

**APPALACHIAN COMMUNITY FUND, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

APPALACHIAN COMMUNITY FUND, INC.  
YEAR ENDED JUNE 30, 2013

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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, 2013, 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, 2013, 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.

*Bible Harris Smith, P.C.*

Bible Harris Smith, P.C.  
Knoxville, Tennessee  
December 13, 2013

APPALACHIAN COMMUNITY FUND, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2013

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents		\$ 267,720
Accounts Receivable		858
Short-Term Investments		2,379
Other Current Assets		5,813
Total Current Assets		<u>276,770</u>

FIXED ASSETS

Office Equipment	\$ 6,767	
Less Accumulated Depreciation	<u>(5,020)</u>	
Total Fixed Assets		1,747

NON-OPERATING ASSETS

7,500

TOTAL ASSETS

\$ 286,017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable		\$ 3,255
Grants Payable		5,000
Other Liabilities		1,841
Total Current Liabilities		<u>10,096</u>

NET ASSETS

Unrestricted	\$ 91,834	
Temporarily Restricted	<u>184,087</u>	
Total Net Assets		<u>275,921</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 286,017

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

APPALACHIAN COMMUNITY FUND, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT</b>				
Donor Support	\$ 137,593	\$ 162,546	\$ -	\$ 300,139
FEX Endowment	46,820	-	-	46,820
Interest and Dividend Income	379	1,166	-	1,545
<b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>				
Satisfaction of Program Restrictions	<u>167,770</u>	<u>(167,770)</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<u>352,562</u>	<u>(4,058)</u>	<u>-</u>	<u>348,504</u>
<b>EXPENSES</b>				
Program	263,747	-	-	263,747
Fundraising	47,457	-	-	47,457
Management and General	52,172	-	-	52,172
Total Expenses	<u>363,376</u>	<u>-</u>	<u>-</u>	<u>363,376</u>
<b>CHANGE IN NET ASSETS</b>	(10,814)	(4,058)	-	(14,872)
<b>NET ASSETS - BEGINNING</b>	<u>102,648</u>	<u>188,145</u>	<u>-</u>	<u>290,793</u>
<b>NET ASSETS - ENDING</b>	<u><u>\$ 91,834</u></u>	<u><u>\$ 184,087</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 275,921</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, 2013

	Program Services	Supporting Services		Total Expenses
		Fundraising	Mgmt/Gen.	
Grant Expense	\$ 165,330	\$ -	\$ -	\$ 165,330
Payroll	41,551	30,930	26,441	98,922
Employee Benefits	10,148	7,637	6,804	24,589
Marketing & Donor Development	5,545	1,876	4,000	11,421
Board Governance	3,420	954	2,899	7,273
Facility Rent and Utilities	11,161	2,073	2,710	15,944
Memberships	4,672	868	1,135	6,675
Staff Expenses	4,751	1,200	17	5,968
Audit, Tax & Legal	-	-	5,850	5,850
Newsletters & Annual Report	2,929	154	-	3,083
Consultant Services	4,958	-	-	4,958
Office Supplies, Equip., Ins.	2,232	457	605	3,294
Telephone	2,715	504	659	3,878
Postage	723	134	176	1,033
Subscriptions	544	101	132	777
Depreciation	722	134	176	1,032
Equipment Maintenance & Rental	1,462	271	355	2,088
Copying & Printing	393	73	96	562
Other Expenses	491	91	117	699
<b>TOTAL EXPENSES</b>	<u>\$ 263,747</u>	<u>\$ 47,457</u>	<u>\$ 52,172</u>	<u>\$ 363,376</u>

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

APPALACHIAN COMMUNITY FUND, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	(14,872)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	1,032
Reinvested Earnings on Short Term Investments	(47)
(Increase) Decrease in Assets:	
Accounts Receivable	927
Other Current Assets	3,846
Increase (Decrease) in Liabilities:	
Accounts Payable	1,312
Grants Payable	(4,000)
Other Liabilities	<u>(2,288)</u>
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	 <u>(14,090)</u>
 NET INCREASE (DECREASE) IN CASH	 (14,090)
 CASH AND CASH EQUIVALENTS - BEGINNING	 <u>281,810</u>
 CASH AND CASH EQUIVALENTS - ENDING	 <u><u>\$ 267,720</u></u>

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



APPALACHIAN COMMUNITY FUND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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, 2013 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. As of June 30, 2013 grants payable totaled \$5,000. All grants are expected to be paid within one year.

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).

Effective July 1, 2009, 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, 2013, 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 2009. 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, 2013 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 13, 2013 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.

	Fair Value Measurement Using:			
	Fair Value	Level 1	Level 2	Level 3
HEAD Loan Fund	\$ 2,379	\$ -	\$ -	\$ 2,379
Total	\$ 2,379	\$ -	\$ -	\$ 2,379

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

	HEAD Loan Fund
Balance as of June 30, 2012	\$ 2,332
Reinvested Earnings	47
Balance as of June 30, 2013	\$ 2,379

Note 3 - Other Current Assets

Other current assets consist of:

Prepaid Expenses	\$ 4,737
Deposits	1,076
Total Other Current Assets	\$ 5,813

Note 4 – Other Liabilities

Other liabilities consist of:

Accrued Vacation Leave	\$ 1,850
Excess Payroll Tax Benefit	(9)
Total Other Liabilities	\$ 1,841

#### Note 5 - Temporarily Restricted Net Assets

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

	<u>Cash</u>	<u>Receivables</u>	<u>Liabilities</u>	<u>Total</u>
Alexander Fund	\$ 5,726	\$ -	\$ (5,000)	\$ 726
Hearthstone	120,458	-	-	120,458
FOCIS	52,034	-	-	52,034
LGBTQ	8,569	-	-	8,569
Marsha "Mudd" Ferber Memorial Fund	2,300	-	-	2,300
Total	<u>\$ 189,087</u>	<u>\$ -</u>	<u>\$ (5,000)</u>	<u>\$ 184,087</u>

#### Note 6 – In-Kind Contributions

In-kind contributions consist of the following:

Donated Items for NYC Event & Outreach – Recorded at Fair Market Value	\$ 1,858
Specialized Donated Services	<u>1,670</u>
Total In-Kind Contributions	<u>\$ 3,528</u>

#### Note 7- 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, 2013.

#### Note 8 - 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 9 - 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 \$34,000 during the year ended June 30, 2013 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 10 - 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. The monthly rent amount increases on September 1 of each year. Future lease payments are as follows.

June 30, 2014	\$ 14,538
August 31, 2014	2,431

At June 30, 2013, total rent expense is \$14,251.

#### Note 11 – Concentration of Contributions and Grants

The Fund receives approximately 62% of its donor support from two sources.

#### Note 12 – Contingencies and Subsequent Event

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, 2013.

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, 2013, the former Landlord has paid the Fund \$5,500 towards its share of the settlement. The remaining balance of \$5,750 was received by the end of September 2013.

#### Note 13 – Subsequent Event

The Fund became a member of the Funding Exchange (FEX) in 1989. The FEX is a national membership organization that channels donor advised funds via grants 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 severe changes in the economy over the last five years. Up until dissolution, FEX has continued to honor grants that had been awarded. Over the next several months, FEX will finalize a course of action that may include moving donor advised funds to its member foundations. 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 in case the FEX elects to transfer funds to the individual member foundations. Management is uncertain as to the impact on future revenues, if any, until the FEX finalizes a course of action.