Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Appalachian Research and Defense Fund of Kentucky, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Appalachian Research and Defense Fund of Kentucky, Inc. as of December 31, 2018 and 2017, 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.
Independent Auditors' Report
(Continued)

Emphasis of Matter

Correction of Error

As discussed in Note 11 to the financial statements, Appalachian Research and Defense Fund of Kentucky, Inc. has corrected an error related to the recognition of revenues for the Legal Services Corporation funding that was previously recognized as deferred revenue. Accordingly, amounts reported for deferred revenue and grant and contract revenues have been restated in the 2018 financial statements now presented, and an adjustment has been made to net assets with donor restrictions as of December 31, 2017, to correct the error. Our opinion is not modified with respect to that matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2019, 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.

Crestview Hills, Kentucky
April 2, 2019
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statements of Financial Position
December 31, 2018 and 2017

<table>
<thead>
<tr>
<th>Assets</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 2,984,188</td>
<td>$ 2,074,679</td>
</tr>
<tr>
<td>Client escrow funds</td>
<td>9,760</td>
<td>4,818</td>
</tr>
<tr>
<td>Grants receivable, net</td>
<td>177,522</td>
<td>165,048</td>
</tr>
<tr>
<td>Contribution receivable, net</td>
<td>662,531</td>
<td>987,917</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>24,001</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>66,791</td>
<td>50,357</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>284,812</td>
<td>279,541</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 4,209,605</strong></td>
<td><strong>$ 3,562,160</strong></td>
</tr>
</tbody>
</table>

| Liabilities and Net Assets                  |              |              |

| Liabilities                                 |              |              |
| Accounts payable                            | $ 29,408     | $ 25,383     |
| Accrued expenses                            | 181,257      | 154,263      |
| Employee withholdings payable               | 42,699       | 9,112        |
| Client trust deposits                       | 9,760        | 4,618        |
| Deferred revenue                            | 293,758      | 263,847      |
| **Total liabilities**                       | **556,882**  | **457,223**  |

| Net Assets                                  |              |              |
| Without donor restrictions                  | 2,049,162    | 1,494,607    |
| With donor restrictions                     | 1,603,561    | 1,610,330    |
| **Total net assets**                        | **3,652,723** | **3,104,937** |

| Total liabilities and net assets            | $ 4,209,605  | $ 3,562,160  |

See accompanying notes to financial statements
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statement of Activities
Year Ended December 31, 2018

<table>
<thead>
<tr>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Support and revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>$1,705,462</td>
<td>$1,811,143</td>
</tr>
<tr>
<td>Attorney fees</td>
<td>30,851</td>
<td>-</td>
</tr>
<tr>
<td>Contributions</td>
<td>33,381</td>
<td>12,355</td>
</tr>
<tr>
<td>Interest income</td>
<td>19,006</td>
<td>-</td>
</tr>
<tr>
<td>Donated legal services</td>
<td>56,758</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total support and revenue</strong></td>
<td>1,845,458</td>
<td>1,823,498</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions</strong></td>
<td>1,830,267</td>
<td>(1,830,267)</td>
</tr>
<tr>
<td><strong>Total support, revenue and reclassifications</strong></td>
<td>3,675,725</td>
<td>(6,769)</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>1,613,279</td>
<td>-</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>742,353</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total salaries and benefits</strong></td>
<td>2,355,632</td>
<td>-</td>
</tr>
<tr>
<td>Contract services</td>
<td>151,437</td>
<td>-</td>
</tr>
<tr>
<td>Space and occupancy</td>
<td>99,731</td>
<td>-</td>
</tr>
<tr>
<td>Travel and training</td>
<td>91,218</td>
<td>-</td>
</tr>
<tr>
<td>Telephone</td>
<td>90,898</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>77,418</td>
<td>-</td>
</tr>
<tr>
<td>Donated legal services</td>
<td>56,758</td>
<td>-</td>
</tr>
<tr>
<td>Consumables</td>
<td>40,773</td>
<td>-</td>
</tr>
<tr>
<td>Library expenses</td>
<td>28,532</td>
<td>-</td>
</tr>
<tr>
<td>Professional services - audit</td>
<td>21,850</td>
<td>-</td>
</tr>
<tr>
<td>Insurance</td>
<td>21,662</td>
<td>-</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>21,115</td>
<td>-</td>
</tr>
<tr>
<td>Computer maintenance and consulting</td>
<td>19,278</td>
<td>-</td>
</tr>
<tr>
<td>Dues and fees</td>
<td>13,116</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation</td>
<td>31,752</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>3,121,170</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>554,555</td>
<td>(6,769)</td>
</tr>
<tr>
<td><strong>Net assets, beginning of year</strong></td>
<td>1,494,607</td>
<td>1,610,330</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td>$2,049,162</td>
<td>$1,603,561</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statement of Activities
Year Ended December 31, 2017

<table>
<thead>
<tr>
<th>Support and revenue</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and contracts</td>
<td>$ 3,150,782</td>
<td>$ 145,022</td>
<td>$ 3,295,804</td>
</tr>
<tr>
<td>Attorney fees</td>
<td>30,916</td>
<td>-</td>
<td>30,916</td>
</tr>
<tr>
<td>Contributions</td>
<td>37,797</td>
<td>15,713</td>
<td>53,510</td>
</tr>
<tr>
<td>Interest income</td>
<td>4,509</td>
<td>-</td>
<td>4,509</td>
</tr>
<tr>
<td>Other income</td>
<td>193</td>
<td>-</td>
<td>193</td>
</tr>
<tr>
<td>Donated legal services</td>
<td>163,770</td>
<td>-</td>
<td>163,770</td>
</tr>
<tr>
<td><strong>Total support and revenue</strong></td>
<td><strong>3,387,967</strong></td>
<td><strong>160,735</strong></td>
<td><strong>3,548,702</strong></td>
</tr>
<tr>
<td><strong>Net assets released from restrictions</strong></td>
<td><strong>249,231</strong></td>
<td>(249,231)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total support, revenue and reclassifications</strong></td>
<td><strong>3,637,198</strong></td>
<td>(88,496)</td>
<td><strong>3,548,702</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>1,567,554</td>
<td>-</td>
<td>1,567,554</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>661,918</td>
<td>-</td>
<td>661,918</td>
</tr>
<tr>
<td><strong>Total salaries and benefits</strong></td>
<td><strong>2,229,472</strong></td>
<td>-</td>
<td><strong>2,229,472</strong></td>
</tr>
<tr>
<td>Donated legal services</td>
<td>163,770</td>
<td>-</td>
<td>163,770</td>
</tr>
<tr>
<td>Contract services</td>
<td>150,657</td>
<td>-</td>
<td>150,657</td>
</tr>
<tr>
<td>Space and occupancy</td>
<td>97,624</td>
<td>-</td>
<td>97,624</td>
</tr>
<tr>
<td>Telephone</td>
<td>82,072</td>
<td>-</td>
<td>82,072</td>
</tr>
<tr>
<td>Travel and training</td>
<td>79,333</td>
<td>-</td>
<td>79,333</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>73,669</td>
<td>-</td>
<td>73,669</td>
</tr>
<tr>
<td>Consumables</td>
<td>37,372</td>
<td>-</td>
<td>37,372</td>
</tr>
<tr>
<td>Computer maintenance and consulting</td>
<td>30,191</td>
<td>-</td>
<td>30,191</td>
</tr>
<tr>
<td>Library expenses</td>
<td>23,365</td>
<td>-</td>
<td>23,365</td>
</tr>
<tr>
<td>Professional services - audit</td>
<td>22,200</td>
<td>-</td>
<td>22,200</td>
</tr>
<tr>
<td>Insurance</td>
<td>21,037</td>
<td>-</td>
<td>21,037</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>17,996</td>
<td>-</td>
<td>17,996</td>
</tr>
<tr>
<td>Dues and fees</td>
<td>14,071</td>
<td>-</td>
<td>14,071</td>
</tr>
<tr>
<td>Depreciation</td>
<td>30,039</td>
<td>-</td>
<td>30,039</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>3,072,868</strong></td>
<td>-</td>
<td><strong>3,072,868</strong></td>
</tr>
</tbody>
</table>

| Change in net assets | 564,330                  | (88,496)                | 475,834 |
| Net assets, beginning of year | 930,277                  | 1,698,826               | 2,629,103 |
| **Net assets, end of year** | **$ 1,494,607**            | **$ 1,610,330**         | **$ 3,104,937** |

See accompanying notes to financial statements
## Appalachian Research and Defense Fund of Kentucky, Inc.

### Statement of Functional Expenses

**Year Ended December 31, 2018**

<table>
<thead>
<tr>
<th></th>
<th>Legal Services</th>
<th>Supporting</th>
<th>Fund Raising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries and benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$1,319,617</td>
<td>$287,703</td>
<td>$5,959</td>
<td>$1,613,279</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>614,205</td>
<td>125,826</td>
<td>2,322</td>
<td>742,353</td>
</tr>
<tr>
<td><strong>Total salaries and benefits</strong></td>
<td>1,933,822</td>
<td>413,529</td>
<td>8,281</td>
<td>2,355,632</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract services</td>
<td>134,850</td>
<td>10,991</td>
<td>5,596</td>
<td>151,437</td>
</tr>
<tr>
<td>Space and occupancy</td>
<td>92,954</td>
<td>6,777</td>
<td>-</td>
<td>99,731</td>
</tr>
<tr>
<td>Travel and training</td>
<td>67,256</td>
<td>23,962</td>
<td>-</td>
<td>91,218</td>
</tr>
<tr>
<td>Telephone</td>
<td>80,798</td>
<td>10,100</td>
<td>-</td>
<td>90,898</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>73,446</td>
<td>3,972</td>
<td>-</td>
<td>77,418</td>
</tr>
<tr>
<td>Donated legal services</td>
<td>56,758</td>
<td>-</td>
<td>-</td>
<td>56,758</td>
</tr>
<tr>
<td>Consumables</td>
<td>31,346</td>
<td>7,631</td>
<td>1,796</td>
<td>40,773</td>
</tr>
<tr>
<td>Library expenses</td>
<td>27,857</td>
<td>675</td>
<td>-</td>
<td>28,532</td>
</tr>
<tr>
<td>Professional services - audit</td>
<td>8,740</td>
<td>13,110</td>
<td>-</td>
<td>21,850</td>
</tr>
<tr>
<td>Insurance</td>
<td>19,255</td>
<td>2,407</td>
<td>-</td>
<td>21,662</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>17,375</td>
<td>3,740</td>
<td>-</td>
<td>21,115</td>
</tr>
<tr>
<td>Computer maintenance and consulting</td>
<td>14,260</td>
<td>5,018</td>
<td>-</td>
<td>19,278</td>
</tr>
<tr>
<td>Dues and fees</td>
<td>12,366</td>
<td>750</td>
<td>-</td>
<td>13,116</td>
</tr>
<tr>
<td><strong>Total expenses before depreciation</strong></td>
<td>2,571,083</td>
<td>502,662</td>
<td>15,673</td>
<td>3,089,418</td>
</tr>
</tbody>
</table>

| Depreciation                   | 25,830         | 5,922      | -            | 31,752     |
| **Total expenses**             | $2,596,913     | $508,584   | $15,673      | $3,121,170 |

See accompanying notes to financial statements
# APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

**Statement of Functional Expenses**  
**Year Ended December 31, 2017**

<table>
<thead>
<tr>
<th></th>
<th>Legal Services</th>
<th>Supporting</th>
<th>Fund Raising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$1,274,917</td>
<td>$289,002</td>
<td>$3,635</td>
<td>$1,567,554</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>538,674</td>
<td>120,646</td>
<td>1,598</td>
<td>661,918</td>
</tr>
<tr>
<td><strong>Total salaries and benefits</strong></td>
<td><strong>1,814,591</strong></td>
<td><strong>409,648</strong></td>
<td><strong>5,233</strong></td>
<td><strong>2,229,472</strong></td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donated legal services</td>
<td>163,770</td>
<td>-</td>
<td>-</td>
<td>163,770</td>
</tr>
<tr>
<td>Contract services</td>
<td>138,129</td>
<td>6,925</td>
<td>5,603</td>
<td>150,657</td>
</tr>
<tr>
<td>Space and occupancy</td>
<td>88,357</td>
<td>7,517</td>
<td>1,750</td>
<td>97,624</td>
</tr>
<tr>
<td>Telephone</td>
<td>74,015</td>
<td>8,057</td>
<td>-</td>
<td>82,072</td>
</tr>
<tr>
<td>Travel and training</td>
<td>57,178</td>
<td>22,155</td>
<td>-</td>
<td>79,333</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>58,650</td>
<td>15,019</td>
<td>-</td>
<td>73,669</td>
</tr>
<tr>
<td>Consumables</td>
<td>16,569</td>
<td>18,057</td>
<td>2,746</td>
<td>37,372</td>
</tr>
<tr>
<td>Computer maintenance and consulting</td>
<td>26,253</td>
<td>3,938</td>
<td>-</td>
<td>30,191</td>
</tr>
<tr>
<td>Library expenses</td>
<td>22,890</td>
<td>675</td>
<td>-</td>
<td>23,565</td>
</tr>
<tr>
<td>Professional services - audit</td>
<td>-</td>
<td>22,200</td>
<td>-</td>
<td>22,200</td>
</tr>
<tr>
<td>Insurance</td>
<td>18,407</td>
<td>2,630</td>
<td>-</td>
<td>21,037</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>11,920</td>
<td>6,076</td>
<td>-</td>
<td>17,996</td>
</tr>
<tr>
<td>Dues and fees</td>
<td>13,066</td>
<td>1,005</td>
<td>-</td>
<td>14,071</td>
</tr>
<tr>
<td><strong>Total expenses before depreciation</strong></td>
<td><strong>2,503,595</strong></td>
<td><strong>523,902</strong></td>
<td><strong>15,332</strong></td>
<td><strong>3,042,829</strong></td>
</tr>
</tbody>
</table>

| Depreciation        | 27,026         | 3,013      | -            | 30,039      |
| **Total expenses**  | **$2,530,621** | **$526,915** | **$15,332**  | **$3,072,868** |

See accompanying notes to financial statements
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Statements of Cash Flows
Year Ended December 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ 547,786</td>
<td>$ 475,834</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to net cash from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>31,752</td>
<td>30,039</td>
</tr>
<tr>
<td>Receipts of client escrow funds held in agency transactions</td>
<td>36,461</td>
<td>26,125</td>
</tr>
<tr>
<td>Payments of client escrow funds held in agency transactions</td>
<td>(36,461)</td>
<td>(26,125)</td>
</tr>
<tr>
<td>Changes in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>(36,475)</td>
<td>(91,610)</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>325,386</td>
<td>321,526</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>(16,434)</td>
<td>208</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>4,025</td>
<td>4,160</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>26,994</td>
<td>22,565</td>
</tr>
<tr>
<td>Employee withholdings payable</td>
<td>33,587</td>
<td>(65)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>29,911</td>
<td>(19,324)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>946,532</td>
<td>743,333</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(37,023)</td>
<td>(19,280)</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>909,509</td>
<td>724,053</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>2,074,679</td>
<td>1,350,626</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$ 2,984,188</td>
<td>$ 2,074,679</td>
</tr>
</tbody>
</table>

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 $2,253,582 and $1,327,897 as of December 31, 2018 and 2017, 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, First Commonwealth 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.
NOTE 1  NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017 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 2018 and 2017. As of December 31, 2018 and 2017, ARDF does not own any property and equipment purchased with LSC funds.

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 $1,000. 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.

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. Deferred revenue is recognized to the extent cash advances received exceeds grant support earned.

ARDF recognizes grant funds from LSC as support on a straight-line basis over the grant period. In accordance with normal LSC policies, ARDF may use unexpended funds in future periods as long as expenses incurred are in compliance with the specified terms of the LSC grant, as defined. LSC may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by ARDF with the terms of the grant. In addition, if ARDF terminates its LSC grant activities, all unexpended funds are to be returned to LSC.
NOTE 1  NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Grants and Revenue Recognition (Continued)

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 2018 and 2017 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 unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as restricted revenue and net assets. 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 restricted 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.

Donated Services

Donated services valued by ARDF at $56,758 and $163,770 and were received from private attorneys and others assigned to work with staff attorneys during 2018 and 2017, respectively. These services were valued at the normal hourly rates for attorneys in ARDF’s practice areas. These services are recognized both as support and expense, and therefore do not affect net assets.

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.
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.

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.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board “FASB” issued Accounting Standards Update “ASU” 2014-09, Revenue from Contracts with Customers. The standard’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contract with customers. This standard will be effective for ARDF’s year ending December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating, which will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for ARDF’s year ending December 31, 2020.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The standard clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction. The standard clarifies how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The standard also requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. This standard will be effective for the Organization’s year ending December 31, 2019.
NOTE 1  NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

ARDF is currently in the process of evaluating the impact of adoption of these ASUs on the financial statements.

Effect of Adopting New Accounting Standard

In 2018, the Organization adopted Financial Accounting Services Board (FASB) Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update primarily addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the lack of consistency in the type of information provide about expenses and investment return, and other financial statement presentation items and enhanced disclosures. Net asset classifications have been reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions). In addition, updated disclosure requirements are presented regarding risk exposure and availability of cash for short-term use and expenses are reported by both natural and functional classification. The Organization adopted ASU 2016-14 as of January 1, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications

Certain 2017 figures have been reclassified to conform to the 2018 presentation.

Subsequent Events

ARDF has evaluated subsequent events through April 2, 2019, which is the date on which the financial statements were available to be issued.

NOTE 2  CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at December 31:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within one year</td>
<td>$ 337,240</td>
<td>$ 337,240</td>
</tr>
<tr>
<td>Due in one to five years</td>
<td>$ 337,240</td>
<td>$ 674,481</td>
</tr>
<tr>
<td>Less unamortized discount</td>
<td>(11,949)</td>
<td>(23,804)</td>
</tr>
<tr>
<td></td>
<td>$ 662,531</td>
<td>$ 987,917</td>
</tr>
</tbody>
</table>

A discount rate of 1.2% was used for 2018 and 2017.
NOTE 3  PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>$551,517</td>
<td>$515,569</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>166,644</td>
<td>201,680</td>
</tr>
<tr>
<td>Telephone system</td>
<td>134,060</td>
<td>134,060</td>
</tr>
<tr>
<td></td>
<td>852,221</td>
<td>851,319</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(567,409)</td>
<td>(571,778)</td>
</tr>
<tr>
<td></td>
<td>284,812</td>
<td>279,541</td>
</tr>
</tbody>
</table>

NOTE 4  NET ASSETS WITH DONOR RESTRICTIONS

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>IOLTA Bank of America Settlement</td>
<td>$1,126,816</td>
<td>$1,438,001</td>
</tr>
<tr>
<td>Legal Service Corporation</td>
<td>413,315</td>
<td>145,022</td>
</tr>
<tr>
<td>Rosenberg Fellowship</td>
<td>27,307</td>
<td>27,307</td>
</tr>
<tr>
<td>Good Samaritan Foundation</td>
<td>25,140</td>
<td>-</td>
</tr>
<tr>
<td>Methodist Grant</td>
<td>10,483</td>
<td>-</td>
</tr>
<tr>
<td>Conn Donations</td>
<td>500</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$1,603,561</td>
<td>$1,610,330</td>
</tr>
</tbody>
</table>

NOTE 5  OPERATING LEASES

ARDF leases office equipment and office space during the normal course of its operations that expire in various years through 2023. Total expense related to all leases was $55,233 and $60,311 for 2018 and 2017, respectively. These expenses are included within space and occupancy and equipment rental on the statements of activities.

Future annual minimum lease payments as of December 31, 2018 are:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$53,656</td>
</tr>
<tr>
<td>2020</td>
<td>51,600</td>
</tr>
<tr>
<td>2021</td>
<td>39,000</td>
</tr>
<tr>
<td>2022</td>
<td>25,095</td>
</tr>
<tr>
<td>2023</td>
<td>21,600</td>
</tr>
<tr>
<td></td>
<td>$190,951</td>
</tr>
</tbody>
</table>
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements
(Continued)

NOTE 6 PRIVATE ATTORNEY INVOLVEMENT

ARDF is obligated to spend certain grant dollars for private attorney involvement expenses. ARDF’s private attorney involvement requirement for 2018 and 2017 was $212,817 and $201,628, respectively. This represents 12.5% of their LSC basic field grant for 2018 and 2017. Actual private attorney involvement expenditures for 2018 and 2017 were $304,563 and $237,630, respectively. Therefore, ARDF met this requirement for 2018 and 2017.

The following amounts were expended for private attorney involvement, which represented approximately 17.4% and 15.5% of the LSC basic field grant for 2018 and 2017, respectively:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>$111,395</td>
<td>$89,958</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>54,387</td>
<td>45,725</td>
</tr>
<tr>
<td>Total personnel costs</td>
<td>165,782</td>
<td>135,683</td>
</tr>
<tr>
<td>Non-personnel:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract services</td>
<td>17,119</td>
<td>13,650</td>
</tr>
<tr>
<td>Space and occupancy</td>
<td>16,954</td>
<td>12,496</td>
</tr>
<tr>
<td>Telephone</td>
<td>15,452</td>
<td>10,505</td>
</tr>
<tr>
<td>Consumables</td>
<td>6,932</td>
<td>4,784</td>
</tr>
<tr>
<td>Computer maintenance and consulting</td>
<td>3,277</td>
<td>3,854</td>
</tr>
<tr>
<td>Library expenses</td>
<td>4,850</td>
<td>2,991</td>
</tr>
<tr>
<td>Professional services - audit</td>
<td>3,706</td>
<td>2,842</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,683</td>
<td>2,693</td>
</tr>
<tr>
<td>Travel and Training</td>
<td>7,922</td>
<td>2,382</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>3,571</td>
<td>1,049</td>
</tr>
<tr>
<td>Litigation</td>
<td>-</td>
<td>696</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4,578</td>
<td>-</td>
</tr>
<tr>
<td>Total non-personnel costs</td>
<td>88,044</td>
<td>57,932</td>
</tr>
<tr>
<td>Private attorney payments</td>
<td>50,737</td>
<td>44,015</td>
</tr>
</tbody>
</table>

$304,563 $237,630

NOTE 7 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.
NOTE 7 RETIREMENT BENEFITS (CONTINUED)

Multiple-Employer Pension Plan (Continued)

The plan is not required to file a Form 5500, therefore certain plan information is not required to be made publically available. The Kentucky Retirement System issues a publically 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, 2018 and 2017, the year-end of the plan, was 14.48 percent and 13.95 percent of participating members' compensations, respectively. The contribution requirement of ARDF to the CERS for the years ended December 31, 2018 and 2017 was $230,452 and $194,147, respectively. There have been no significant changes that affect comparability of 2018 and 2017 contributions.

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial value of assets</td>
<td>$6,950,225</td>
<td>$6,764,873</td>
</tr>
<tr>
<td>Actuarial accrued liability</td>
<td>13,191,505</td>
<td>12,803,509</td>
</tr>
<tr>
<td>Unfunded actuarial accrued liability</td>
<td>6,241,280</td>
<td>6,038,638</td>
</tr>
<tr>
<td>Total contributions received by the plan</td>
<td>$358,017</td>
<td>$333,554</td>
</tr>
</tbody>
</table>

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.

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 eligible retirees ceased and these services were contracted through a fully-insured Medicare Advantage Plan with Humana Insurance Company.
NOTE 7  RETIREMENT BENEFITS (CONTINUED)

Multiple-Employer Postretirement Benefits Other than Pension Plans

Plan sponsors are required to contribute annually at an actuarially determined rate. The rate as of June 30, 2018 and 2017, the year-end of the plan, was 4.70 percent and 4.73 percent, respectively, of participating members’ compensations. The contribution requirement of ARDF to the KRS Insurance Fund for the year ended December 31, 2018 and 2017 was $74,763 and $64,330, respectively. There have been no significant changes that affect comparability of 2018 and 2017 contributions.

NOTE 8  SIGNIFICANT CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. During 2018 and 2017, 48% and 45% 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 9 SUPPORT AND REVENUE, EXPENSES, AND CHANGE IN NET ASSETS OF LEGAL SERVICES CORPORATION PROGRAM

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support and revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>$ 1,702,533</td>
<td>$ 1,627,866</td>
</tr>
<tr>
<td>Attorney fees</td>
<td>22,699</td>
<td>30,916</td>
</tr>
<tr>
<td>Interest income</td>
<td>19,006</td>
<td>4,509</td>
</tr>
<tr>
<td>Other income</td>
<td>-</td>
<td>193</td>
</tr>
<tr>
<td><strong>Total support and revenue</strong></td>
<td>1,744,238</td>
<td>1,663,484</td>
</tr>
</tbody>
</table>

Net assets released from restrictions for the purpose of satisfying the following expenses

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>836,474</td>
<td>806,530</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>410,052</td>
<td>385,720</td>
</tr>
<tr>
<td>Space and occupancy</td>
<td>46,169</td>
<td>64,709</td>
</tr>
<tr>
<td>Travel and training</td>
<td>36,487</td>
<td>44,414</td>
</tr>
<tr>
<td>Telephone</td>
<td>36,359</td>
<td>45,564</td>
</tr>
<tr>
<td>Contract Services</td>
<td>32,667</td>
<td>53,449</td>
</tr>
<tr>
<td>Consumables</td>
<td>18,598</td>
<td>24,984</td>
</tr>
<tr>
<td>Library expenses</td>
<td>11,413</td>
<td>15,403</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>10,517</td>
<td>16,817</td>
</tr>
<tr>
<td>Professional services - audit</td>
<td>8,740</td>
<td>14,636</td>
</tr>
<tr>
<td>Insurance</td>
<td>8,665</td>
<td>12,587</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>8,450</td>
<td>8,708</td>
</tr>
<tr>
<td>Computer maintenance and consulting</td>
<td>7,711</td>
<td>19,564</td>
</tr>
<tr>
<td>Dues and Fees</td>
<td>2,546</td>
<td>4,215</td>
</tr>
<tr>
<td>Litigation</td>
<td>1,097</td>
<td>1,281</td>
</tr>
</tbody>
</table>

Net assets released from restrictions for the purpose of satisfying expenses

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total net assets released</strong></td>
<td>1,475,945</td>
<td>1,518,581</td>
</tr>
</tbody>
</table>

Change in net assets

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in net assets</strong></td>
<td>268,293</td>
<td>144,903</td>
</tr>
</tbody>
</table>

Net assets beginning of year

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets beginning of year</strong></td>
<td>145,022</td>
<td>119</td>
</tr>
</tbody>
</table>

Net assets end of year

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets end of year</strong></td>
<td>$ 413,315</td>
<td>$ 145,022</td>
</tr>
</tbody>
</table>
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Financial Statements
(Continued)

NOTE 10 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,043,158</td>
</tr>
<tr>
<td>Receivables</td>
<td>$202,083</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,245,241</td>
</tr>
</tbody>
</table>

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 2019 will be $3,627,771.

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 the Organization's cash and shows positive cash generated by operations in 2018 and 2017.

NOTE 11 CORRECTION OF ERROR

During the year ended December 31, 2018, management corrected the accounting of receipts for Legal Services Corporation revenue to be in accordance with GAAP, by recognizing these receipts as revenue when received rather than when expensed. The following shows the effect on the preceding period change in net assets for the prior period adjustment as well as the cumulative effect of the change on net assets as of the beginning of 2017. Amounts in the previously issued financial statements have been restated as follows:

<table>
<thead>
<tr>
<th></th>
<th>As Previously Reported</th>
<th>Prior Period Adjustment</th>
<th>As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned support, as of December 31, 2017</td>
<td>$374,715</td>
<td>$(110,866)</td>
<td>$263,847</td>
</tr>
<tr>
<td>Grants and contracts, as of December 31, 2017</td>
<td>3,184,936</td>
<td>110,868</td>
<td>3,295,804</td>
</tr>
<tr>
<td>Cumulative effect of the change on net assets, as of January 1, 2018</td>
<td>$2,994,069</td>
<td>110,868</td>
<td>$3,104,937</td>
</tr>
</tbody>
</table>
SUPPLEMENTARY INFORMATION
## Schedule of Expenditures of Federal Awards

### Year Ended December 31, 2018

<table>
<thead>
<tr>
<th>Federal Grantor / Pass-through Grantor / Program Title</th>
<th>Federal CFDA Number</th>
<th>Pass-through Entity Identifying Number</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal Services Corporation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Direct Federal Grant</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Services Corporation Act</td>
<td>9.618030</td>
<td>N/A</td>
<td>$ 1,475,945</td>
</tr>
<tr>
<td><strong>Total for Office of Inspector General</strong></td>
<td></td>
<td></td>
<td>1,475,945</td>
</tr>
<tr>
<td><strong>Department of Health and Human Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Passed through Kentucky Cabinet for Human Resources</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Programs for the Aging: Title III, Part B -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants for Supportive Services and Senior Centers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big Sandy Area Development District</td>
<td>93.044</td>
<td>AGE-17-18</td>
<td>6,575</td>
</tr>
<tr>
<td>Kentucky River Area Development District</td>
<td>93.044</td>
<td>AAA-2017-2018</td>
<td>4,390</td>
</tr>
<tr>
<td>Cumberland Valley Area Development District</td>
<td>93.044</td>
<td>AAA-2017-2018</td>
<td>6,675</td>
</tr>
<tr>
<td>Lake Cumberland Area Development District</td>
<td>93.044</td>
<td>LC-17-18-2018</td>
<td>11,563</td>
</tr>
<tr>
<td><strong>Total Department of Health and Human Services</strong></td>
<td></td>
<td></td>
<td>29,203</td>
</tr>
<tr>
<td><strong>Department of Justice</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Passed through the Justice Cabinet</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Violence Against Women Formula Grant</td>
<td>16.558</td>
<td>VAWA-2017-Appalach-00561</td>
<td>4,488</td>
</tr>
<tr>
<td>Crime Victim Assistance (VOCA)</td>
<td>16.575</td>
<td>VOCA-2017-Appalach-00101</td>
<td>323,789</td>
</tr>
<tr>
<td><strong>Passed through the Mountain Comprehensive Care Center</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education, Training, and Enhanced Services to End</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Violence Against and Abuse of Women with Disabilities</td>
<td>16.529</td>
<td>N/A</td>
<td>621</td>
</tr>
<tr>
<td><strong>Passed through the Office on Violence Against Women</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Department of Justice</strong></td>
<td></td>
<td></td>
<td>499,135</td>
</tr>
<tr>
<td><strong>Department of the Treasury</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Direct Federal Grant</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Income Taxpayer Clinics</td>
<td>21.008</td>
<td>18-LITC0197-03-01</td>
<td>78,500</td>
</tr>
<tr>
<td><strong>Department of Housing and Urban Development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Passed through West Tennessee Legal Services</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Counseling Assistance Program</td>
<td>14.169</td>
<td>HC170011030</td>
<td>28,548</td>
</tr>
<tr>
<td><strong>Total Expenditures of Federal Awards</strong></td>
<td></td>
<td></td>
<td>$ 2,111,331</td>
</tr>
</tbody>
</table>
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

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 POLICIES

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 not elected to use the 10% de minimis cost rate allowed under Uniform Guidance.
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, 2018 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 2, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crestview Hills, Kentucky
April 2, 2019
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

We have audited Appalachian Research and Defense Fund of Kentucky, Inc.’s (ARDF) compliance with the types of compliance requirements described in the OMB Compliance Supplement and the Compliance Supplement for Audit of LSC Recipients that could have a direct and material effect on each of ARDF’s major federal programs for the year ended December 31, 2018. ARDF’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of ARDF’s major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ARDF’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ARDF’s compliance.

Opinion on Each Major Federal Program

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, 2018.
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

Management of ARDF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ARDF’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ARDF’s 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Crestview Hills, Kentucky
April 2, 2019
APPALACHIAN RESEARCH AND DEFENSE FUND OF KENTUCKY, INC.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

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  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None noted
- Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  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  No

Identification of Major Programs

<table>
<thead>
<tr>
<th>CFDA No.</th>
<th>Name of Federal Programs or Clusters</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.618030</td>
<td>Legal Services Corporation</td>
</tr>
</tbody>
</table>

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

Audittee qualified as low-risk audittee?  Yes  No
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, 2018

No matters are reportable.