

APPALSHOP, INC.

WHITESBURG, KY

REGULAR AUDIT

FOR THE YEAR ENDED SEPTEMBER 30, 2020



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

APPALSHOP, INC.
WHITESBURG, KY

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INDEPENDENT AUDITOR'S REPORT

Appalshop, Inc.
Whitesburg, Kentucky

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Appalshop, Inc., (a nonprofit organization) as of and for the years ended September 30, 2020 and 2019, and the related statements of activities, statement of functional expenses and cash flows and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Appalshop, Inc., as September 30, 2020 and 2019, and the respective changes in net assets, functional expenses and cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC

June 11, 2021

APPALSHOP, INC.
STATEMENTS OF FINANCIAL POSITION
At September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 615,902	\$ 477,761
Accounts receivable	11,417	11,575
Accounts receivable - employee	250	2,650
Grants receivable	490,826	660,887
Short-term investments	644,336	363,469
Inventory	34,718	35,281
Other current assets	<u>47,520</u>	<u>31,100</u>
<u>Total current assets</u>	<u>1,844,969</u>	<u>1,582,723</u>
Other assets:		
Property and equipment, net of accumulated depreciation	1,286,181	1,302,554
Endowments funds	5,239,662	4,939,764
Other long-term investments	<u>267,840</u>	<u>28,957</u>
<u>Total other assets</u>	<u>6,793,683</u>	<u>6,271,275</u>
<u>TOTAL ASSETS</u>	<u><u>8,638,652</u></u>	<u><u>7,853,998</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	31,704	30,832
Accrued expenses	86,655	56,033
Current portion of long-term debt	<u>279,539</u>	<u>10,956</u>
<u>Total current liabilities</u>	<u>397,898</u>	<u>97,821</u>
Other liabilities:		
Non-current portion of long-term debt	<u>400,916</u>	<u>441,087</u>
<u>Total other liabilities</u>	<u>400,916</u>	<u>441,087</u>
<u>Total liabilities</u>	<u>798,814</u>	<u>538,908</u>
Net assets:		
Without donor restrictions	1,312,555	1,083,940
With donor restrictions	<u>6,527,283</u>	<u>6,231,150</u>
<u>Total net assets</u>	<u>7,839,838</u>	<u>7,315,090</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 8,638,652</u>	<u>\$ 7,853,998</u>

See notes to the audited financial statements.

APPALSHOP, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
<u>Operating Activities:</u>			
Grants and similar public support	\$ 1,143,177	\$ 1,048,530	\$ 2,191,707
Sales income	33,253	-	33,253
Rental income	9,002	-	9,002
Contract income	109,439	-	109,439
Other	17,663	-	17,663
<u>Total revenue and support before releases</u>	<u>1,312,534</u>	<u>1,048,530</u>	<u>2,361,064</u>
<u>Net assets released from restrictions</u>	<u>1,140,577</u>	<u>(1,140,577)</u>	<u>-</u>
<u>Total revenue and support</u>	<u>2,453,111</u>	<u>(92,047)</u>	<u>2,361,064</u>
<u>Expenses:</u>			
Appalachian Media Institute	228,884	-	228,884
Community Engagement	96,798	-	96,798
Films	76,614	-	76,614
Archive	317,333	-	317,333
CMI	180,749	-	180,749
Roadside Theater	292,690	-	292,690
Seedtime	8,952	-	8,952
Traditional Music	22,266	-	22,266
Radio	245,702	-	245,702
Management and General	983,356	-	983,356
Fundraising	2,571	-	2,571
<u>Total expenses</u>	<u>2,455,915</u>	<u>-</u>	<u>2,455,915</u>
<u>Changes in net assets from operating activities</u>	<u>(2,804)</u>	<u>(92,047)</u>	<u>(94,851)</u>
<u>Nonoperating Activities:</u>			
Interest and dividends income	1,966	95,336	97,302
Net realized and unrealized gains (losses) on investments	-	539,697	539,697
Interest expense	(17,400)	-	(17,400)
<u>Changes in net assets from nonoperating activities</u>	<u>(15,434)</u>	<u>635,033</u>	<u>619,599</u>
<u>Change in net assets</u>	<u>(18,238)</u>	<u>542,986</u>	<u>524,748</u>
<u>Net Assets, Beginning of Year</u>	<u>1,083,940</u>	<u>6,231,150</u>	<u>7,315,090</u>
<u>Transfers</u>	<u>246,853</u>	<u>(246,853)</u>	<u>-</u>
<u>Net Assets, End of Year</u>	<u>\$ 1,312,555</u>	<u>\$ 6,527,283</u>	<u>\$ 7,839,838</u>

See notes to the audited financial statements.

APPALSHOP, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
<u>Operating Activities:</u>			
Grants and similar public support	\$ 765,452	\$ 1,350,850	\$ 2,116,302
Sales income	21,637	-	21,637
Rental income	9,982	-	9,982
Performance income	4,111	-	4,111
Contract income	61,415	-	61,415
Other	25,102	-	25,102
<u>Total revenue and support before releases</u>	<u>887,699</u>	<u>1,350,850</u>	<u>2,238,549</u>
 <u>Net assets released from restrictions</u>	 <u>1,294,181</u>	 <u>(1,294,181)</u>	 <u>-</u>
 <u>Total revenue and support</u>	 <u>2,181,880</u>	 <u>56,669</u>	 <u>2,238,549</u>
 <u>Expenses:</u>			
Appalachian Media Institute	160,575	-	160,575
Community Engagement	106,976	-	106,976
Films	165,793	-	165,793
Archive	310,310	-	310,310
CMI	195,709	-	195,709
Roadside Theater	352,749	-	352,749
Seedtime	23,558	-	23,558
Traditional Music	35,883	-	35,883
Radio	310,550	-	310,550
Management and General	581,037	-	581,037
Fundraising	2,236	-	2,236
<u>Total expenses</u>	<u>2,245,376</u>	<u>-</u>	<u>2,245,376</u>
 <u>Changes in net assets from operating activities</u>	 <u>(63,496)</u>	 <u>56,669</u>	 <u>(6,827)</u>
 <u>Nonoperating Activities:</u>			
Interest and dividends income	1,930	68,954	70,884
Net realized and unrealized gains (losses) on investments	-	125,226	125,226
Interest expense	(4,714)	-	(4,714)
<u>Changes in net assets from nonoperating activities</u>	<u>(2,784)</u>	<u>194,180</u>	<u>191,396</u>
 Change in net assets	 <u>(66,280)</u>	 <u>250,849</u>	 <u>184,569</u>
 Net Assets, Beginning of Year	 <u>910,522</u>	 <u>6,219,999</u>	 <u>7,130,521</u>
 Transfers	 <u>239,698</u>	 <u>(239,698)</u>	 <u>-</u>
 <u>Net Assets, End of Year</u>	 <u>\$ 1,083,940</u>	 <u>\$ 6,231,150</u>	 <u>\$ 7,315,090</u>

See notes to the audited financial statements.

APPALSHOP, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2020

	Program Activities							
	<u>Appalachian</u>	<u>Community</u>						<u>Traditional</u>
	<u>Media Institute</u>	<u>Engagement</u>	<u>Films</u>	<u>Archive</u>	<u>CMI</u>	<u>Roadside Theater</u>	<u>Seedtime</u>	<u>Music</u>
Salaries and wages	\$ 97,667	\$ 36,751	\$ 2,844	\$ 95,688	\$ 100,860	\$ 89,185	\$ -	\$ 8,861
Medical insurance	14,244	6,592	-	12,373	8,672	13,836	-	-
Contract & professional services	78,751	33,951	57,923	143,478	52,216	149,102	8,282	10,744
Travel	2,777	2,992	8,592	1,136	4,569	20,670	320	357
Depreciation	5,228	-	2,258	2,743	-	-	-	-
Payroll taxes	6,497	2,733	612	7,130	7,454	9,478	-	801
Facilities	-	-	-	559	-	-	-	-
Employee benefits	5,066	3,170	1,294	8,837	4,745	3,842	-	-
Telecommunications	-	946	-	-	163	743	-	-
Equipment	9,535	465	2,562	2,438	-	777	-	-
Service and supplies	6,853	866	125	1,172	262	1,101	-	-
Other expenses	2,266	8,332	404	41,779	1,808	3,956	350	1,503
<u>Total</u>	<u>\$ 228,884</u>	<u>\$ 96,798</u>	<u>\$ 76,614</u>	<u>\$ 317,333</u>	<u>\$ 180,749</u>	<u>\$ 292,690</u>	<u>\$ 8,952</u>	<u>\$ 22,266</u>

See notes to the audited financial statements.

APPALSHOP, INC.
STATEMENTS OF FUNCTIONAL EXPENSES (continued)
For the Year Ended September 30, 2020

	<u>Program Activities</u>		<u>Supporting Activities</u>			
	<u>Radio</u>	<u>Total Program</u>	<u>Management and</u>		<u>Total Support</u>	<u>Total</u>
			<u>General</u>	<u>Fundraising</u>		
Salaries and wages	\$ 112,719	\$ 544,575	\$ 489,979	\$ -	\$ 489,979	\$ 1,034,554
Medical insurance	15,274	70,991	100,721	-	100,721	171,712
Contract & professional services	91,702	626,149	103,697	-	103,697	729,846
Travel	2,361	43,774	11,574	-	11,574	55,348
Depreciation	792	11,021	49,065	-	49,065	60,086
Payroll taxes	10,917	45,622	39,902	-	39,902	85,524
Facilities	11,602	12,161	52,282	-	52,282	64,443
Employee benefits	7,318	34,272	33,691	-	33,691	67,963
Telecommunications	478	2,330	26,442	-	26,442	28,772
Equipment	-	15,777	34,709	-	34,709	50,486
Service and supplies	3,199	13,578	12,705	-	12,705	26,283
Other expenses	6,740	67,138	28,589	2,571	31,160	98,298
<u>Total</u>	<u>\$ 263,102</u>	<u>\$ 1,487,388</u>	<u>\$ 983,356</u>	<u>\$ 2,571</u>	<u>\$ 985,927</u>	<u>\$ 2,473,315</u>

See notes to the audited financial statements.

APPALSHOP, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2019

Program Activities

	<u>Appalachian</u>	<u>Community</u>						<u>Traditional</u>
	<u>Media Institute</u>	<u>Engagement</u>	<u>Films</u>	<u>Archive</u>	<u>CMI</u>	<u>Roadside Theater</u>	<u>Seedtime</u>	<u>Music</u>
Salaries and wages	\$ 40,043	\$ 31,041	\$ 10,987	\$ 107,892	\$ 104,803	\$ 161,232	\$ -	\$ 7,652
Medical insurance	11,125	7,381	-	13,426	6,814	9,987	-	-
Contract & professional services	82,005	28,456	135,525	145,956	60,577	98,938	20,165	27,069
Travel	5,836	21,230	8,149	4,286	6,852	23,952	1,070	164
Depreciation	3,942	-	2,258	2,551	-	-	-	-
Payroll taxes	2,909	2,318	863	8,051	7,745	12,696	-	583
Facilities	1,001	-	2,560	2,429	500	3,251	53	-
Employee benefits	3,366	878	31	10,396	4,808	9,976	-	275
Telecommunications	-	-	-	-	251	2,358	-	-
Equipment	1,876	2,239	2,918	1,723	-	1,950	250	140
Service and supplies	3,340	378	748	2,605	1,111	1,491	549	-
Other expenses	5,132	13,055	1,754	10,995	2,248	26,918	1,471	-
<u>Total</u>	<u>\$ 160,575</u>	<u>\$ 106,976</u>	<u>\$ 165,793</u>	<u>\$ 310,310</u>	<u>\$ 195,709</u>	<u>\$ 352,749</u>	<u>\$ 23,558</u>	<u>\$ 35,883</u>

See notes to the audited financial statements.

APPALSHOP, INC.
STATEMENTS OF FUNCTIONAL EXPENSES (continued)
For the Year Ended September 30, 2019

	<u>Program Activities</u>		<u>Supporting Activities</u>			
	<u>Radio</u>	<u>Total Program</u>	<u>Management and</u>		<u>Total Support</u>	<u>Total</u>
			<u>General</u>	<u>Fundraising</u>		
Salaries and wages	\$ 141,986	\$ 605,636	\$ 205,474	\$ -	\$ 205,474	\$ 811,110
Medical insurance	30,572	79,305	47,526	-	47,526	126,831
Contract & professional services	76,826	675,517	56,617	-	56,617	732,134
Travel	8,149	79,688	20,020	-	20,020	99,708
Depreciation	1	8,752	37,140	-	37,140	45,892
Payroll taxes	10,888	46,053	19,792	-	19,792	65,845
Facilities	12,687	22,481	62,457	-	62,457	84,938
Employee benefits	9,404	39,134	21,305	-	21,305	60,439
Telecommunications	-	2,609	35,389	-	35,389	37,998
Equipment	5,866	16,962	15,057	-	15,057	32,019
Service and supplies	3,727	13,949	10,599	-	10,599	24,548
Other expenses	10,444	72,017	49,661	2,236	51,897	123,914
<u>Total</u>	<u>\$ 310,550</u>	<u>\$ 1,662,103</u>	<u>\$ 581,037</u>	<u>\$ 2,236</u>	<u>\$ 583,273</u>	<u>\$ 2,245,376</u>

See notes to the audited financial statements.

APPALSHOP, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Increase (Decrease) in net assets	\$ 524,748	\$ 184,569
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	60,086	45,892
(Gain) realized and unrealized on investments	(539,697)	(125,226)
(Increase) Decrease in Operating Assets:		
Accounts receivable	158	(1,495)
Accounts receivable - employee	2,400	(1,512)
Grants receivable	170,061	231,622
Inventory	563	563
Other current assets	(16,420)	(1,976)
Increase (Decrease) in Operating Liabilities:		
Accounts payable	872	(6,422)
Accrued expenses	30,622	(596)
SBA payroll potections	262,300	-
	<u>495,693</u>	<u>325,419</u>
<u>Net Cash Provided (Used) by Operating Activities</u>		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Acquisition of property and equipment	(43,713)	(513,085)
Acquisition of investments	(1,348,773)	(4,716,009)
Proceeds from sale or maturities of investments	<u>1,068,822</u>	<u>4,655,800</u>
	<u>(323,664)</u>	<u>(573,294)</u>
<u>Net Cash Provided (Used) by Investing Activities</u>		
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from long-term debt	-	457,113
Payments on long-term debt	<u>(33,888)</u>	<u>(5,070)</u>
	<u>(33,888)</u>	<u>452,043</u>
<u>Net Cash Provided (Used) by Financing Activities</u>		
<u>NET INCREASE (DECREASE) IN CASH</u>	138,141	204,168
<u>CASH, BEGINNING OF YEAR</u>	<u>477,761</u>	<u>273,593</u>
<u>CASH, END OF YEAR</u>	<u>\$ 615,902</u>	<u>477,761</u>
Supplemental Cash Flow Information:		
Interest paid	<u>\$ 17,400</u>	<u>\$ 4,714</u>

See notes to the audited financial statements.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 and 2019

Note 1 – Nature of Activities and Significant Accounting Policies

This summary of significant accounting policies of Appalshop Incorporated dba Appalshop, Inc. is presented to assist in understanding Appalshop, Inc.'s financial statements. The financial statements and notes are representations of the Appalshop, Inc.'s management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Appalshop, Inc., a non-profit multi-disciplinary arts and education center located in Whitesburg, Kentucky, in the heart of Appalachia, producing original films, video, theater, music, and spoken-word recordings, radio, photography, and multimedia products.

Appalshop, Inc.'s goals are to enlist the power of education, media, theater, music, and other arts; to document, disseminate, and revitalize the lasting traditions and contemporary creativity of Appalachia; to tell stories the commercial cultural industries don't tell, challenging stereotypes with Appalachia voices and visions; to support communities' efforts to achieve justice and equity and solve their own problems in their own way; to celebrate cultural diversity as a positive social value; and to participate in regional, national, and global dialogue toward these ends.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purposes in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

Accounting 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. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Appalshop, Inc.'s policy is to classify cash deposit accounts and money market accounts as cash and cash equivalents in the accompanying statements of financial position and of cash flows since these instruments are readily convertible into known amounts of cash. See Note 3 for additional disclosure information.

Accounts Receivable

As is customary, Appalshop, Inc. does not require collateral from other organizations in the ordinary course of business. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Appalshop, Inc does not accrue finance charges on its past due accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. Management did not consider an allowance for doubtful accounts necessary as of September 30, 2020 and 2019.

Inventory

Inventory, consisting primarily of original recordings, is stated at the lower of cost (determined on a first-in, first-out or specific identification basis) or market value.

Property and Equipment

Property and equipment are recorded at cost. Appalshop, Inc. capitalizes long-lived assets with acquisition costs greater than \$2,500. Depreciation and amortization provided using the straight-line method over the estimated service life of the respective assets from three to seven years. See Note 4 for additional disclosure information.

Investments

Investments are carried at their fair value based on quote prices (unadjusted) for identical assets in active markets that the entity has the ability to access as of the measurement date. Unrealized gains and losses are included in the accompanying statements of activities. The investments are subject to market risk. Appalshop, Inc.'s maximum exposure to accounting loss from its investments is represented by the amounts as presented on the accompanying statements of financial position. See Note 5 for additional disclosure information.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

The Endowments

The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. Effective March 25, 2010, the Commonwealth of Kentucky enacted a version of UPMIFA legislation. See Note 6 for additional disclose information.

Fair Value of Financial Instruments

The FASB ASC defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current accounting principles generally accepted in the United States of America, and expands the disclosure of the methods used and the effects of fair value measurements on earnings.

Contributions and Revenue

Grant revenue results from grant funds received as exchange transactions and contributions. Grant funds received in exchange transactions are deemed to be earned and reported in revenues of the applicable grant when Appalshop, Inc. has incurred expenses in compliance with the specific restrictions of the grant agreement. Expenses incurred for which grant funds have not been received are reported as grants receivable, while grant funds received but not yet earned are reported as unearned grant revenue. Restrictions are imposed by the other party to the exchange transaction and not by a donor. The associated net assets are without donor restrictions because the restrictions are imposed by the other party to the exchange transaction and not by a donor.

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings and equipment are reported as net assets without donor restriction upon acquisition of the assets when placed in service.

Functional Allocation of Expense

The costs of providing program and other services have been summarized by function, based on estimates developed by management. Allocation methods include assessment of time, effort and square footage.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

Advertising Expense

Advertising costs are expensed as incurred and are generally charged to management and administrative expenses. Advertising costs totaled approximately \$655 and \$3,470 for the fiscal years ended September 30, 2020 and 2019, respectively.

Contribution Services

Appalshop, Inc. receives a significant amount of contributed services of volunteers in connection with its various programs which do not meet the criteria for recognition. Accordingly, the value of these contributed services have not been reflected in the accompanying financial statements since it is not susceptible to objective measurement as required by the FASB.

Contributed Material

The FASB ASC requires recognition of in-kind contributions of tangible assets at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions of materials are offset by like amounts included in in-kind expenses.

Income Taxes

Appalshop, Inc. is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The FASB ASC prescribes a recognition threshold and measurement attribute for how an entity should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. The FASB ASC requires that the financial statements reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values.

Appalshop, Inc. is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in progress. Under federal tax statutes of limitations, Appalshop, Inc. believes it is no longer subject to federal income tax examinations for fiscal years prior to September 30, 2016.

Concentrations

Financial instruments that expose Appalshop, Inc. to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and Appalshop, Inc. has not experienced any losses on its cash equivalents.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to Appalshop, Inc.'s ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be a more unusual or nonrecurring nature.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events through June 11, 2021 the date the financial statements were available to be issued.

Appalshop received \$262,300 on May 4, 2020 from the Paycheck Protection Program. The funding was authorized by Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law by the President of the United States. The Organization continues to monitor the direct and indirect effects of COVID-19, which has led to closings of non-essential services and limitations for public assemblies. While the immediate and long-term financial impact cannot be reasonably estimated, management anticipates preparing amendments to future budget projections reflecting any significant changes in revenues or expenditures affecting the Organization as a result of the coronavirus. The Paycheck Protection Loan was forgiven as of February 24, 2021.

Appalshop has 257.4 shares in Mountain Tech Media, however it is currently in the process of being dissolved.

Recently Issued Accounting Standards

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. This amends current guidance that requires only capital leases to be recognized on the lessee balance sheet. ASU 2016-02 will also require additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for the Organization for reporting periods beginning after December 15, 2018 with early adoption permitted. On July 17, 2019, the FASB tentatively decided to defer the effective date to fiscal years beginning after December 15, 2021.

The Organization is presently evaluating the effects that these ASU's will have on its future financial statements, including related disclosures.

Note 2 – Description of Grants, Programs, and Projects

The Appalachian Media Institute (or AMI) has trained local, central Appalachian young people in media skills since 1988. A staff supported by peer trainers and other Appalshop, Inc. staff work with high school and college-age youth in after-school media labs focusing on audio and video production and in a seven-week Summer Institute during which 8-12 student interns produce short documentary films on community issues.

Appalshop, Inc. Films just released its latest film, *Portraits and Dreams*, in the fall of 2020. It was included in the PBS series *AMDOC* and was broadcast in September 2020 to a nation-wide audience. It is now being distributed by PBS. The film follows photographer Wendy Ewald as she re-visits students 35 years after her initial interaction with them as their 1970s-era photography teacher. The film raises questions about the lasting power of photography, arts education, and the representation of Eastern Kentucky by people (in this case children) who are of and from the mountains.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 2 – Description of Grants, Programs, and Projects (continued)

Other recently completed films include:

- *Our Kentucky River*, released in 2015, follows our Commonwealth's namesake river from its headwaters to the watershed's confluence with the Ohio River, showing the historical significance of the watershed and the many roles the river plays in the lives of Kentuckians as it flows across the state.
- *Anne Braden: Southern Patriot*, released in 2012, explores the extraordinary life of this American civil rights leader and Louisville native.
- *The Electricity Fairy*, released in 2010, follows the story of a proposed coal-fired power plant in the mountains of southwest Virginia and connects the local controversy to the national debate over energy policy.

Appalshop Archive was formally established in 2002 to safeguard and improve access to the organizations creative and institutional materials, as well as a growing number of donated collections that help enrich understanding of the region. The Archive manages a climate-controlled vault and cataloging database, and carries out preservation work on a variety of formats. The Archive also creates public programming to engage community members in reflection on shared history.

The Community Media Institute (or CMI) works with people in grassroots community organizations to help them develop the skills to tell their own stories. The CMI Making Connections project documents initiatives of mountain communities to address a rapidly changing economic and political reality. Making Connections produces audio and video reports for radio and the internet.

Roadside Theater creates and presents plays based on the history and lives of Appalachian people; collaborates with other theater companies nationally to create plays addressing issues of place, race, and class; and works with communities across the country to help them explore their communities' cultures and concerns through theater and media. Roadside staff have documented their methodologies in a series of curriculum guides and on its website. Currently, former Roadside alumni are compiling an anthology of their works for publication later in 2021.

Seedtime on the Cumberland now in its 35th year, is a multi-disciplinary arts festival bringing together some of the finest regional and national musicians, craftspeople, and food vendors, as well as producing a series of film screenings and workshops.

The Traditional Music project supports traditional music in local communities with Old-Time Days at Appalshop, Inc., the after-school Passing the Pick and Bow classes in which traditional musicians teach children fiddle, banjo and guitar, programming on WMMT and publicizing traditional regional music events.

WMMT -FM is Appalshop, Inc.'s community radio station. WMMT's mission is to be a 24-hour voice of mountain people's music, culture, and social issues, to provide broadcast space for creative expression and community involvement in making radio, and to be an active participant in discussion of public policies affecting our communities.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 2 – Description of Grants, Programs, and Projects (continued)

Grants and similar public support reflected in the statement of activities for the fiscal years ended September 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Individual Contributions	\$ 189,497	\$ 199,838
MacArthur Foundation	300,000	-
Augusta Brown Holland Philanthropic Fund	250,000	-
Corporation for Public Broadcasting	240,657	100,564
Artplace America LLC	238,000	-
Chorus Foundation	150,000	5,000
Educational Foundation of America	150,000	310,000
Mary Reynolds Babcock Foundation	110,000	-
National Endowment for the Humanities	75,000	-
National Campaign to Prevent Teen and Unplanned Pregnancy	66,000	108,000
NEA	65,000	70,000
W.L. Lyons Brown Foundation	55,000	-
Appalachian Impact Fund	50,000	-
Steele Reese Foundation	40,000	-
Kentucky Arts Council	35,600	35,798
Amb Matthew Barzun & Brooke Brown Barzun	25,000	-
Fulk Family Foundation, Inc.	25,000	-
Marguerite Casey Foundation	20,000	300,000
Shubert Foundation	20,000	20,000
Margaret Voorhies Haggin Trust	18,463	-
Map Fund Inc.	12,500	-
Great Meadows Foundation, Inc.	10,000	-
KY Humanities Council	10,000	-
Mid Atlantic Arts Foundation	5,990	-
Even Collinworth, III Fund	5,000	5,000
Felix Martin Grant	5,000	4,500
Foundation for Appalachian Kentucky	5,000	50,000
Helen F. Stillman	5,000	-
Social Justice Fund Northwest	5,000	5,000
AMIA	3,000	-
Alexander Waggoner Fund	1,000	-
Black Dog Private Foundation, Inc..	1,000	-
AEP	-	75,000
Andrew W. Mellon Foundation	-	500,000
Carol Ann and Ralph V. Haile, Jr	-	4,000
Doris Duke Charitable Foundation	-	200,000
East Tennessee Foundation	-	2,000
IIE	-	2,000
Journey Charitable Foundation	-	10,000
Joy of Giving Something, Inc	-	10,000
KY Colonels	-	20,000
NEH	-	50,000
NFCB	-	7,000
South Art, Inc	-	16,715
Lou Public Media	-	5,887
	<hr/>	<hr/>
Total grants and similar public support	\$ 2,191,707	\$ 2,116,302

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 3 – Cash and Cash Equivalents

The composition of cash at September 30, 2020 is as follows:

	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Interest Rate</u>
A/P-Community Trust Bank	\$ 2,347	\$ 49,588	N/A
Petty Cash	700	-	N/A
Payroll Account-Community Trust Bank	3,681	3,681	N/A
Deposit Account-Community Trust Bank	275,036	700,036	0.40%
Petty Cash-Community Trust Bank	32	32	N/A
Savings-Capital One	248,584	248,584	0.033%
Savings-Wells Fargo	85,522	85,522	0.061%
<u>Total</u>	<u>\$ 615,902</u>	<u>\$ 1,087,443</u>	

The composition of cash at September 30, 2019 is as follows:

	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Interest Rate</u>
A/P-Community Trust Bank	\$ (616)	\$ 50,595	N/A
Petty Cash	700	-	N/A
Payroll Account-Community Trust Bank	285	3,234	N/A
Deposit Account-Community Trust Bank	144,291	140,461	0.40%
Petty Cash-Community Trust Bank	52	52	N/A
Savings-Capital One	247,593	247,593	0.033%
Savings-Wells Fargo	85,456	85,456	0.082%
<u>Total</u>	<u>\$ 477,761</u>	<u>\$ 527,391</u>	

Custodial credit risk is the risk that in the event of bank failure the deposits may not be returned or Appalshop, Inc. may not recover collateral securities. The Organization does not require deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2020, deposit exceeded FDIC coverage, \$503,337 was uncollateralized. At September 30, 2019, deposits did not exceed FDIC coverage. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Concentrations of credit risk are the risk of loss attributed to the magnitude of the Entity's investment in a single issuer. All of the organization's cash is held at local financial institutions.

Note 4 – Property and Equipment

A summary of property and equipment at September 30, 2020 and 2019, consist of the following:

	<u>September 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2020</u>
<u>Non-depreciable assets:</u>				
Land	\$ 222,425	\$ -	\$ -	\$ 222,425
<u>Depreciable assets:</u>				
Buildings and improvements	1,644,294	34,204	-	1,678,498
Office and furniture	997,386	9,509	(64,751)	942,144
Less: Accumulated Depreciation	(1,561,551)	(60,086)	64,751	(1,556,886)
<u>Sub-total</u>	<u>1,080,129</u>	<u>(16,373)</u>	<u>-</u>	<u>1,063,756</u>
<u>Totals</u>	<u>\$ 1,302,554</u>	<u>\$ (16,373)</u>	<u>\$ -</u>	<u>\$ 1,286,181</u>

Depreciation expense for the year ended September 30, 2020 was \$60,086.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 4 – Property and Equipment (continued)

	<u>September 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2019</u>
<u>Non-depreciable assets:</u>				
Land	\$ 222,425	\$ -	\$ -	\$ 222,425
<u>Depreciable assets:</u>				
Buildings and improvements	1,166,746	477,548	-	1,644,294
Office and furniture	1,068,687	35,537	(106,838)	997,386
Less: Accumulated Depreciation	(1,622,497)	(45,892)	106,838	(1,561,551)
<u>Sub-total</u>	<u>612,936</u>	<u>467,193</u>	<u>-</u>	<u>1,080,129</u>
<u>Totals</u>	<u>\$ 835,361</u>	<u>\$ 467,193</u>	<u>\$ -</u>	<u>\$ 1,302,554</u>

Depreciation expense for the year ended September 30, 2019 was \$45,892.

Certain grantor agencies, through the terms of various grant agreements, maintain a legal interest in property and equipment acquired with grant funding and could take possession of such property and equipment upon improper use of such property and equipment by Appalshop, Inc. or dissolution of Appalshop, Inc.

Note 5 – Investments

Investments including endowment funds held by Appalshop, Inc. at September 30, 2020, consist of the following:

<u>Investments</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Appreciation</u>
<u>Endowment Investments</u>			
Cash and cash equivalents	\$ 165,617	\$ 165,617	\$ -
Stocks	2,133,179	3,058,147	924,968
Bonds	200,869	203,132	2,263
Mutual funds - bonds	1,640,247	1,978,383	338,136
Total endowment investment	<u>4,139,912</u>	<u>5,405,279</u>	<u>1,265,367</u>
<u>Other investments:</u>			
Cash and cash equivalents	478,719	478,719	-
Mutual funds - bonds	215,809	212,448	(3,361)
Stocks	-	52,818	52,818
Other Investment	-	2,574	2,574
Total other investments	<u>694,528</u>	<u>746,559</u>	<u>52,031</u>
Total investments	4,834,440	6,151,838	1,317,398
<u>Less short-term investments</u>			
Endowments	(165,617)	(165,617)	-
Other	(694,528)	(691,167)	3,361
Total short-term investments	<u>(860,145)</u>	<u>(856,784)</u>	<u>3,361</u>
Long-term investments	<u>\$ 3,974,295</u>	<u>\$ 5,295,054</u>	<u>\$ 1,320,759</u>

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 5 – Investment (continued)

Investments including endowment funds held by Appalshop, Inc. at September 30, 2019, consist of the following:

<u>Investments</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Appreciation</u>
Endowment Investments			
Cash and cash equivalents	\$ 104,804	\$ 104,804	\$ -
Stocks	2,043,229	2,915,868	872,639
Bonds	250,000	255,230	5,230
Mutual funds - bonds	1,748,433	1,768,666	20,233
Total endowment investment	<u>4,146,466</u>	<u>5,044,568</u>	<u>898,102</u>
Other investments:			
Cash and cash equivalents	258,047	258,665	618
Certificates of deposit	-	-	-
Stocks	-	14,809	14,809
Other Investment	-	14,148	14,148
Total other investments	<u>258,047</u>	<u>287,622</u>	<u>29,575</u>
Total investments	4,404,513	5,332,190	927,677
Less short-term investments			
Endowments	(104,804)	(104,804)	-
Other	(258,047)	(258,665)	(618)
Total short-term investments	<u>(362,851)</u>	<u>(363,469)</u>	<u>(618)</u>
Long-term investments	<u>\$ 4,041,662</u>	<u>\$ 4,968,721</u>	<u>\$ 927,059</u>

The composition of investment returns for the fiscal years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gains	\$ 539,697	\$ 125,226
Investment income	97,302	70,884
Net investment gains (loss)	<u>\$ 636,999</u>	<u>\$ 196,110</u>

All endowment funds at September 30, 2020 and 2019 are held and managed by Wells Fargo Advisors. Management does not believe that Appalshop, Inc. is exposed to any significant credit risks.

During FY19, Appalshop celebrated its 50th Anniversary with a capital campaign to fund several new board-approved funds, which will assist Appalshop, Inc. in reaching strategic goals and support short-term and long-term sustainability.

The fund policies were approved by the Board of Directors and the fund was then established and invested with Wells Fargo, being seeded by donations from individual and foundation donors during the 50th campaign. These includes:

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 5 – Investment (continued)

Working Capital Fund

Designed to facilitate Appalshop's ability to cover cash flow related to current obligations such as existing payables with unrestricted cash. Working Capital will be contained within the undesignated, unrestricted operating account and not be subject to an explicit spending policy. Appalshop is establishing this as a cash fund held at Wells Fargo.

The Working Capital fund will be used for short term – 12 months or less – bridge loans to supplement cash flow, as needed. The use of funds can be project specific, but could also be broadly used by Appalshop, and would be administered at the Executive Director's discretion in consultation with Financial Director.

Facilities (Building and Grounds) Reserve

To allow Appalshop to make periodic investments in the upkeep of fixed assets without depleting working capital reserves. The reserve will be established as an invested account held at Well Fargo.

All withdrawals from this fund are to be used for the purpose of maintaining Appalshop's fixed assets and must be approved by the Board. All withdrawals from the fund must be fully repaid within two years if less than \$25,000 or within five years if greater than \$25,000. Cumulative withdrawal balances and repayment plans will be included in the regular financial reporting package presented to the Board.

Artistic Reserve

Intended to allow Appalshop to invest in artistic programmatic opportunities without depleting working capital reserves for regular operations. Appalshop is establishing as invested fund held at Well Fargo.

The Artistic Reserve fund will primarily be used for executing new, artistic programmatic opportunities. However, in the event Appalshop loses a major artistic funder, the Artistic Reserve would be tapped to cover a portion of these lost funds. All withdrawals must be pre-approved by Appalshop's Board and must be fully repaid within three years if less than \$100,000, or within five years if greater than \$100,000.

In the case of a funder exit, or extraordinary market loss, the Artistic Reserve will be available when:

1. The loss is greater than \$50,000;
2. There is a clear plan for new revenue sources to be cultivated;
3. All expense reduction plans are implemented; and
4. Appalshop's Board approves the repayment plan and withdrawal.

Quasi-Endowment

Allowing Appalshop to have an additional long-term, invested fund controlled by the Appalshop Board (instead of the separate, restricted Trust managed by Trustees). This fund will be held at Wells Fargo and follow our socially responsible investment strategy.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 5 – Investment (continued)

The Quasi Endowment can include funds from a variety of individual donors and foundations. Most of the fund will have specific use described by donor intent, however a portion of the fund may be restricted. Only the earnings returned from the fund (5%), and not the principal itself, will be used by Appalshop annually. With approval from the board, Appalshop's Executive Director and Financial Director will facilitate disbursements in October, at the beginning of Appalshop's fiscal year. Funds with specific donor-intent will be given as directed. Unrestricted funds will be used at the discretion of the board.

In the case of a major emergency, (fire, flood, security) the Quasi-Endowment's principal may be drawn from with approval by Appalshop's Board. In the instance, Appalshop's Executive Director would first need to seek relevant professional input before making a detailed, justifiable recommendation to the board.

Glenn Ihrig Scholarship Fund

In 2020, Appalshop donor, Glenn Ihrig, donated stock for the initial funding of a scholarship fund established and invested in his name, at Wells Fargo. The purpose of the fund is restricted to benefitting a yearly scholarship for a youth participant in the Appalachian Media Initiative summer documentary training program. The donor's intent, over time, is to add contributions to the fund and increase the value to total \$70,000 in order to provide a full yearly scholarship taken from the fund's earnings only. Due to the need for further funding of the account, this fund will not be used until full funding is achieved, and will remain invested as stock.

Note 6 – Endowments

Appalshop, Inc.'s endowment funds are held in Appalshop, Inc. Trust (the "Trust") established January 9, 1990. The Board of Trustees, elected by the Appalshop, Inc.'s Board of Directors, are responsible for making distributions of earnings on the endowment funds. Earnings on the endowment funds may be used only for the production of new works and educational programs in the arts and humanities. The distributions shall be used solely in the United States, shall not be paid to private individuals, shall not be used in any political campaign for public office, and shall not in any substantial part be used to influence legislation.

Appalshop, Inc. follows UPMIFA and its own governing documents. With the exception of one donor, Appalshop, Inc.'s donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

Appalshop, Inc. has established investment and spending policies for the endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment funds over the long-term. Appalshop, Inc. has not established a written investment policy. Historically, the trustees have established that 60% of funds should be invested in equity and 40% in bonds, and the equity funds should be invested in a socially responsible manner. The spending policy established by Appalshop, Inc. calculates the amount of money that is to be distributed from Appalshop, Inc.'s endowment funds. The earnings are made available as matching funds to Appalshop, Inc. projects as determined by the Board of Trustees and the Appalshop, Inc.'s Board of Directors. The procedure currently in place for determining the amount to be distributed on a semi-annual basis is 5% of the average total holdings of the Trust over the previous twelve months less costs associated with management of the Trust and meetings of the Trustees.

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 6 – Endowments (continued)

Endowment net asset composition by type of fund as of September 30, 2020, is as follows:

	<u>With Donor</u> <u>Restrictions</u>	<u>Total Net</u> <u>Endowment</u> <u>Assets</u>
Donor-restricted endowment funds	\$ 5,405,279	\$ 5,405,279

Changes in endowment net assets for the fiscal year ended September 30, 2020, are as follows:

	<u>With Donor</u> <u>Restrictions</u>	<u>Total Net</u> <u>Endowment</u> <u>Assets</u>
Endowment net assets, beginning of fiscal year	\$ 5,044,568	\$ 5,044,568
Investment return, net	635,033	635,033
Amounts appropriated for expenditure	<u>(274,322)</u>	<u>(274,322)</u>
Endowment net assets, end of fiscal year	<u>\$ 5,405,279</u>	<u>\$ 5,405,279</u>

Endowment net asset composition by type of funds as of September 30, 2019, is as follows:

	<u>With Donor</u> <u>Restrictions</u>	<u>Total Net</u> <u>Endowment</u> <u>Assets</u>
Donor-restricted endowment funds	<u>\$ 5,044,568</u>	<u>\$ 5,044,568</u>

Changes in endowment net assets for the fiscal year ended September 30, 2019, are as follows:

Endowment net assets, beginning of fiscal year	\$ 5,050,345	\$ 5,050,345
Investment income	68,954	68,954
Net appreciation (unrealized and realized)	125,226	125,226
Investment return, net	196,110	194,180
Amounts appropriated for expenditure	<u>(201,887)</u>	<u>(201,887)</u>
Endowment net assets, end of fiscal year	<u>\$ 5,044,568</u>	<u>\$ 5,044,568</u>

Fair market values of public company stocks are determined by quoted prices in active markets for identical assets (Level 1).

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 7 – Net Assets - With Donor Restrictions

Donor restricted net assets consist for the following purposes as of September 30, 2020 and 2019:

Subject to expenditure for specified purpose:	<u>2020</u>	<u>2019</u>
Appalachian media institute activities	\$ 385,522	\$ 210,459
Archive activities	-	100,001
CMI activities	51,600	14,133
Community engagement activities	37,500	6,167
Films activities	7,668	55,243
Radio activities	25,000	27,005
Roadside theater activities	<u>248,584</u>	<u>247,593</u>
Total	<u>\$ 755,874</u>	<u>\$ 660,601</u>
Subject to expenditure for spending policy and appropriation:	<u>2020</u>	<u>2019</u>
Community engagement activities	\$ -	\$ 15,000
Management and general activities	42,800	158,836
Radio activities	-	75,000
Roadside theater activities	12,500	14,062
Endowment	<u>5,716,109</u>	<u>5,307,651</u>
Total	<u>5,771,409</u>	<u>5,570,549</u>
Total net assets with donor restrictions	<u>\$ 6,527,283</u>	<u>\$ 6,231,150</u>

Releases from Donor Restricted Net Assets for the years ended September 31, 2020 and 2019 are as follows:

Releases from restrictions:		
Subject to expenditure for specified purpose:	<u>2020</u>	<u>2019</u>
Appalachian media institute activities	\$ 628,000	\$ 20,000
Archive activities	109,333	79,111
CMI activities	-	129,500
Community engagement activities	44,583	29,590
Films activities	(8,470)	58,469
Management and general activities	60,600	71,389
Radio activities	50,000	120,865
Roadside theater activities	26,437	-
Traditional music activities	<u>-</u>	<u>-</u>
Total	<u>\$ 910,483</u>	<u>\$ 508,924</u>
Subject to expenditure for spending policy and appropriation:	<u>2020</u>	<u>2019</u>
Appalachian media institute activities	\$ 32,594	\$ 24,572
Archive activities	41,075	49,274
CMI activities	33,246	40,966
Community engagement activities	58,385	23,415
Seedtime activities	10,493	16,000
Traditional music activities	22,354	28,342
Management and general activities	148,015	515,394
Radio activities	102,300	53,389
Roadside theater activities	<u>28,485</u>	<u>273,603</u>
Total	<u>476,947</u>	<u>1,024,955</u>
Total release from restrictions	<u>\$ 1,387,430</u>	<u>\$ 1,533,879</u>

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 8 – Lease Agreements

Appalshop, Inc. leases a copier under a non-cancelable lease that commenced February 2014 and expired in February 2019. The copier lease had a minimum lease payment of \$272 per month. Total rent expense under the lease agreement was approximately \$3,267 and \$3,267 for the fiscal years ended September 30, 2020 and 2019, respectively.

Note 9 – Retirement Plan

Appalshop, Inc. maintains a 403(b) retirement plan for all of its employees. Appalshop, Inc.'s contribution is equal to 6% of the average hourly salary for each hour worked. Appalshop, Inc. contributed \$48,660 and \$42,952 to the plan for the fiscal years ended September 30, 2020 and 2019, respectively.

Note 10 – Liquidity

Appalshop, Inc. financial assets available within one year of the balance sheet date for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 615,902	\$ 477,761
Accounts receivable	11,417	11,575
Accounts receivable - employee	250	2,650
Grants receivable	490,826	660,887
Short-term investments	644,336	363,469
Inventory	34,718	35,281
Other current assets	<u>47,520</u>	<u>31,100</u>
<u>Total Available</u>	<u>\$1,844,969</u>	<u>\$1,582,723</u>

Note 11 – Other Current Assets

Prepaid items and other current assets include the following at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Prepaid Postage	\$ 1,264	\$ 764
Prepaid Liability Insurance	25,728	17,264
Prepaid Expenses	<u>20,528</u>	<u>13,072</u>
	<u>\$ 47,520</u>	<u>\$ 31,100</u>

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 12 – Special Events

Special events generate revenue for the Organization as well as raise community and surrounding area awareness about its mission and program services. Event to raise money for various construction programs and operating cost for the radio station.

	<u>2020</u>	<u>2019</u>
Revenues from Event	\$ 3,194	\$ 16,174
Less Costs	<u>2,571</u>	<u>2,236</u>
Increase in Net Assets		
Without Donor Restrictions	<u>\$ 623</u>	<u>\$ 13,938</u>

Note 13 – Contingency

Appalshop, Inc. receives funding from Federal and Kentucky government agencies. The funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse Appalshop, Inc. for their disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of Appalshop, Inc.'s grant program is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs. Management is not currently aware of any significant grantors' concerns or programs to be discontinued.

The Economic Development Administration retained a priority reversionary interest in certain equipment purchased by Appalshop, Inc. with this agency's grant funds until 2019 when it was released.

Note 14 – Long-term liabilities

Notes payable at September 30, 2020 consist of the following:

<u>Mortgagor</u>	<u>Balance</u> <u>9/30/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/2020</u>	<u>Current</u> <u>Portion</u>	<u>Terms</u>	<u>Org Date</u> <u>of Loan</u>	<u>Rate</u>	<u>Collateral</u>
Mountain Association	\$ 221,498	\$ -	\$ (28,354)	\$ 193,144	\$ 8,945	Monthly Principal Payment and Interest	05/02/2019	4%	Real Estate
Mountain Association	230,545	-	(5,534)	225,011	8,294	Monthly Principal Payment and Interest	05/02/2019	4%	Real Estate
Community Trust Bank	<u>-</u>	<u>262,300</u>	<u>-</u>	<u>262,300</u>	<u>262,300</u>	Forgivable-PPP Loan	05/04/2020	0%	Unsecured
<u>Totals</u>	<u>\$ 452,043</u>	<u>\$ 262,300</u>	<u>\$ (33,888)</u>	<u>\$ 680,455</u>	<u>\$ 279,539</u>				

APPALSHOP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2020 and 2019

Note 14 – Long-term liabilities (continued)

Notes payable at September 30, 2019 consist of the following:

<u>Mortgagor</u>	<u>Balance</u> <u>10/1/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/2019</u>	<u>Current</u> <u>Portion</u>	<u>Terms</u>	<u>Org Date</u> <u>of Loan</u>	<u>Rate</u>	<u>Collateral</u>
Mountain Association	\$ -	\$ 225,440	\$ (3,942)	\$ 221,498	\$ 5,368	Monthly Principal Payment and Interest	05/02/2019	4%	Real Estate
Mountain Association	-	231,673	(1,128)	230,545	5,588	Monthly Principal Payment and Interest	05/02/2019	4%	Real Estate
<u>Totals</u>	<u>\$ -</u>	<u>\$ 457,113</u>	<u>\$ (5,070)</u>	<u>\$ 452,043</u>	<u>\$ 10,956</u>				

Future maturities of notes payable are as follows:

2021	\$ 17,239
2022	17,103
2023	18,596
2024	19,366
2025	20,169
Thereafter	<u>325,682</u>
Total	<u>\$ 418,155</u>

The notes were used to finance the construction of the Solar Pavilion, which was completed in July 2019.