

**Appalachian Research and Defense Fund of
Kentucky, Inc.
LSC Recipient Number 618030**

**Financial Statements with Supplementary Information
December 31, 2022 and 2021, and
Independent Auditors' Report**

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.
December 31, 2022 and 2021

Contents

	<u>Page(s)</u>
Independent Auditors' Report	1 - 3
Financial Statements:	
Statements of Financial Position	4
Statements of Activities	5 - 6
Statements of Functional Expenses	7 - 8
Statements of Cash Flows	9
Notes to the Financial Statements	10 - 24
Supplementary Information:	
Schedule of Expenditures of Federal Awards	25
Notes to Schedule of Expenditures of Federal Awards	26
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 - 28
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance and <i>Legal Services Corporation's Audit Guide and Compliance Supplement</i>	29 - 31
Schedule of Findings and Questioned Costs	32 - 33
Summary of Prior Year Findings and Questioned Costs	34

Independent Auditors' Report

Board of Directors
Appalachian Research and Defense Fund of Kentucky, Inc.
Prestonsburg, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Appalachian Research and Defense Fund of Kentucky, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Appalachian Research and Defense Fund of Kentucky, Inc. as of December 31, 2022 and 2021 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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 the Appalachian Research and Defense Fund of Kentucky, Inc. and to meet our other ethical responsibilities, in accordance with the 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 audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Appalachian Research and Defense Fund of Kentucky, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

**Independent Auditors' Report
(Continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Appalachian Research and Defense Fund of Kentucky, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Appalachian Research and Defense Fund of Kentucky, Inc.'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 audited during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompany schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Independent Auditors' Report
(Continued)**

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2023, on our consideration of Appalachian Research and Defense Fund of Kentucky, Inc.'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 solely 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 the effectiveness of Appalachian Research and Defense Fund of Kentucky, Inc.'s 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 Appalachian Research and Defense Fund of Kentucky, Inc.'s internal control over financial reporting and compliance.

Barnes, Dennig & Co., Ltd.

April 24, 2023
Crestview Hills, Kentucky

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statements of Financial Position December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 2,736,560	\$ 2,351,854
Client escrow funds	5,773	4,148
Grants receivable, net	471,723	354,570
Prepaid expenses and other assets	70,979	84,199
Investments	1,950,268	2,223,506
Property and equipment, net	526,951	560,968
Right-of-use asset, net - operating leases	49,447	-
	<u>5,811,701</u>	<u>5,579,245</u>
Total assets	<u>\$ 5,811,701</u>	<u>\$ 5,579,245</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 42,969	\$ 31,907
Accrued expenses	381,010	261,335
Employee withholdings payable	32,671	13,682
Client trust deposits	5,773	4,148
Lease liability - operating leases	49,472	-
Refundable advance	251,142	368,422
	<u>763,037</u>	<u>679,494</u>
Total liabilities	<u>763,037</u>	<u>679,494</u>
Net Assets		
Without donor restrictions	4,821,696	4,465,364
With donor restrictions	226,968	434,387
	<u>5,048,664</u>	<u>4,899,751</u>
Total net assets	<u>5,048,664</u>	<u>4,899,751</u>
Total liabilities and net assets	<u>\$ 5,811,701</u>	<u>\$ 5,579,245</u>

See accompanying notes to financial statements

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statement of Activities **Year Ended December 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grants and contracts	\$ 2,753,507	\$ 2,100,840	\$ 4,854,347
Attorney fees	88,790	-	88,790
Contributions	98,459	-	98,459
Interest income	26,311	-	26,311
Donated legal services and other	72,151	-	72,151
Investment loss, net	(272,890)	-	(272,890)
Total support and revenue	2,766,328	2,100,840	4,867,168
Net assets released from restrictions	2,308,259	(2,308,259)	-
Total support, revenue and reclassifications	5,074,587	(207,419)	4,867,168
Expenses			
Salaries	2,579,587	-	2,579,587
Employee benefits	1,300,107	-	1,300,107
Total salaries and benefits	3,879,694	-	3,879,694
Contract services	226,695	-	226,695
Space and occupancy	90,666	-	90,666
Telephone	84,332	-	84,332
Travel and training	81,626	-	81,626
Donated expenses	72,151	-	72,151
Consumables and postage	44,083	-	44,083
Professional services	26,875	-	26,875
Computer maintenance and consulting	37,562	-	37,562
Miscellaneous expenses	34,272	-	34,272
Library expenses	32,271	-	32,271
Insurance	27,933	-	27,933
Dues and fees	16,189	-	16,189
Litigation	16,026	-	16,026
Fundraising	7,633	-	7,633
Depreciation	40,247	-	40,247
Total expenses	4,718,255	-	4,718,255
Change in net assets	356,332	(207,419)	148,913
Net assets, beginning of year	4,465,364	434,387	4,899,751
Net assets, end of year	<u>\$ 4,821,696</u>	<u>\$ 226,968</u>	<u>\$ 5,048,664</u>

See accompanying notes to financial statements

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statement of Activities Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grants and contracts	\$ 2,649,408	\$ 1,784,690	\$ 4,434,098
Attorney fees	123,046	-	123,046
Contributions	88,806	67,843	156,649
Interest income	3,343	-	3,343
Donated legal services	56,988	-	56,988
Investment income, net	174,131	-	174,131
Other	3,619	-	3,619
Total support and revenue	3,099,341	1,852,533	4,951,874
Net assets released from restrictions	2,033,556	(2,033,556)	-
Total support, revenue and reclassifications	5,132,897	(181,023)	4,951,874
Expenses			
Salaries	2,323,104	-	2,323,104
Employee benefits	1,147,038	-	1,147,038
Total salaries and benefits	3,470,142	-	3,470,142
Contract services	249,012	-	249,012
Telephone	98,292	-	98,292
Space and occupancy	94,845	-	94,845
Consumables and postage	82,221	-	82,221
Donated legal services	56,988	-	56,988
Professional services	23,300	-	23,300
Computer maintenance and consulting	43,989	-	43,989
Travel and training	32,634	-	32,634
Library expenses	30,458	-	30,458
Insurance	25,995	-	25,995
Miscellaneous expenses	25,180	-	25,180
Litigation	22,651	-	22,651
Dues and fees	16,144	-	16,144
Fundraising	14,168	-	14,168
Depreciation	38,513	-	38,513
Total expenses	4,324,532	-	4,324,532
Change in net assets	808,365	(181,023)	627,342
Net assets, beginning of year	3,656,999	615,410	4,272,409
Net assets, end of year	<u>\$ 4,465,364</u>	<u>\$ 434,387</u>	<u>\$ 4,899,751</u>

See accompanying notes to financial statements

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statement of Functional Expenses Year Ended December 31, 2022

	Legal Services	Supporting	Fund Raising	Total
Salaries and benefits				
Salaries	\$ 2,157,097	\$ 376,720	\$ 45,770	\$ 2,579,587
Employee benefits	1,109,154	169,048	21,905	1,300,107
Total salaries and benefits	3,266,251	545,768	67,675	3,879,694
Other expenses				
Contract services	224,267	2,428	-	226,695
Space and occupancy	83,633	7,033	-	90,666
Telephone	80,538	3,794	-	84,332
Travel and training	57,515	24,111	-	81,626
Donated expenses	61,336	-	10,815	72,151
Consumables and postage	38,045	6,038	-	44,083
Professional services	10,750	16,125	-	26,875
Computer maintenance and consulting	33,272	4,290	-	37,562
Miscellaneous expenses	609	33,663	-	34,272
Library expenses	32,271	-	-	32,271
Insurance	26,152	1,781	-	27,933
Dues and fees	14,668	1,521	-	16,189
Litigation	16,026	-	-	16,026
Fundraising	-	-	7,633	7,633
Total expenses before depreciation	3,945,333	646,552	86,123	4,678,008
Depreciation	34,498	5,749	-	40,247
Total expenses	<u>\$ 3,979,831</u>	<u>\$ 652,301</u>	<u>\$ 86,123</u>	<u>\$ 4,718,255</u>

See accompanying notes to financial statements

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

**Statement of Functional Expenses
Year Ended December 31, 2021**

	Legal Services	Supporting	Fund Raising	Total
Salaries and benefits				
Salaries	\$ 1,928,953	\$ 352,121	\$ 42,030	\$ 2,323,104
Employee benefits	999,641	130,593	16,804	1,147,038
Total salaries and benefits	2,928,594	482,714	58,834	3,470,142
Other expenses				
Contract services	225,657	23,355	-	249,012
Space and occupancy	86,726	8,119	-	94,845
Telephone	92,416	5,876	-	98,292
Travel and training	19,222	13,030	382	32,634
Donated legal services	56,988	-	-	56,988
Consumables and postage	71,700	10,059	462	82,221
Professional services	9,320	13,980	-	23,300
Computer maintenance and consulting	37,705	6,284	-	43,989
Miscellaneous expenses	1,386	23,257	537	25,180
Library expenses	30,458	-	-	30,458
Insurance	24,280	1,715	-	25,995
Litigation	22,651	-	-	22,651
Dues and fees	14,852	1,292	-	16,144
Fundraising	-	-	14,168	14,168
Total expenses before depreciation	3,621,955	589,681	74,383	4,286,019
Depreciation	33,011	5,502	-	38,513
Total expenses	\$ 3,654,966	\$ 595,183	\$ 74,383	\$ 4,324,532

See accompanying notes to financial statements

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statements of Cash Flows Year Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 148,913	\$ 627,342
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	40,247	38,513
Net realized and unrealized (gains) losses on investments	309,611	(140,842)
Receipts of client escrow funds held in agency transactions	43,185	82,091
Payments of client escrow funds held in agency transactions	(41,560)	(81,683)
Non-cash lease expense	25	-
Changes in:		
Accounts receivable, net	(117,153)	(107,875)
Prepaid expenses and other assets	13,220	(30,916)
Accounts payable	11,062	7,597
Accrued expenses	119,675	(22,541)
Employee withholdings payable	18,989	13,683
Refundable advance	(117,280)	(205,380)
Net cash provided by operating activities	<u>428,934</u>	<u>179,989</u>
Cash flows from investing activities		
Purchases of investments	(337,747)	(918,805)
Proceeds from sale of investments	301,374	883,534
Purchases of property and equipment	<u>(6,230)</u>	<u>(51,796)</u>
Net cash used in investing activities	<u>(42,603)</u>	<u>(87,067)</u>
Net change in cash, cash equivalents and restricted cash	386,331	92,922
Cash, cash equivalents, and restricted cash beginning of year	<u>2,356,002</u>	<u>2,263,080</u>
Cash, cash equivalents, and restricted cash end of year	<u><u>\$ 2,742,333</u></u>	<u><u>\$ 2,356,002</u></u>

Supplemental cash flow information:

Cash, cash equivalents and restricted cash shown in the statement of cash flows are reported as follows within the statement of financial position:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,736,560	\$ 2,351,854
Client escrow funds	<u>5,773</u>	<u>4,148</u>
	<u><u>\$ 2,742,333</u></u>	<u><u>\$ 2,356,002</u></u>

See accompanying notes to financial statements

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Appalachian Research and Defense Fund of Kentucky, Inc. (ARDF) is a nonprofit organization incorporated under the laws of the Commonwealth of Kentucky organized for the purpose of providing legal assistance and representation in noncriminal proceedings to persons financially unable to afford legal assistance and who are residents of one of thirty-seven counties in Eastern and South Central Kentucky.

A substantial amount of the funds to operate ARDF are obtained from grant awards from Legal Services Corporation (LSC, a nonprofit corporation established by Congress to administer a nationwide legal assistance program). ARDF also receives supplemental funds from the Commonwealth of Kentucky's Access to Justice Fees (Kentucky filing fees).

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). ARDF is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net assets with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

At various times throughout the year, ARDF may have cash in financial institutions in excess of insured limits. The Federal Deposit Insurance Company (FDIC) insures account balances up to \$250,000 for each business depositor. Using these criteria, ARDF had cash in excess of insured limits of \$1,992,333 and \$1,606,002 as of December 31, 2022 and 2021, respectively. In accordance with LSC guidelines, LSC funds in excess of FDIC limits that are not needed for immediate operating expenses have been invested in investment instruments such as money market accounts and savings accounts with financial institutions. Citizens Bank, Peoples Bank and Community Trust Bank have pledged investments to ARDF to cover deposits in excess of FDIC limits of \$250,000.

Client Escrow Funds

ARDF receives advances from clients for payment ordered by the court in connection with litigation proceedings. These amounts are maintained in separate bank accounts and are not available for use in current operations.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividends, interest and realized and unrealized gains and loss on investments, net of investment fees.

Investment return is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as with donor restrictions or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Grants Receivable

Grants receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. ARDF begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for uncollectible accounts based on ARDF's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Based on these criteria, ARDF has not recorded an allowance for doubtful accounts at December 31, 2022 and 2021 since management expects all receivables to be collected.

Property and Equipment

Property and equipment are recorded at cost. Property and equipment acquired with LSC funds are considered to be owned by ARDF while used in the program or in future authorized programs. However, LSC has a reversionary interest in these assets. LSC has the right to determine the use of any proceeds from the sale of assets purchased with its funds. Proceeds received from property and equipment sales that are earmarked as pertaining to LSC are separately identified in the supplementary schedules to these financial statements as property designated from LSC funds. No property purchased with LSC funds was sold during December 31, 2022 and 2021. See property and equipment purchased with LSC funds at Note 2.

ARDF follows the current LSC guidelines (and these guidelines approximate U.S. GAAP) of capitalizing the cost of all expenditures for property and equipment in excess of \$5,000. Depreciation of property and equipment is computed on a straight-line basis over the estimated service lives of the related assets.

Estimated service lives of 3 to 10 years have been assigned to office furniture and equipment. Building and building improvements are depreciated over a 31.5 year life.

Certain property and equipment were purchased with federal grants. Federal regulations require that this equipment be used only for the approved purpose and be returned to the grantor upon termination of the program. As such, the estimated useful lives of such equipment do not exceed the expected lives of the programs.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Grants and Revenue Recognition

Support funded by grants is recognized as ARDF performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. A receivable is recognized to the extent grant support earned exceeds cash advances. A refundable advance is recognized to the extent cash advances received exceeds grant support earned.

Under Kentucky law, ARDF receives Access to Justice Fees. This funding is derived from filing fees in the Circuit and District Courts. Under this funding, ARDF is required to maintain appropriate accounting of the use of these funds and refund annually all unused or uncommitted funds to the state. The amounts earned during December 31, 2022 and 2021 were expended or committed in accordance with the requirements of this law.

Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or 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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as with donor restrictions and then released from restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. Conditional promises to give are recognized as revenues when the conditions on which they depend are substantially met. ARDF has numerous grants for which the grantor agencies' promises to give are conditioned upon ARDF incurring certain qualifying expenses under the grant programs. At December 31, 2022 and 2021, these conditional promises to give totaled approximately \$2,191,000 and \$544,000. Many of these amounts are conditioned upon the grantor's availability of funds for the grant purpose in future years mutual agreement to proceed with the grant project, and satisfactory performance under the grant agreements.

Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional classification basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. Such allocations are determined by management on an equitable basis. The most significant allocations were salaries and related expenses, which were allocated based on time and effort. Other expenses were also allocated based on time.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

ARDF is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Kentucky law. However, ARDF is subject to federal income tax on any unrelated business taxable income.

ARDF's IRS Form 990 is subject to review and examination by federal and state authorities. ARDF believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Leases

ARDF has lease agreements with lease and non-lease components, which are generally accounted for separately. ARDF accounts for the lease and non-lease components as a single lease component.

As most ARDF's lease do not provide an implicit rate, ARDF uses a risk-free rate based on information available at commencement date in determining the present value of lease payments. ARDF also elected to apply the short-term lease exemption to all its classes of assets.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

Effect of Adopting New Accounting Standards

In February 2016, the Financial Accounting Services Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases* which created Accounting Standards Codification (ASC) Topic 842. This ASU requires organizations that lease assets to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

ARDF adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

As a result of the adoption of the new lease accounting guidance, ARDF recognized on January 1, 2022 a lease liability of \$76,646, which represents the present value of the remaining operating lease payments, and a right of use asset of \$76,821 which represents the operating lease liability of \$76,646 adjusted for accrued rent of \$175.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effect of Adopting New Accounting Standards (Continued)

ARDF elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

During 2022, ARDF, adopted FASB ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. These include separate presentation in the statement of activities, disaggregation by type, policy and qualitative information about monetization and utilization, description of valuation techniques and inputs used to arrive at a fair value measure, and donor-imposed restrictions associated with the contributed nonfinancial assets. ARDF adopted the ASU using the retrospective approach as of January 1, 2022. The most significant impact of adoption of ASU 2020-07 is expanded disclosures for contributions of nonfinancial assets.

Reclassifications

Certain 2021 figures were reclassified to conform to the 2022 presentation. There were no changes to change in net assets for 2021.

Subsequent Events

ARDF has evaluated subsequent events through April 24, 2023, which is the date on which the financial statements were available to be issued.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

<u>December 31, 2022</u>	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
Buildings and improvements	\$ 836,424	\$ 36,448	\$ 872,872
Furniture and equipment	<u>155,246</u>	<u>70,673</u>	<u>225,919</u>
	991,670	107,121	1,098,791
Less accumulated depreciation	<u>(526,223)</u>	<u>(45,617)</u>	<u>(571,840)</u>
	<u>\$ 465,447</u>	<u>\$ 61,504</u>	<u>\$ 526,951</u>
 <u>December 31, 2021</u>	 <u>Non-LSC</u>	 <u>LSC</u>	 <u>Total</u>
Buildings and improvements	\$ 836,424	\$ 36,448	\$ 872,872
Furniture and equipment	<u>149,016</u>	<u>70,673</u>	<u>219,689</u>
	985,440	107,121	1,092,561
Less accumulated depreciation	<u>(501,678)</u>	<u>(29,915)</u>	<u>(531,593)</u>
	<u>\$ 483,762</u>	<u>\$ 77,206</u>	<u>\$ 560,968</u>

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 3 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31 had the following time or purpose restrictions:

	2022	2021
Rosenberg Fellowship	\$ 118,549	\$ 118,549
AEP	45,660	-
Foundation for Appalachian KY (Match)	25,000	-
Community Foundation of Louisville, Inc.	20,000	28,743
Methodist Grant	8,936	15,628
Foundation for Appalachian KY	3,840	-
Good Samaritan Foundation	3,201	7,839
Summer Intern Program	1,000	1,000
Medical Legal Partnership	782	-
IOLTA Bank of America Settlement	-	258,774
KY Bar Foundation	-	3,854
	<u>\$ 226,968</u>	<u>\$ 434,387</u>

NOTE 4 LEASES

ARDF has two long-term leases for certain offices extending beyond 12 months. These leases are for terms of 7 years and 10 years and expire on February 2023 and December 2026. ARDF does not have the option to extend these leases and its options to terminate the leases after the non-cancellable lease term has not been recognized as part of ARDF's right to use assets and liabilities. At the end of the lease term, ARDF shall vacate the facilities for the control to be returned to the lessor. The total lease cost for the year ended December 31, 2022 was \$28,218.

There are no material variable lease costs associated with ARDF's leases.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

**Notes to Financial Statements
(Continued)**

NOTE 4 LEASES (CONTINUED)

The components of lease expense were as follows for the year ended December 31, 2022:

Operating lease expense	\$ 28,218
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Other information related to leases was as follows:

Operating cash flows	28,193
Weighted average remaining lease term	3.71 years
Weighted average discount rate	1.36%

Future minimum lease payments under non-cancellable leases
as of December 31, 2022 were as follows:

2023	\$ 14,729
2024	12,000
2025	12,000
2026	<u>12,000</u>
Total future minimum lease payments	50,729
Less imputed interest	<u>(1,257)</u>
Lease liabilities	<u><u>\$ 49,472</u></u>

Lease disclosures for the year ended December 31, 2021

As the Accounting Standard Codification (ASC) 842: Leases was adopted during 2022, ARDF is required to disclose information for 2021 in accordance with prior guidance under ASC 840, Leases. ARDF leases office equipment and office space during the normal course of its operations that expire in various years through 2026. Total expense related to all leases was \$27,300 for 2022.

Future annual minimum lease payments as of December 31, 2022 are:

2022	\$ 28,193
2023	14,729
2024	12,000
2025	12,000
2026	<u>12,000</u>
	<u><u>\$ 78,922</u></u>

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 5 PRIVATE ATTORNEY INVOLVEMENT

ARDF is obligated to spend certain grant dollars for private attorney involvement expenses. ARDF's private attorney involvement requirement for 2022 and 2021 was \$254,253 and \$249,318, respectively. This represents 12.5% of their LSC basic field grant for 2022 and 2021. Actual private attorney involvement expenditures for 2022 and 2021 were \$321,904 and \$342,925, respectively. Therefore, ARDF met this requirement for 2022 and 2021.

The following amounts were expended for private attorney involvement, which represented approximately 15.8% and 17.2% of the LSC basic field grant for 2022 and 2021, respectively:

	<u>2022</u>	<u>2021</u>
Personnel:		
Salaries and wages	\$ 129,253	\$ 135,640
Employee benefits	<u>64,700</u>	<u>66,738</u>
Total personnel costs	<u>193,953</u>	<u>202,378</u>
Non-personnel:		
Contract services	23,359	27,191
Telephone	8,551	10,526
Space and occupancy	8,337	9,769
Computer maintenance and consulting	3,827	4,531
Equipment rental	1,740	4,346
Consumables	3,142	3,720
Library expenses	2,650	3,137
Insurance	2,261	2,677
Travel and Training	2,415	2,415
Professional services - audit	2,175	2,400
Litigation	636	636
Miscellaneous	<u>2,177</u>	<u>2,518</u>
Total non-personnel costs	<u>61,270</u>	<u>73,866</u>
Private attorney payments	<u>66,681</u>	<u>66,681</u>
	<u><u>\$ 321,904</u></u>	<u><u>\$ 342,925</u></u>

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 6 RETIREMENT BENEFITS

Multiple-Employer Pension Plan

ARDF has elected to participate in the County Employee Retirement System (CERS), employer identification number 61-1431278, pursuant to KRS 78.510 administered by the Board of Trustees of the Kentucky Retirement System. This is a multiple-employer public retirement system which covers all eligible, full-time employees and provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature. Benefit contributions and provisions are established by statute.

The plan is not required to file a Form 5500, therefore certain plan information is not required to be made publicly available. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information from CERS. This report may be obtained by writing to the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124.

Non-hazardous plan members hired prior to September 1, 2008 are required to contribute 5 percent of annual creditable compensation, whereas those hired after this date are required to contribute 6 percent of annual creditable compensation with 1 percent of that contribution going to the KRS Insurance Fund.

There is an underfunded benefit obligation associated with the plan. Plan sponsors are required to contribute annually at an actuarially determined rate. The rate for the plan years ended June 30, 2022 and 2021, the year-end of the plan, was 23.40 percent and 21.17 percent of participating members' compensations, respectively. The contribution requirement of ARDF to the CERS for the years ended December 31, 2022 and 2021 was \$562,963 and \$469,005, respectively. There have been no significant changes that affect comparability of 2022 and 2021 contributions.

The following information is based on the financial statements of the Plan as of June 30 (shown in thousands):

	2022	2021
Actuarial value of assets	\$ 8,148,912	\$ 7,715,883
Actuarial accrued liability	\$ 15,674,220	\$ 14,894,907
Unfunded actuarial accrued liability	\$ 7,525,308	\$ 7,179,024
Total contributions received by the plan	\$ 606,807	\$ 472,228

Multiple-Employer Postretirement Benefits Other than Pension Plans

ARDF has elected to participate in the Kentucky Retirement Systems Insurance Fund (KRS Insurance Fund), which is administered by the Board of Trustees of the Kentucky Retirement System. This is a multiple-employer public post-retirement system established to provide hospital and medical insurance for members receiving benefits from CERS and other state-backed retirement systems. The KRS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The dollar amount is subject to adjustment annually based on the retiree Cost-of-Living Adjustment ("COLA") and the Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth of Kentucky so demands.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 6 RETIREMENT BENEFITS (CONTINUED)

Some spouse and dependents also qualify for the same proportion of coverage. The amount of contributions paid by the KRS Insurance Fund is based on a member's years of service. Effective January 1, 2013, the self-funding of healthcare benefits for most KRS Medicare eligible retirees ceased and these services were contracted through a fully insured Medicare Advantage Plan with Humana Insurance Company.

Plan sponsors are required to contribute annually at an actuarially determined rate. The rate as of June 30, 2022 and 2021, the year-end of the plan, was 3.39 and 5.78 percent, respectively, of participating members' compensations. The contribution requirement of ARDF to the KRS Insurance Fund for the year ended December 31, 2022 and 2021 was \$114,217 and \$122,405, respectively. There have been no significant changes that affect comparability of 2022 and 2021 contributions.

NOTE 7 SIGNIFICANT CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. During 2022 and 2021, 45% and 44% of all ARDF's support and revenue was received from LSC, respectively.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 8 SUPPORT AND REVENUE, EXPENSES, AND CHANGE IN NET ASSETS OF LEGAL SERVICES CORPORATION PROGRAM

	<u>2022</u>	<u>2021</u>
Support and revenue		
Grants and contracts	\$ 1,782,882	\$ 1,626,119
Grants and contracts (refundable advance)	251,142	368,422
Donated legal services	54,180	-
Other income	-	3,619
Investment Income	26,311	3,193
Attorney fees	<u>3,250</u>	<u>500</u>
Total support and revenue	<u>2,117,765</u>	<u>2,001,853</u>
Net assets released from restrictions for the purpose of satisfying the following expenses		
Salaries and wages	1,256,935	1,224,249
Employee benefits	632,813	569,748
Space and occupancy	58,745	67,980
Donated expenses	54,180	5,722
Telephone	50,599	77,036
Travel and training	48,549	20,708
Contract Services	21,147	66,681
Computer maintenance and consulting	22,538	17,615
Library expenses	19,363	23,604
Consumables	19,109	26,359
Professional services	17,469	16,922
Insurance	16,781	18,893
Miscellaneous expenses	13,487	12,351
Equipment rental	1,402	21,554
Dues and Fees	-	2,174
Litigation	<u>1,928</u>	<u>833</u>
Total LSC expenditures	<u>2,235,045</u>	<u>2,172,429</u>
Equipment acquisitions	-	(34,804)
Change in LSC carryforward funds	(117,280)	(205,380)
LSC carryforward funds beginning of year	<u>368,422</u>	<u>573,802</u>
LSC carryforward funds end of year	<u><u>\$ 251,142</u></u>	<u><u>\$ 368,422</u></u>

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 9 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of December 31:

	2022	2021
Cash	\$ 2,258,450	\$ 1,549,045
Grants receivable	471,723	354,570
Investments	1,950,268	2,223,506
	<u>\$ 4,680,441</u>	<u>\$ 4,127,121</u>

ARDF regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. ARDF maintains a goal to have cash on hand sufficient to cover 4 months of operating expenditures.

ARDF has various sources of liquidity at its disposal, including cash and cash equivalents, and accounts receivable. ARDF receives contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. Federal grant revenue is awarded on various dates during the year. Funds from the Legal Services Corporation and the Commonwealth of Kentucky are received monthly. Other funds are received quarterly or annually. Some funds are received automatically and others are drawn down as operational expenditures are incurred. ARDF anticipates that total revenue available to cover operating expenses in 2023 will be \$5,504,809.

In addition to financial assets available to meet general expenditures over the next 12 months, ARDF operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures during that period. Refer to the statement of cash flows which identifies the sources and uses of ARDF's cash and shows positive cash generated by operations in 2022 and 2021.

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- **Level 1** – Observable inputs that reflect quoted prices in active markets
- **Level 2** – Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- **Level 3** – Unobservable inputs in which little or no market data exists, therefore requiring the organization to develop its own assumptions

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes assets and liabilities measured at fair value on a recurring basis at December 31:

<u>2022</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Equity securities	\$ 811,596	\$ 811,596	\$ -
Money market funds	21,185	-	21,185
Fixed income securities	<u>1,117,487</u>	<u>-</u>	<u>1,117,487</u>
	<u>\$ 1,950,268</u>	<u>\$ 811,596</u>	<u>\$ 1,138,672</u>
<u>2021</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Equity securities	\$ 971,919	\$ 971,919	\$ -
Money market funds	67,567	-	67,567
Fixed income securities	<u>1,184,020</u>	<u>-</u>	<u>1,184,020</u>
	<u>\$ 2,223,506</u>	<u>\$ 971,919</u>	<u>\$ 1,251,587</u>

Fair values for equity securities are estimated using quoted prices in active markets. These items are categorized as using Level 1 inputs.

Fair values for fixed income securities and money market funds are estimated using pricing models or quoted prices of securities with similar characteristics. These items are categorized using Level 2 inputs.

NOTE 11 INVESTMENT POLICY

ARDF has adopted an investment policy to provide guidance to the Board of Directors regarding the investment account as a whole. Under ARDF's policies, investment assets are invested in a manner that is intended to provide long-term capital appreciation in a risk-controlled manner. Actual returns in any given year may vary from this amount.

To satisfy its long-term of rate objectives, ARDF relies on a total return strategy in which investments returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). ARDF targets a diversified asset allocation that places an emphasis on equities and alternative investments.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements (Continued)

NOTE 12 RISKS AND UNCERTAINTIES

ARDF's investments consist of money market funds, equity securities and fixed income securities. Investment securities are exposed to various risks, such as credit, market and interest rate. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2022. However, the diversification of ARDF's investments among various asset classes should mitigate the impact of any adverse changes on any one asset class. Investments are managed by the Financial Oversight Committee with advice and assistance from investment professionals.

NOTE 13 CONTRIBUTED NONFINANCIAL ASSETS

ARDF receives nonfinancial contributions that are recognized within revenues and expenses on the statement of activities. Contributed nonfinancial assets include contributed legal services, office space and a vehicle. Unless otherwise noted, contributed nonfinancial assets do not have donor-imposed restrictions and are used in ARDF's legal services programs.

Contributed services are recognized at their estimated fair value if they create or enhance nonfinancial assets, or they require specialized skills that would need to be purchased if they were not donated. Contributed legal services comprise of time from private attorneys and others assigned to work with staff attorneys. The fair value of contributed legal services are estimated at the standard hourly rates for attorneys in ARDF's practice areas. ARDF recognized contributed legal services of \$58,336 and \$56,988 in 2022 and 2021, respectively.

Contributed office space is utilized by ARDF to perform legal services. ARDF used current market rate rent of similar properties to estimate the fair value of contributed office space. ARDF recognized contributed office space of \$3,000 and \$-0- in 2022 and 2021, respectively.

ARDF received a donated vehicle with the intention to sell it and use the proceeds to support its legal services programs. ARDF estimated the fair value of the vehicle by reference to third party estimate based on the year, mileage, and general condition of the vehicle. ARDF recognized donated vehicle of \$10,815 and \$-0- in 2022 and 2021, respectively.

SUPPLEMENTARY INFORMATION

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Schedule of Expenditures of Federal Awards Year Ended December 31, 2022

Federal Grantor / Pass-through Grantor / Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
Legal Services Corporation (LSC)			
<i>Direct Federal Grant</i>			
Legal Services Corporation Act	9.618030	KY-05 618030	\$ 1,812,442
Legal Services Corporation Act	9.618030	KY-05 618030	368,423
<i>Passed through Equal Justice Works -</i>			
LSC Rural Summer Legal Corps			
Legal Services Corporation Act	9.618030	KY-05 618030	5,000
Total for Office of Inspector General			<u>2,185,865</u>
Department of Health and Human Services			
<i>Passed through Kentucky Cabinet for Human Resources</i>			
Special Programs from the Aging: Title III, Part B -			
Grants for Supportive Services and Senior Centers			
Big Sandy Area Development District	93.044	AGE-21-22 AGE-22-23	6,716
Kentucky River Area Development District	93.044	AAA-2021-2022 AAA-2022-2023	5,643
Cumberland Valley Area Development District	93.044	AAA-2021-2022 AAA-2022-2023	14,523
Lake Cumberland Area Development District	93.044	LC-21-22-2022-B LC-22-2023-B	10,883
Total Department of Health and Human Services			<u>37,765</u>
Department of Justice			
<i>Direct Federal Grant</i>			
Legal Assistance for Victims	16.524	2016-WL-AX-0044	197,583
<i>Passed through the Mountain Comprehensive Care Center</i>			
Education, Training, and Enhanced Services to End Violence			
Against and Abuse of Women with Disabilities	16.529	N/A	645
<i>Direct Federal Grant</i>			
Crime Victim Assistance (VOCA)	16.575	VOCA-2021-Appalachia-00125 VOCA-2022-Appalachia-00116	513,914
<i>Passed through the Kentucky Justice Cabinet</i>			
American Rescue Plan Act of 2021 (ARPA)	15.575	ARPA-2021-Appalach-00043	29,935
<i>Passed through the Justice Cabinet</i>			
Violence Against Women Formula Grant	16.588	VAWA-2020-Appalach-00727 VAWA-2021-Appalach-00029	7,669
<i>Direct Federal Grant</i>			
Department of Justice BJA Comprehensive Opioid, Stimulant and Substance Abuse Site-based Program	16.838	DG-KCARE-COSSAP-2019-Appalach-00008	211,461
<i>Passed through Appalachian Regional Commission</i>			
Investments Supporting Partnerships in Recovery Ecosystems (INSPIRE) Initiative	23.002	IS-20760-2022	13,335
Total Department of Justice			<u>974,542</u>
Department of the Treasury			
<i>Direct Federal Grant</i>			
Low Income Taxpayer Clinics	21.008	22-LITC0554-01-02	90,000
Department of Housing and Urban Development			
<i>Passed through West Tennessee Legal Services</i>			
Housing Counseling Assistance Program	14.169	HC 200011002	76,474
<i>Passed through Kentucky Equal Justice Center</i>			
American Rescue Plan Act Housing Stability Services Funds	21.023	N/A	89,987
Total Department of Justice			<u>166,461</u>
Total Expenditures of Federal Awards			<u>\$ 3,454,633</u>

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ARDF and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Expenditures reported on the schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. 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.

NOTE 3 SUBRECIPIENTS

ARDF provided no federal awards to subrecipients.

NOTE 4 INDIRECT COST RATE

ARDF has elected to use the 10% de minimis cost rate allowed under Uniform Guidance for the grants that allow for the de minimis cost rate to be utilized.

**INDEPENDENT AUDITORS' 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**

Board of Directors
Appalachian Research
and Defense Fund of Kentucky, Inc.
Prestonsburg, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Appalachian Research and Defense fund of Kentucky, inc. (ARDF) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2023.

Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

**INDEPENDENT AUDITORS' 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
(CONTINUED)**

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 ARDF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARDF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crestview Hills, Kentucky
April 24, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND LEGAL
SERVICES CORPORATION'S AUDIT GUIDE AND COMPLIANCE SUPPLEMENT**

Board of Directors
Appalachian Research
and Defense Fund of Kentucky, Inc.
Prestonsburg, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Appalachian Research and Defense Fund of Kentucky Inc.'s (ARDF) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of ARDF's major federal programs for the year ended December 31, 2022. ARDF'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, Appalachian Research and Defense Fund of Kentucky, Inc. 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, 2022.

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 Appalachian Research and Defense Fund of Kentucky, Inc. 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 Appalachian Research and Defense Fund of Kentucky, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities 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 requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Appalachian Research and Defense Fund of Kentucky, Inc.'s federal programs.

Auditor's Responsibilities 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 Appalachian Research and Defense Fund of Kentucky Inc.'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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND LEGAL
SERVICES CORPORATION'S AUDIT GUIDE AND COMPLIANCE SUPPLEMENT
(CONTINUED)**

Auditor's Responsibilities for the Audit of Compliance (Continued)

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 judgment made by a reasonable user of the report on compliance about Appalachian Research and Defense of Kentucky, Inc.'s compliance with the 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 judgment 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 Appalachian Research and Defense of Kentucky, Inc.'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 Appalachian Research and Defense Fund of Kentucky, Inc.'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 Appalachian Research and Defense Fund of Kentucky Inc.'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.

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 a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 above and was not designed to 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND LEGAL
SERVICES CORPORATION'S AUDIT GUIDE AND COMPLIANCE SUPPLEMENT
(CONTINUED)**

Report on Internal Control over Compliance (Continued)

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.

Barnes, Dennig & Co., Ltd.

April 24, 2023
Crestview Hills, Kentucky

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2022**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes x None noted

Noncompliance material to financial statements noted? _____ Yes x No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes x None noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR Section 200.516(a)? _____ Yes x No

Identification of Major Programs

CFDA No.	Name of Federal Programs or Clusters
9.618030	Legal Services Corporation

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes x No

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reportable.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters are reportable.

APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

**Summary Schedule of Prior Audit Findings
Year Ended December 31, 2022**

No matters are reportable.