

APPALACHIAN COMMUNITY FUND, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

APPALACHIAN COMMUNITY FUND, INC.

YEAR ENDED JUNE 30, 2014

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Bible Harris Smith, P.C.

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INDEPENDENT AUDITOR'S REPORT

Appalachian Community Fund, Inc.
Knoxville, Tennessee

We have audited the accompanying financial statements of Appalachian Community Fund, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Community Fund, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Bible Harris Smith, P.C.".

Bible Harris Smith, P.C.
Knoxville, Tennessee
December 11, 2014

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents		\$ 270,619
Accounts Receivable		694
Short-Term Investments		5,415
Prepaid Expense		4,842
Total Current Assets		281,570

FIXED ASSETS

Office Equipment	\$ 9,877	
Less Accumulated Depreciation	(6,199)	
Total Fixed Assets		3,678

OTHER ASSETS

8,576

TOTAL ASSETS

\$ 293,824

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable		\$ 3,584
Grants Payable		44,700
Other Liabilities		3,974
Total Current Liabilities		52,258

NET ASSETS

Unrestricted	\$ 67,671	
Temporarily Restricted	173,895	
Total Net Assets		241,566

TOTAL LIABILITIES AND NET ASSETS

\$ 293,824

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

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Donor Support	\$ 103,122	\$ 196,817	\$ -	\$ 299,939
FEX Endowment	48,756	-	-	48,756
Interest and Dividend Income	389	1,060	-	1,449
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of Program Restrictions	<u>208,069</u>	<u>(208,069)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>360,336</u>	<u>(10,192)</u>	<u>-</u>	<u>350,144</u>
EXPENSES				
Program	284,012	-	-	284,012
Fundraising	47,574	-	-	47,574
Management and General	<u>52,913</u>	<u>-</u>	<u>-</u>	<u>52,913</u>
Total Expenses	<u>384,499</u>	<u>-</u>	<u>-</u>	<u>384,499</u>
CHANGE IN NET ASSETS	(24,163)	(10,192)	-	(34,355)
NET ASSETS - BEGINNING	<u>91,834</u>	<u>184,087</u>	<u>-</u>	<u>275,921</u>
NET ASSETS - ENDING	<u><u>\$ 67,671</u></u>	<u><u>\$ 173,895</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 241,566</u></u>

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

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program Services	Supporting Services		Total Expenses
		Fundraising	Mgmt/Gen.	
Grant Expense	\$ 172,660	\$ -	\$ -	\$ 172,660
Payroll	43,197	29,859	26,778	99,834
Employee Benefits	10,389	7,345	6,811	24,545
Marketing & Donor Development	7,722	2,857	1,997	12,576
Board Governance	5,279	1,584	4,510	11,373
Facility Rent and Utilities	7,401	1,375	1,797	10,573
Memberships	2,532	470	615	3,617
Staff Expenses	3,407	1,116	26	4,549
Audit, Tax & Legal	-	-	6,240	6,240
Newsletters & Annual Report	644	93	-	737
Consultant Services	22,872	1,368	2,160	26,400
Office Supplies, Equip., Ins.	2,332	472	624	3,428
Telephone	2,675	497	650	3,822
Postage	745	139	181	1,065
Subscriptions	439	81	107	627
Depreciation	826	153	200	1,179
Equipment Maintenance & Rental	325	60	79	464
Copying & Printing	388	72	94	554
Other Expenses	179	33	44	256
TOTAL EXPENSES	\$ 284,012	\$ 47,574	\$ 52,913	\$ 384,499

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

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	(34,355)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	1,179
Reinvested Earnings on Short Term Investments	(36)
(Increase) Decrease in Assets:	
Accounts Receivable	164
Prepaid Expense	971
Other Assets	(1,076)
Increase (Decrease) in Liabilities:	
Accounts Payable	329
Grants Payable	39,700
Other Liabilities	<u>2,133</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>9,009</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Short-term Investments	(3,000)
Purchase of Assets	<u>(3,110)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(6,110)</u>
NET INCREASE (DECREASE) IN CASH	2,899
CASH AND CASH EQUIVALENTS - BEGINNING	<u>267,720</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 270,619</u></u>

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

APPALACHIAN COMMUNITY FUND, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - The Appalachian Community Fund, Inc., (Fund) is an activist-controlled foundation committed to supporting progressive social change in the central states of Appalachia, which include east Kentucky, east Tennessee, West Virginia and southwest Virginia.

The Fund exists to be a source of new money for social justice movements in the region, leverage money into the region (whether or not it comes through the Fund) for organizations addressing the root causes of social problems, and provide technical assistance in fundraising and organizational development to grass roots organizations in the region.

General - The accompanying financial statements are presented on the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

To ensure observance of limitations and restrictions placed on the use of resources available to the Fund, the accounts of the Fund are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes.

The accompanying financial statements, under the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (FASB) ASC 958-210, focus on the organization as a whole and report the change in net assets for the following:

Unrestricted net assets, which are not subject to donor-imposed restrictions.

Temporarily restricted net assets, which are subject to restrictions for support of particular operating activities, for use in a specified future period, or for acquisition of long-lived assets. Cash or other assets subject to donor-imposed restrictions are classified separately from cash or other assets that are unrestricted and available for current use.

Permanently restricted net assets, which are subject to the donor's stipulation that the principal be maintained intact, with only the income to be expended currently.

Property and Equipment – The Fund's policy is to capitalize all asset purchases of \$500 or more. Property and equipment are carried at cost. Depreciation is computed using the straight-line method over three to five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in that period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Donated property or equipment is recorded as a capital addition at fair value.

Cash and Cash Equivalents - The Fund's cash and cash equivalents include money market funds and certificates of deposit held at various financial institutions. For purposes of the statement of cash flows, the Fund considers certificates of deposits and highly liquid debt instruments to be cash equivalents, unless permanently restricted. The fair value of cash equivalents does not differ materially from the carrying value due to the short maturities of the instruments.

Short-Term Investments – Short-term investments as of June 30, 2014 consist of the HEAD Community Loan Fund. The HEAD Community Loan Fund is a short-term loan that is renewed annually and earns a fixed rate of return that is renegotiated each renewal. Management considers the carrying value of the investment to approximate the fair value due to the short term maturity of the investment.

Grants Payable – The Fund finalizes grants to be paid during the fourth quarter of the fiscal year. Grant award notifications are then sent to the grantees. Grant checks are not released until the grantee submits a signed grant agreement and required reports if applicable (see Note 5).

Income Tax Status - The Fund qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no expense has been recognized for income taxes. In addition, the Fund qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Fund adopted the authoritative guidance related to accounting for uncertainty in income taxes included in the ASC Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Fund performed an evaluation of uncertain tax positions for the year ended June 30, 2014, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. The Fund is generally not subject to U.S. federal, state, or local examinations by tax authorities for tax years prior to 2010. It is the Fund's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2014 the Fund had no accruals for interest and/or penalties.

In-Kind Contributions - Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donor-Imposed Restrictions - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as an increase to temporarily restricted or permanently restricted net assets.

Subsequent Events – Management has evaluated subsequent events through December 11, 2014 the date the financial statements were available to be issued.

Note 2 – Investments

Investments are reported at fair value in the accompanying balance sheet. The fair value framework described in FASB ASC 820-10 requires a categorization of assets and liabilities into three levels based upon the

assumptions (inputs) used to value the assets or liabilities. Level 1 produces the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted process in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the assets or liability.

	<u>Fair Value Measurement Using:</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
HEAD Loan Fund	\$ 5,415	\$ -	\$ -	\$ 5,415
Total	<u>\$ 5,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,415</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	<u>HEAD Loan Fund</u>
Balance as of June 30, 2012	\$ 2,379
Deposits	3,000
Reinvested Earnings	<u>36</u>
Balance as of June 30, 2014	<u>\$ 5,415</u>

Note 3 - Other Assets

Other assets consist of:

Non-Operational Asset	\$ 7,500
Security Deposit	<u>1,076</u>
Total Other Assets	<u>\$ 8,576</u>

Note 4 – Other Liabilities

Other liabilities consist of:

Accrued Vacation Leave	\$ 1,918
Payroll Liabilities	<u>2,056</u>
Total Other Liabilities	<u>\$ 3,974</u>

Note 5 – Grants Payable

The Fund distributes grants from restricted and unrestricted funds as follows:

Restricted Grants and Funds	
Alexander Fund	\$ 37,000
Alexander Fund Technical Assistance	500
FOCIS Fund	3,900
Other Restricted Funds	2,300
Total Restricted Funds	<u>43,700</u>
Unrestricted Grants	1,000
Total Grants Payable	<u>\$ 44,700</u>

Note 6 – Temporarily Restricted Net Assets

The temporarily restricted net assets balance consists of the following amounts:

	Cash	Receivables	Liabilities	Total
Alexander Fund	\$ 37,576	\$ -	\$(37,500)	\$ 76
Hearthstone	118,921	-	-	118,921
FOCIS	53,798	155	(3,900)	50,053
LGBTQ	4,845	-	-	4,845
Marsha “Mudd” Ferber Memorial Fund	2,300	-	(2,300)	-
Total	<u>\$ 217,440</u>	<u>\$ 155</u>	<u>\$(43,700)</u>	<u>\$ 173,895</u>

Note 7 – In-Kind Contributions

In-kind contributions consist of the following:

Donated Items for Staff Training & Development:	
Recorded at Fair Market Value	\$ 50
Specialized Donated Consultant Services	458
Total In-Kind Contributions	<u>\$ 508</u>

Note 8 – Retirement Plan

The Fund has designated SEP-IRA accounts for full-time employees who are over 21 with one year of service. The Board determines annual contributions. Expense of \$4,000 was included in Employee Benefits for this purpose in the year ended June 30, 2014.

Note 9 – Functional Allocations of Expenses

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

Note 10 – Related Parties

The Board of Directors makes all decisions concerning grant making, program, and future directions. The Board consists of members who represent the region economically, racially, sexually, and culturally, and who are local activists. There were grants awarded totaling \$45,000 during the year ended June 30, 2014 to organizations with which board members or staff are associated. The Board has a stated policy and practice that, when a request for funds is being considered, anyone who is an employee or board member of the prospective grantee will leave the board room and not participate in the final discussion and vote related to that grant.

In addition, a member of the Fund's board of directors is a board member of the Funding Exchange, a national organization of which the Fund is a member and from which the Fund received endowment monies.

Note 11 – Commitments

In August 2011, the Fund entered into a three-year lease agreement that expires on August 31, 2014, with an option to renew for five years. In August 2014, the Fund has opted to renew the lease for an additional five years. Future minimum lease payments under the office lease, as of June 30, 2014, are:

June 30, 2015	\$ 14,831
June 30, 2016	15,130
June 30, 2017	15,435
June 30, 2018	15,746
June 30, 2019	16,063
August 31, 2019	2,686

For the year ended June 30, 2014, total rent expense is \$14,538.

Note 12 – Concentration of Contributions and Grants

The Fund receives approximately 70% of its donor support from two sources.

Note 13 – Contingencies

The Fund became a member of the Funding Exchange (FEX) in 1989. FEX is a national membership organization that channels donor advised funds via grants and endowment disbursements to its member foundations that support progressive social justice. The Fund uses the unrestricted grants from FEX to make grants to other nonprofit organizations focused on issues and causes that support their mission of social justice movements.

On March 1, 2013, the FEX board of directors unanimously voted to dissolve FEX due to structural challenges and declining revenue. FEX will continue temporary operations until the process is complete or the board decides otherwise. The Fund's board and management are preparing to establish endowment policies for the time when FEX transfers the Fund's portion of the endowment to it. Management is uncertain as to the impact on future revenues, if any, until the FEX finalizes a course of action. FEX is developing its 2015 budget.

Note 14 – Subsequent Events

One of the Fund's largest contributors, The New York Community Trust (NYC Trust), has been providing restricted and unrestricted grant money exclusively to the Fund through the Alexander Fund. As of September 30, 2014, NYC Trust has verbally notified management that they are lowering the Alexander Fund restricted grant making for 2014/2015 by \$52,000. This change is based on NYC Trust's decision to provide funds to two new initiatives outside of the Fund. This will have an impact on the restricted grant making for the June 30, 2015 budget. The NYC Trust has assured management that the unrestricted grant money will not be affected. The Fund will seek grants from other private foundations.

Note 15 – Other Matters

On May 4, 2012, the Fund and Co-lessee had filed an asserted claim against the former Landlord related to early termination of the lease, in 2011, that was due to expire on April 30, 2014.

A Settlement Agreement and Release between the parties was filed with the Chancery Court for Knox County, Tennessee on August 9, 2012. Under the terms of the agreement the former Landlord will make a payment of \$22,500 to be split between the Fund and Co-lessee in return for dismissal of the complaint. At June 30, 2014, the former Landlord has paid the remaining balance due the Organization of \$5,750, which was applied to rent expense.