

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

Hazard, Kentucky

Single Audit

For The Year Ended December 31,

2023

Fiscal Year Audited Under GAGAS:

2023



**Caudill & Associates, CPA, PLLC**

3070 Lake Crest Cir – Ste. 400/267  
Lexington, KY 40513

Member American Institute of Certified Public Accountants  
Member American Institute of Certified Public Accountants – Not for Profit Section  
Member American Institute of Certified Public Accountants – Government Audit Quality Center  
Member American Institute of Certified Public Accountants – Forensic and Valuation Services Section

FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

Hazard, Kentucky  
For the Year Ended December 31, 2023

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# Caudill & Associates, CPA, PLLC

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## INDEPENDENT AUDITOR’S REPORT

To the Board of Directors  
Foundation for Appalachian Kentucky, Inc. and Affiliate  
Hazard, Kentucky

### **Opinion**

We have audited the accompanying financial statements of Foundation for Appalachian Kentucky, Inc. and Affiliate (collectively referred to as the “organization”), which comprise the Statement of Financial Position as of December 31, 2023, and the related Statement of Activities, Statement of Functional Expenses, and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for Appalachian Kentucky, Inc. and Affiliate as of December 31, 2023, and the results of its operations, the changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit 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. 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 Foundation for Appalachian Kentucky, Inc. and Affiliate, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence 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 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 Foundation for Appalachian Kentucky, Inc. and Affiliate’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued, including any currently known information that may raise substantial doubt shortly thereafter.

## **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 generally accepted auditing standards 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 one resulting from error, as fraud may involve collusion, forgery, internal 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 Foundation for Appalachian Kentucky, Inc. and Affiliate'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 Foundation for Appalachian Kentucky, Inc. and Affiliate'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.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2, *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are 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 audit 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 states as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2024, on our consideration of the Foundation for Appalachian Kentucky, Inc. and Affiliate'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 for Appalachian Kentucky, Inc. and Affiliate's internal control over financial reporting and compliance.

*Caudill & Associates, CPA*

Caudill & Associates, CPA, PLLC

December 12, 2024

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2023

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### ASSETS

	<u>2023</u>
Cash	\$ 1,635,706
Investments	25,630,255
Grants receivable	863,280
Contributions receivable, net	31,982
Interest in charitable lead annuity trust	2,006,996
Beneficial interest in charitable remainder trust	451,606
Notes receivable, net	872,887
Property and equipment, net	1,099,518
Total assets	<u><u>\$ 32,592,230</u></u>

### LIABILITIES AND NET ASSETS

#### **Liabilities**

Accounts payable and other liabilities	\$ 56,413
Grants payable	22,500
Custodial funds	957,764
Deferred revenue	-0-
Notes payable	150,893
Liens assumed on donated land	472,500
Total liabilities	<u>1,660,070</u>

#### **Net assets**

Without donor restrictions	1,523,935
With donor restrictions	29,408,225
Total net assets	<u>30,932,160</u>
Total liabilities and net assets	<u><u>\$ 32,592,230</u></u>

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*See accompanying notes to financial statements.*

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2023

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and revenues</b>			
Contributions and grants	\$ 744,772	\$ 9,960,063	\$ 10,704,835
Federal grants	-0-	370,452	370,452
Contributed Nonfinancial Assets	-0-	157,500	157,500
Investment return, net	184,542	2,179,617	2,364,159
Administrative fees	17,053	0	17,053
Other revenue	20,887	39,013	59,900
Change in value of split-interest agreements	-0-	78,396	78,396
Net assets released from restrictions	8,440,048	(8,440,048)	-0-
Total support and revenues	9,407,302	4,344,993	13,752,295
<b>Expenses</b>			
Program services	8,645,488	-0-	8,645,488
General and administrative	1,127,337	-0-	1,127,337
Fundraising	619,715	-0-	619,715
Total expenses	10,392,540	-0-	10,392,540
Change in net assets	(985,238)	4,344,993	3,359,755
<b>Net assets, beginning of year</b>	2,509,173	25,063,232	27,572,405
<b>Net assets, end of year</b>	\$ 1,523,935	\$ 29,408,225	\$ 30,932,160

*See accompanying notes to financial statements.*

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2023

	<b>Total Program</b>	<b>Mgmt. &amp; General</b>	<b>Fundraising</b>	<b>Total</b>
Grants and scholarships	\$6,483,800	\$0	\$0	\$6,483,800
Salaries and wages	\$684,018	\$324,995	\$167,469	\$1,176,481
Payroll taxes	\$48,671	\$23,125	\$11,916	\$83,712
Employee benefits	\$185,267	\$88,025	\$45,359	\$318,651
Advertising	\$0	\$0	\$99,157	\$99,157
Office supplies	\$18,680	\$19,246	\$18,680	\$56,606
Postage and printing	\$4,795	\$4,941	\$4,795	\$14,531
Telephone	\$3,244	\$3,342	\$3,244	\$9,829
Utilities	\$6,982	\$3,318	\$1,710	\$12,009
Supplies	\$185,996	\$89,791	\$44,896	\$320,683
Repairs and maintenance	\$64,038	\$128,076	\$64,038	\$256,151
Bank service charges	\$8,959	\$0	\$0	\$8,959
Licenses and fees	\$0	\$3,754	\$0	\$3,754
Professional fees	\$700,920	\$233,640	\$0	\$934,560
Technology support	\$23,660	\$24,377	\$23,660	\$71,697
Travel and entertainment	\$48,274	\$48,274	\$49,737	\$146,284
Special projects	\$82,553	\$0	\$0	\$82,553
Meetings and conferences	\$59,461	\$59,461	\$61,263	\$180,184
Insurance	\$0	\$48,459	\$0	\$48,459
Depreciation	\$5,142	\$5,298	\$5,142	\$15,583
Interest	\$10,309	\$10,621	\$10,309	\$31,239
Provision for credit losses	\$12,376	\$0	\$0	\$12,376
Miscellaneous	\$8,343	\$8,596	\$8,342	\$25,282
Total expenses	<u>\$8,645,488</u>	<u>\$1,127,337</u>	<u>\$619,715</u>	<u>\$10,392,540</u>

*See accompanying notes to financial statements.*



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023

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<b>Cash Flows From Operating Activities:</b>	<u>2023</u>
Increase (Decrease) in net assets	\$ 3,359,755
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	15,583
Increase (Decrease) in:	
Grants receivable	751,099
Contributions receivable, net	141,977
Accounts payable and other liabilities	(325,726)
Grants payable	(236,974)
Custodial funds	276,598
Deferred revenue	(25,000)
Net cash provided (used) by operating activities	<u>3,957,312</u>
<b>Cash Flows From Investing Activities:</b>	
Investments	(10,939,197)
Property and equipment, net	(750,808)
Notes receivable, net	200,547
Interest in charitable lead annuity trust	196,211
Beneficial interest in charitable remainder trust	(24,607)
Net cash provided (used) by investing activities	<u>(11,317,853)</u>
<b>Cash Flows From Financing Activities:</b>	
Notes payable	(9,187)
Liens assumed on donated land	472,500
Net cash provided (used) by financing activities	<u>463,313</u>
Net Increase (Decrease) in Cash	<u>(6,897,229)</u>
<b>Cash, Beginning of Year</b>	<u>8,532,935</u>
<b>Cash, End of Year</b>	<u>\$ 1,635,706</u>

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See accompanying notes to financial statements.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

The Foundation for Appalachian Kentucky, Inc. (the "Foundation") is a not-for-profit entity that was created in 1998 and began full operations in 2008. The Foundation is located in Hazard, Kentucky. The mission of the Foundation is to support collaborative work in the community around a common vision that enhances the lives of all local citizens and to create a permanent endowment to serve as a catalyst and resource to respond to changing community priorities.

Appalachian Community Development Core, Inc. ("ACDC") (formally known as Philanthropic Capital Fund for Southeast Kentucky) was founded in January 2017 as a supporting organization of the Foundation. The mission of ACDC was to impact the Appalachian community by advancing opportunities in the Southeast Kentucky region that support economic diversification and building community capacity through place-based investing and grantmaking. In late 2018, this initiative was moved to the Foundation and the purpose of ACDC is now to hold real estate that the Foundation occupies.

#### Consolidated Financial Statements

ACDC was founded to support the functions and purposes of the Foundation. The Foundation also has the authority to appoint a majority of the members of the Board of Directors of ACDC. Based on these factors, the Foundation and ACDC (collectively referred to as the "Organization") present consolidated financial statements with any inter-entity transactions and balances eliminated as part of the consolidated financial statements.

#### Management's Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues, and expenses. Actual results could vary from the estimates that were used.

#### Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use. The Organization maintains net assets without donor restrictions as follow:

Operating – used to fund current operations of the Organization

Board designated endowment – established with the expectation that the principal be maintained, and the income used to support the general operations of the Organization as designated by the Board of Directors

Board designated operating reserve - funding to benefit future operations

Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term to support operations or specific purposes. The Organization maintains net assets with donor restrictions as follows:

Restricted for specified purpose – all contributions to the Organization with the intention of the donor to be held for a specific program or in a donor-restricted non-endowed fund

Restricted in perpetuity – endowment – all contributions to the Organization with the intention of the donor that the assets to be held in perpetuity and managed in accordance with the Organization’s spending policy

Restricted subject to the Organization’s spending policy – investment earnings on assets restricted in perpetuity – endowment and managed in accordance with the Organization’s spending policy

### Investments and Investment Return

The Organization carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the consolidated statements of activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as net assets with or without donor restrictions based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Organization’s spending policy.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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### Notes Receivables

Notes receivables are stated at unpaid principal balances, less an allowance for losses. The allowance is based on management's assessment of the current status of the individual receivable. The allowance for losses at December 31, 2023 was \$36,779.. Notes receivables are considered delinquent based on specific circumstances of the borrower and are written off when the balance is considered uncollectible. Notes receivable bear interest at rates ranging from 0% to 5%. Criteria for notes receivable include whether the borrower has a financially sustainable development and operating plan. The Organization measures credit quality based on payment history and annual review of the borrower's financial information.

### Property and Equipment

Property and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at fair value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred.

The property and equipment of the Organization are being depreciated over their estimated useful lives ranging from three to thirty-nine years using the straight-line method.

### Grants Payable

Grants Payable consist of the following at December 31, 2023:

	<u>2023</u>
Floyd County Community Foundation	\$ 1,500
Pikeville Community Foundation	<u>21,000</u>
Total grants payable	<u>\$ 22,500</u>

### Deferred Revenue (Contract Liability)

Deferred income, consisting of funds received in advance from federal grants. These amounts represent revenues collected in advance of the period to which it relates. The contract liability on December 31, 2023, was \$-0-.

### Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (contributions receivable), are recognized as revenues in the period the contribution is received, or the promise is made. 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.

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# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

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Federal grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses.

Support and revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either net assets with or without donor restrictions in accordance with the classification of the fund or the existence of donor-imposed restrictions.

All other revenue is recorded when earned.

### Income Taxes

Both the Foundation and ACDC are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Organization is generally exempt from income taxes. However, the Organization is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

### Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Organization and are considered program expenses. Administrative fees from all funds are reflected as revenue on the consolidated statements of activities. The administrative fees from the custodial funds are not included as expenses on the consolidated statements of activities because they are included in the change in custodial funds.

### Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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The financial statements report expenses that are attributed to more than one program or supporting function and require allocation on a reasonable basis that is consistently applied. These expenses include salaries and wages, payroll taxes, employee benefits, marketing, office supplies, various occupancy expenses, certain professional fees, meetings and conferences and depreciation, which are allocated on the basis of estimates of time, effort, and usage. While the methods of allocation are considered appropriate, other methods could produce different results.

### New Accounting Standards

On September 17, 2020, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2020-07 *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard is intended to increase transparency around contributed nonfinancial assets (also known as "gifts in-kind") received by not-for-profit (NFP) organizations, including information on how those assets are used and how they are valued. This standard requires that an NFP present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition, there are expanded disclosure requirements. This ASU was effective for the Organization beginning on January 1, 2022, and did not result in a significant change to the 2022 consolidated financial statements. However, the Organization received a donation of land on May 30, 2023, with a fair market value of \$630,000 and assumed liens of \$472,500. The Organization recorded the difference, \$157,500, as Contributed Nonfinancial Assets for 2023. The liens were subsequently released in full on January 24, 2024.

Effective January 1, 2023, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 326, Financial Instruments - Credit Losses, which replaces the incurred loss impairment methodology with a forward-looking current expected credit loss (CECL) model. The CECL model requires the Organization to estimate expected credit losses over the life of financial instruments, such as loans receivable, based on historical experience, current conditions, and reasonable and supportable forecasts. This new accounting standard aims to provide financial statement users with more timely information regarding expected credit losses. As of December 31, 2023, the Organization has applied ASC 326 to its loans receivable portfolio, leading to the recognition of an allowance for credit losses reflecting management's estimate of potential credit losses. The adoption of ASC 326 did not have a material impact on the Organization's financial position or results of operations as of the effective date. The Organization will continue to evaluate its credit loss estimation process and update its allowance for credit losses as necessary, in line with the requirements of ASC 326. Further details related to the allowance for credit losses are disclosed in Note 7. Notes Receivable and Credit Losses.

### Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Organization's ability to continue as a going concern for a period of one year from the date the

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# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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consolidated financial statements were available to be issued.

### Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated statement of financial position date for recognition and disclosure in the accompanying financial statements through the date the consolidated financial statements were available to be issued, which is December 17, 2024.

## 2. INVESTMENTS

Investments consist of the following at December 31, 2023:

	<u>2023</u>
Cash and cash equivalents	9,266,482
Common stocks	9,609,827
Exchange traded funds	189,550
Mutual funds	387,607
Corporate bonds	2,946,515
U.S. Treasury notes	3,230,275
	<u>25,630,255</u>

The investments in which the Organization holds are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

Investment income earned by these investments for the year ended December 31, 2023 is reported net on the accompanying consolidated statement of activities in net assets as follows:

	<u>2023</u>
Interest and dividend income	\$ 423,615
Realized and unrealized gains	2,026,436
Investment fees	<u>(85,892)</u>
	<u>\$ 2,364,159</u>

## 3. FAIR VALUE MEASUREMENTS

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## FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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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 are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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, 2022.

- *Money market mutual fund*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated by dividing the total market value of all securities in the portfolio, less any liabilities, by the number of fund shares outstanding.
- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds and exchange traded funds*: Valued at the daily closing price as reported by the fund. Mutual funds and exchange traded funds held by the Organization are open-end and closed-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.



## FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

- *Corporate bonds and U.S. Treasury notes:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *Interest in charitable lead annuity trust:* Fair value determined by calculating the present value of the annual amount to be received until termination of the trust using a 2.52% discount rate.
- *Beneficial interest in charitable remainder trust:* Fair value is determined by calculating the net present value of future cash flows from the remainder of the trust using published life expectancy tables, 8% rate of return and 2.2% discount rate.

The following table sets forth by level, within the hierarchy, the Organization's assets measured at fair value on a recurring basis as of December 31, 2023:

	2023			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Money market mutual fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Common stocks	9,609,827	9,609,827	-0-	-0-
Exchange traded funds	189,550	189,550	-0-	-0-
Mutual funds	387,607	387,607	-0-	-0-
Corporate bonds	2,946,515	-0-	2,946,515	-0-
U.S. Treasury notes	3,230,275	-0-	3,230,275	-0-
Interest in charitable lead annuity trust	2,006,996	-0-	-0-	2,006,996
Beneficial interest in charitable remainder trust	451,606	-0-	-0-	451,606
	\$ 18,822,375	\$ 10,186,983	\$ 6,176,790	\$ 2,458,602

The progression of interest in charitable lead annuity trust during the year ended December 31, 2023 is as follows:

	2023
Beginning balance	\$ 2,203,207
Trust payment received	(250,000)
Change in present value	53,789
	\$ 2,006,996

The progression of beneficial interest in charitable remainder trust during the year ended December 31, 2023 is as follows:

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

---

	<u>2023</u>
Beginning balance	\$ 426,999
Change in present value	<u>24,607</u>
	<u>\$ 451,606</u>

### 4. GRANTS RECEIVABLE

Grants receivable consists of the following at December 31, 2023:

	<u>2023</u>
Appalachian Arts Alliance, Inc.	\$ 5,000
Appalachian Crisis Aid	200,000
Foundation for Appalachian Kentucky General Fund	450,000
POWER-SEKY Experience Planning Grant	8,360
RBDG Invest 606	109,081
RBDG - InVision Hazard	3,989
RBDG - SEKY African American Museum and Cultural Center	1,305
USDA - Farmers Market Promotion Program	85,545
Total grants receivable	<u>\$ 863,280</u>

### 5. INTEREST IN CHARITABLE LEAD ANNUITY TRUST

During 2012, the Organization became the lead beneficiary of a charitable lead annuity trust under which \$62,500 is received quarterly for twenty years for a specific donor-restricted non-endowed fund. Upon termination of the trust, the trust assets revert to the beneficiaries named by the donor. The Organization's interest under this trust was \$2,006,996 at December 31, 2023. In calculating the present value of the amount to be received until termination of the trust, a discount rate of 2.52% was used. The Organization is not the trustee of this trust, therefore, the fair value of the trust assets has not been recorded in the consolidated statements of financial position at December 31, 2023.

### 6. INTEREST IN CHARITABLE REMAINDER TRUST

The Organization has been named beneficiary of a charitable remainder trust. The Organization is not the trustee of the trust, but upon the death of the trust's lifetime beneficiaries, 25% of the remaining assets will revert to the Organization to donor-restricted funds specified by the donors. The estimated value of the expected residual benefit (which represents the fair value of the trust assets less the present value of the estimated future payments to beneficiaries based upon published life expectancy tables and a discount rate of 2.2%) of this trust was \$451,606 at December 31, 2023.

### 7. NOTES RECEIVABLE AND CREDIT LOSSES

The Organization provides loans to small businesses under its economic development program. The goal of this program is to stimulate economic growth and job creation within the Organization's

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

service area. As of December 31, 2023, the Organization's loans receivable balance totaled \$909,665. These loans are unsecured, with interest rates ranging from 0% to 5%.

The Organization adopted the Current Expected Credit Losses (CECL) model in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 326, Financial Instruments - Credit Losses. Under this model, management reviews loans receivable to estimate potential credit losses based on relevant information about past events, current conditions, and reasonable forecasts.

Management calculated a historical loss percentage of 4.04% as of December 31, 2023. Applying this percentage to the outstanding principal balance of loans receivable, management estimated current expected credit losses of \$36,779.

the outstanding principal balance of loans receivable, management estimated current expected credit losses of \$36,779.

The methodology used for estimating expected credit losses includes historical loss experience and consideration of current economic conditions and forecasts. The Organization will continue to evaluate the adequacy of the allowance for credit losses on an ongoing basis and make adjustments as necessary.

	2023
Allowance for Credit Losses:	
Beginning balance	\$ -
Provision for credit losses	(36,779)
Charge-offs	-
Recoveries	-
Ending balance	<u>\$ (36,779)</u>

### 8. CONTRIBUTED NONFINANCIAL ASSETS

On May 30, 2023, ACDC received a donation of 22.36 acres of land located in Knott County, Kentucky, valued at \$630,000. This valuation was determined by a licensed real estate appraiser using market comparison standards. The Organization assumed liens of \$472,500 attached to the donated land and recorded the difference, \$157,500, as Contributed Nonfinancial Assets in the accompanying financial statements. The liens were released in full on January 24, 2024.

- **Valuation Techniques and Inputs:** The fair market value of the land was established through an independent appraisal, using market comparison techniques commonly employed in the real estate industry.
- **Donor-Imposed Restrictions:** The land is restricted for use as single-family residential lots for families negatively affected by flooding that occurred in July 2022.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

- **Intended Use:** ACDC is committed to constructing or facilitating the construction of infrastructure, including streets, curbs, gutters, and sidewalks on the land. Following the completion of these improvements, the lots will be donated to nonprofit organizations dedicated to building affordable housing. The affordable housing nonprofit organizations will construct single-family homes on the lots.
- **Utilization and Costs:** As of December 31, 2023, ACDC had spent \$120,808 on land improvements.

### 9. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2023 is as follows:

	<u>2023</u>
Building	\$ 395,156
Equipment	68,776
Land	630,000
Land improvements	<u>120,808</u>
	1,214,740
Less accumulated depreciation	<u>115,222</u>
	<u>\$ 1,099,518</u>

### 10. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Organization by other organizations based on their individual board resolutions. The Organization accounts for these transfers as a liability in accordance with applicable accounting standards. Income is added to these funds periodically in accordance with the Organization's investment allocation policies. Contributions by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the consolidated statements of activities.

Following is a progression of custodial funds during 2023:

	<u>2023</u>
Beginning balance	\$ 681,166
Contributions and other revenue	\$25,531.96
Investment return, net	\$316,383.04
Administrative fees	(\$14,672.84)
Other expenses	(\$20.51)
Grants	<u>(\$50,623.47)</u>
Ending balance	<u>\$ 957,764</u>

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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### 11. NOTES PAYABLE

In May 2020, the Organization entered into an unsecured promissory note agreement for \$51,010. The note bears interest at 5% and is payable in monthly installments of principal and interest payments of \$552 beginning on June 27, 2020, and maturing on May 27, 2030.

In November 2020, the Organization entered into a second promissory note agreement for \$128,303. This note bears interest at 4% and is payable in monthly installments of principal and interest payments of \$784 beginning on December 12, 2020, and maturing on November 12, 2040. This note is secured by certain real property.

Future maturities due on the notes payable are as follows:

Fiscal years ending December 31:	
2024	\$ 9,910
2025	\$ 10,366
2026	\$ 10,843
2027	\$ 11,342
2028	\$ 12,100
Thereafter	\$ 96,332
	<u>\$ 150,893</u>

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

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### **12. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets in the total amount of \$8,440,048 were released resulting from satisfaction of donor restrictions and by expiration in 2023.

### **13. ENDOWMENT**

The Organization maintains donor-restricted endowment funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. Donor-restricted endowment funds are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

From time to time, due to unfavorable market fluctuations, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. The Organization has a policy that does not permit spending from underwater endowment funds, unless otherwise permitted by donor intent or relevant laws and regulations. There were no deficiencies of this nature at December 31, 2023.

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

The Organization has a policy of appropriating for distribution each year 4 to 6 percent of its endowment funds' average fair value over the prior twelve quarters, as voted upon annually by the Board of Directors. In establishing this policy, the Organization considered the long-term expected return on its endowments.

The endowment funds by net asset type at December 31, 2023 were as follows:

	2023	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	\$ 10,000	\$ -0-
Donor Restricted Funds	-0-	10,247,616
	\$ 10,000	\$ 10,247,616

Changes in endowment funds for the year ended December 31, 2023 were as follows:

	2023	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 10,000	\$ 8,584,501
Contributions and other revenue	-0-	197,131
Investment return, net	-0-	1,925,704
Appropriation of endowment assets for expenditure	-0-	(459,720)
Endowment net assets, beginning of year	\$ 10,000	\$ 10,247,616

# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023

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### 14. LIQUIDITY AND AVAILABILITY

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its awarded grants, general expenditures, and other obligations become due. The Organization invests cash in excess of daily requirements in short-term investments.

Financial assets available for general expenditures that is not subject to donor or other contractual restrictions within one year of the consolidated statement of financial position date comprise of the following:

	2023
Cash	\$ 1,606,997
Operating Investments	281,613
Grants Receivable	450,000
	<u>\$ 2,338,610</u>

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The Organization approves grants and scholarships quarterly based on the spending rate approved quarterly grant and scholarship approval processes. This process includes evaluating a number of factors relative to the spending rate to be applied to the Organization's fund balances in accordance with its spending policy. Once the Organization's Board approves the spending rate, the related dollar amount of the funds becomes available for general expenditures.

While not subject to the Organization's spending policy, expenditures from donor-restricted non-endowed funds must be approved by the Board and, therefore, are not available for general expenditure until that time. Non-endowed funds are held in cash or liquid investments and are made available upon appropriation.

The Foundation also relies on the administrative fees it charges its funds annually ranging from 1% to 1.75% of the endowed and non-endowed fund balance and 5% to 10% of contributions to fiscal sponsorship funds to fund operational expenditures.

### 15. CONCENTRATIONS

The Organization maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these accounts.

Marketable securities and money market funds are maintained with an investment firm. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.



# FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2023

Program Title	Federal Assistance Listing Number	Grant ID Number	Total Federal Expenditures	Passed Through to Subrecipient
Appalachian Regional Commission				
Appalachian Area Development - ReVitalize, Reinvest and ReDevelop (R3) Appalachia Initiative	23.002	PW-19712-IM-19	\$ 581,003	\$ 581,003
Passthrough from Appalachian Community Capital Appalachian Research, Technical Assistance and Demonstration Projects	23.011	N/A	\$ 116,774	\$ -
Southeast Kentucky Regional Experience Planning Project	23.002	PW-20852-TA-22	\$ 13,970	\$ -
Southeast Kentucky Regional Trails Planning Project	23.002	PW-20853-TA-22	\$ 40,600	\$ -
Total Appalachian Regional Commission			<u>\$ 752,346</u>	<u>\$ 581,003</u>
United States Department of Agriculture				
Farmers Market Promotion Program	10.175	21FMPPKY1079-00	\$ 117,482	\$ -
Rural Business Development Grant	10.351	20-097-991846759	\$ 143,209	\$ 61,584
Total United States Department of Agriculture			<u>\$ 260,692</u>	<u>\$ 61,584</u>
Total Expenditures of Federal Awards			<u>\$ 1,013,038</u>	<u>\$ 642,586</u>

*See report of independent auditors and accompanying notes to the schedule.*

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2023

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**1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Foundation for Appalachian Kentucky, Inc. and Affiliate (collectively referred to as the "Organization"). The grant revenue amounts received and expensed are subject to audit and adjustment. If any expenditure is disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Organization. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations. The Organization did not elect to use the 10% de minimis indirect cost rate and no amounts were provided to subrecipients.

**2. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**3. BASIS OF ACCOUNTING**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**4. REVOLVING LOAN PROGRAM**

The Organization administers the Appalachian Regional Commission Appalachian Area Development ReVitalize, ReInvest, and ReDevelop (R3) Appalachia Initiative Loan Program. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Current year loan expenditures and disbursements totaled \$642,586. The balance of loans outstanding at December 31, 2023, consists of:

<b>Federal Assistance Listing Number</b>	<b>Program Name</b>	<b>Outstanding Balance as of December 31, 2023</b>
23.002	R3 Appalachian Initiative Loan Program	\$581,003
10.351	Rural Business Development Grant	\$61,584

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# Caudill & Associates, CPA PLLC

3070 Lake Crest Cir – Ste – 400/267, Lexington, KY 40513

Member American Institute of Certified Public Accountants  
Member American Institute of Certified Public Accountants – Not for Profit Section  
Member American Institute of Certified Public Accountants – Government Audit Quality Center

## **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 Directors of  
Foundation for Appalachian Kentucky, Inc., and Affiliate  
Hazard, Kentucky

We have audited, in accordance with the 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 consolidated financial statements of Foundation for Appalachian Kentucky, Inc., and Affiliate, (a nonprofit organization), which comprise the consolidated balance sheets, as of December 31, 2023, and the related statement of operations, statement of functional expenses, change in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2024.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation for Appalachian Kentucky, Inc., and Affiliate’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation for Appalachian Kentucky, Inc., and Affiliate’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 may exist that have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation for Appalachian Kentucky, Inc., and Affiliate '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 determination of financial statement amounts. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Caudill & Associates, CPA*

Caudill and Associates, CPA PLLC  
Certified Public Accountant

Lexington, KY  
December 12, 2024



# Caudill & Associates, CPA PLLC

3070 Lake Crest Cir – Ste – 400/267, Lexington, KY 40513

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## **INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Foundation for Appalachian Kentucky, Inc., and Affiliate  
Hazard, Kentucky

### ***Report on Compliance for Each Major Federal Program***

#### ***Opinion on Each Major Federal Program***

We have audited the Foundation for Appalachian Kentucky, Inc. and Affiliate’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation for Appalachian Kentucky, Inc. and Affiliate’s major federal programs for the year ended December 31, 2023. The Foundation for Appalachian Kentucky, Inc. and Affiliate’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Foundation for Appalachian Kentucky, Inc. and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Foundation for Appalachian Kentucky, Inc. and Affiliate’s and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Foundation for Appalachian Kentucky, Inc. and Affiliate’s compliance with the compliance requirements referred to above.

### ***Responsibility of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirement of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Foundation for Appalachian Kentucky, Inc. and Affiliate's federal programs.

### ***Auditor's Responsibility for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Foundation for Appalachian Kentucky, Inc. and Affiliate's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about Foundation for Appalachian Kentucky, Inc. and Affiliate's compliance requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Foundation for Appalachian Kentucky, Inc. and Affiliate's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Foundation for Appalachian Kentucky, Inc. and Affiliate's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Foundation for Appalachian Kentucky, Inc. and Affiliate's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***

The results of our auditing procedures disclose an instance of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control over Compliance***

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Caudill & Associates, CPA*

Caudill and Associates, CPA PLLC  
Certified Public Accountant

Lexington, KY  
December 12, 2024

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2023**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

1. The auditor’s report issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in the audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. The auditor’s report has issued an unmodified opinion on compliance for major programs.
6. The audit disclosed an audit finding which is required to be reported under section 200.516 of Title 2 U.S. Code of Federal Regulations, Part 200.
7. Foundation for Appalachian Kentucky, Inc. had the following major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
23.002	Appalachian Area Development

8. The dollar threshold used to distinguish between major and non-major programs was \$750,000.
9. Foundation for Appalachian Kentucky, Inc., did not qualify as a low risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.



**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2023**

**Findings Related to the Financial Statements:**

NONE

**Findings and Questioned Costs for Federal Awards**

NONE

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2023**

Section III - Findings and Questioned Costs - Major Federal Awards Program Audit

**2023-001 Single Audit Submission Deadline**

*Criteria or specific requirement:* 2 CFR Section 200.512(a) requires the Data Collection form and Single Audit reporting package be submitted the earlier of 30 days after the reports are received from the auditors or nine months after the end of the audit period. Accordingly, the due date for the Single Audit submission for the year ended December 31, 2023, is September 30, 2024.

*Condition:* The reporting package for the year ended December 31, 2023, was not submitted by the September 30, 2024, reporting deadline.

*Cause:* The audit report on the financial statements for the year ended December 31, 2023, was issued subsequent to the September 30, 2024, deadline.

*Effect:* The Organization is not in compliance with the provisions of 2 CFR Section 200.512(a) for the year ended December 31, 2023.

*Views of responsible officials and planned corrective actions:* The audit report on the financial statements for the year ended December 31, 2023, was issued on December 17, 2024. The Data Collection form and reporting package will be submitted within 30 days thereafter.

**FOUNDATION FOR APPALACHIAN KENTUCKY, INC. AND AFFILIATE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND THEIR RESOLUTIONS  
YEAR ENDED DECEMBER 31, 2023**

**2022-001 Single Audit Submission Deadline**

Condition: The reporting package for the year ended December 31, 2022, was not submitted by the March 31, 2023, extended reporting deadline.

Status: Resolved. Reporting package submitted.