollectible pledges | (45,800) | (42,600) |
| | \$ 550,088 | \$ 765,082 |
| Amounts due in: | | |
| Less than one year | \$ 355,804 | \$ 390,285 |
| One to five years | 246,084 | 441,097 |
| More than five years | 300 | 500 |
| | \$ 602,188 | \$ 831,882 |

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: INVESTMENTS

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

| | 2021 | | |
|-------------------------------|----------------------|----------------------|-------------------------|
| | Cost | Fair Value | Unrealized Appreciation |
| Cash – restricted | \$ 12,981,470 | \$ 12,981,470 | \$ - |
| Stocks and ETFs | 13,461,825 | 16,639,419 | 3,177,594 |
| Mutual funds | 28,906,912 | 33,531,587 | 4,624,675 |
| Municipal and corporate bonds | 238,972 | 246,140 | 7,168 |
| Total | <u>\$ 55,589,179</u> | <u>\$ 63,398,616</u> | <u>\$ 7,809,437</u> |

| | 2020 | | |
|-------------------------------|----------------------|----------------------|-------------------------|
| | Cost | Fair Value | Unrealized Appreciation |
| Cash – restricted | \$ 1,344,686 | \$ 1,344,686 | \$ - |
| Stocks and ETFs | 6,409,878 | 7,627,552 | 1,217,674 |
| Mutual funds | 28,312,052 | 31,285,704 | 2,973,652 |
| Municipal and corporate bonds | 3,037,224 | 3,044,793 | 7,569 |
| Total | <u>\$ 39,103,840</u> | <u>\$ 43,302,735</u> | <u>\$ 4,198,895</u> |

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

| | 2021 | | |
|----------------------------------|----------------------------|-------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Investment income | \$ 157,932 | \$ 626,586 | \$ 784,518 |
| Net realized and unrealized gain | 784,770 | 3,638,631 | 4,423,401 |
| | <u>\$ 942,702</u> | <u>\$ 4,265,217</u> | <u>\$ 5,207,919</u> |

| | 2020 | | |
|----------------------------------|----------------------------|-------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Investment income | \$ 150,574 | \$ 559,641 | \$ 710,215 |
| Net realized and unrealized gain | 721,173 | 1,496,848 | 2,218,021 |
| | <u>\$ 871,747</u> | <u>\$ 2,056,489</u> | <u>\$ 2,928,236</u> |

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 (3.75% as of December 31, 2021). 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, 2021 and 2020.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

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 66 and 48 agency funds as of December 31, 2021 and 2020, respectively.

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

| | 2021 | 2020 |
|-----------------------------------|--------------|--------------|
| Beginning balance | \$ 5,859,421 | \$ 4,822,252 |
| Contributions | 1,066,203 | 907,550 |
| Investment income | 117,786 | 88,720 |
| Net realized and unrealized gains | 624,537 | 567,873 |
| Grants, scholarships and fees | (480,916) | (526,974) |
| Ending balance | \$ 7,187,031 | \$ 5,859,421 |

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.
- 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.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS (CONTINUED)

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:

| | 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> |
| | 2020 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | \$ - | \$ 30,026,639 | \$ 30,026,639 |
| Board-designated endowment funds | 3,166,325 | - | 3,166,325 |
| Total endowment funds | <u>\$ 3,166,325</u> | <u>\$ 30,026,639</u> | <u>\$ 33,192,964</u> |
| Endowment assets, beginning of year | \$ 2,908,302 | \$ 23,595,646 | \$ 26,503,948 |
| Contributions | 81,315 | 5,662,872 | 5,744,187 |
| Investment income | 52,291 | 517,235 | 569,526 |
| Net appreciation | 288,205 | 1,270,941 | 1,559,146 |
| Amounts appropriated for expenditures | (163,788) | (1,020,055) | (1,183,843) |
| Balance, December 31, 2020 | <u>\$ 3,166,325</u> | <u>\$ 30,026,639</u> | <u>\$ 33,192,964</u> |

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS (CONTINUED)

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, 2021, funds with original gift values of \$4,169,400, fair values of \$3,325,726, and deficiencies of \$843,674 were reported in net assets with donor restrictions. These fund values increased by \$609,000 in 2021 and are expected to fully recover within the next year.

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 \$18,315 and \$13,717 for the years ended December 31, 2021 and 2020, 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.

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, 2021 and 2020.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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> |

The table below presents the fair value hierarchy of the Foundation’s assets as of December 31, 2020:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------------|-------------|-------------|----------------------|
| Cash - restricted | \$ 1,344,686 | \$ - | \$ - | \$ 1,344,686 |
| Stocks and ETFs | 7,627,552 | - | - | 7,627,552 |
| Mutual funds | 31,285,704 | - | - | 31,285,704 |
| Municipal and corporate bonds | 3,044,793 | - | - | 3,044,793 |
| Total assets at fair value | <u>\$ 43,302,735</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,302,735</u> |

NOTE 12: CERTIFICATION BY THE COUNCIL ON FOUNDATIONS

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

NOTE 13: LIQUIDITY AND AVAILABILITY OF FUNDS

The following reflects the 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, 2021 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.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: LIQUIDITY AND AVAILABILITY OF FUNDS (CONTINUED)

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 | \$ 8,422,393 |
| Pledges and other receivables | 875,903 |
| Investments, at fair value | 63,398,616 |
| Financial Assets, at year-end | 72,696,912 |
| | |
| Less those unavailable for general expenditure within one year, due to: | |
| Contractual or donor-imposed restrictions: | |
| Restriction by donor with purpose restrictions | (52,694,023) |
| Agency funds | (7,187,031) |
| Board designations: | |
| Endowment funds | (3,517,050) |
| | (63,398,104) |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 9,298,808 |

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.

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 \$37,751 and \$31,958 for the years ended December 31, 2021 and 2020, respectively. The future lease payments expected to be received in subsequent years on long-term lease agreements are as follows:

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. The Foundation is renovating the space to accommodate additional staff.

NOTE 15: 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 \$1,229,635 and \$1,480,322 as of December 31, 2021 and 2020, respectively.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: 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 will be available in the second half of 2022.

NOTE 17: 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.

FOUNDATION FOR APPALACHIAN OHIO AND SUBSIDIARY

CONSOLIDATED STATEMENT OF GRANT REVENUES AND MATCHING FUNDS
 GRANT # S-P-19-7-SB1 - OHIO DEVELOPMENT SERVICES AGENCY

| | 2019 | 2020 | 2021 | TOTAL |
|-------------------------|--------------|----------------|--------------|--------------|
| GRANT AWARD AMOUNT | \$ 5,000,000 | \$ - | \$ 4,500,000 | \$ 9,500,000 |
| MATCHING FUNDS: | | | | |
| Matching funds obtained | 3,149,440 | 1,850,560 | 4,500,000 | 9,500,000 * |
| Match balance | \$ 1,850,560 | \$ (1,850,560) | \$ - | \$ - |

* Note that this total is the amount required for the maximum match. The Foundation is noted to have received a higher amount for the grant period.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of the Foundation for Appalachian Ohio and Subsidiary as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon, which contains an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
December 15, 2022

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Foundation for Appalachian Ohio and Subsidiary (collectively, the “Foundation”), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (the “financial statements”), and have issued our report thereon dated December 15, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
December 15, 2022