

APPALACHIAN COMMUNITY FUND, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012

APPALACHIAN COMMUNITY FUND, INC.
YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Appalachian Community Fund, Inc.
Knoxville, Tennessee

We have audited the accompanying statement of financial position of Appalachian Community Fund, Inc. (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bible Harris Smith, P.C.

Bible Harris Smith, P.C.
Knoxville, Tennessee
December 19, 2012

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents		\$ 281,810
Accounts Receivable		1,785
Short-Term Investments		2,332
Other Current Assets		9,659
Total Current Assets		295,586

FIXED ASSETS

Office Equipment	\$ 12,708	
Less Accumulated Depreciation	(9,929)	
Total Fixed Assets		2,779

NON-OPERATING ASSETS

7,500

TOTAL ASSETS

\$ 305,865

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable		\$ 1,943
Grants Payable		9,000
Other Liabilities		4,129
Total Current Liabilities		15,072

NET ASSETS

Unrestricted	\$ 102,648	
Temporarily Restricted	188,145	
Total Net Assets		290,793

TOTAL LIABILITIES AND NET ASSETS

\$ 305,865

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

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Donor Support	\$ 131,918	\$ 215,643	\$ -	\$ 347,561
FEX Endowment	45,120	-	-	45,120
Interest and Dividend Income	1,024	745	-	1,769
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of Program Restrictions	<u>218,144</u>	<u>(218,144)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>396,206</u>	<u>(1,756)</u>	<u>-</u>	<u>394,450</u>
EXPENSES				
Program	349,589	-	-	349,589
Fundraising	62,492	-	-	62,492
Management and General	56,593	-	-	56,593
Total Expenses	<u>468,674</u>	<u>-</u>	<u>-</u>	<u>468,674</u>
CHANGE IN NET ASSETS	(72,468)	(1,756)	-	(74,224)
NET ASSETS - BEGINNING	<u>175,116</u>	<u>189,901</u>	<u>-</u>	<u>365,017</u>
NET ASSETS - ENDING	<u><u>\$ 102,648</u></u>	<u><u>\$ 188,145</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 290,793</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, 2012

	Program Services	Supporting Services		Total Expenses
		Fundraising	Mgmt/Gen.	
Grant Expense	\$ 230,663	\$ -	\$ -	\$ 230,663
Payroll	49,054	40,575	27,518	117,147
Employee Benefits	12,354	10,140	7,465	29,959
Marketing & Donor Development	11,336	3,573	2,937	17,846
Board Governance	6,531	1,959	5,243	13,733
Facility Rent and Utilities	9,576	1,778	2,326	13,680
Memberships	5,621	1,044	1,365	8,030
Staff Expenses	4,524	1,394	821	6,739
Audit, Tax & Legal	567	105	5,988	6,660
Newsletters & Annual Report	5,546	292	-	5,838
Consultant Services	5,322	-	-	5,322
Office Supplies, Equip., Ins.	2,767	569	755	4,091
Telephone	2,668	495	648	3,811
Postage	1,276	237	310	1,823
Subscriptions	652	121	158	931
Depreciation	-	-	784	784
Copying & Printing	529	98	129	756
Other Expenses	350	65	85	500
Equipment Rental	253	47	61	361
TOTAL EXPENSES	\$ 349,589	\$ 62,492	\$ 56,593	\$ 468,674

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

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (74,224)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	784
Reinvested Earnings on Short Term Investments	(63)
(Increase) Decrease in Assets:	
Accounts Receivable	3,975
Other Current Assets	(1,315)
Increase (Decrease) in Liabilities:	
Accounts Payable	825
Grants Payable	(40,600)
Other Liabilities	<u>2,589</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(108,029)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Assets	<u>(2,636)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(2,636)</u>
NET INCREASE (DECREASE) IN CASH	(110,665)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>392,475</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 281,810</u></u>

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

APPALACHIAN COMMUNITY FUND, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 (formerly SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*), 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 - 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, 2012 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, 2012 grants payable totaled \$9,000. 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, 2012, 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 2008. 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, 2012 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 19, 2012 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	\$ 2,332	\$ -	\$ -	\$ 2,332
Total	\$ 2,332	\$ -	\$ -	\$ 2,332

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, 2011	\$ 2,269
Reinvested Earnings	63
Balance as of June 30, 2012	\$ 2,332

Note 3 - Other Current Assets

Other current assets consist of:

Prepaid Expenses	\$ 8,583
Deposits	1,076
Total Other Current Assets	\$ 9,659

Note 4 – Other Liabilities

Other liabilities consist of:

Accrued Vacation Leave	\$ 1,756
Accrued Payroll Liabilities	<u>2,373</u>
Total Other Liabilities	\$ <u>4,129</u>

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	\$ 4,057	\$ -	\$ -	\$ 4,057
Hearthstone	121,966	-	-	121,966
FOCIS	53,760	-	(2,000)	51,760
GLBTQ	10,362	-	-	10,362
Total	<u>\$ 190,145</u>	<u>\$ -</u>	<u>\$ (2,000)</u>	<u>\$ 188,145</u>

Note 6- 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 \$3,500 was included in Employee Benefits for this purpose in the year ended June 30, 2012.

Note 7- 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 8- 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 \$44,300 during the year ended June 30, 2012 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, the chair of the Fund's board of directors is a board member of the Funding Exchange, a national organization of which the Fund received endowment monies.

Note 9- Commitments

The Fund had entered into a five year real property lease, payable in installments of \$956 per month through June 2013. The lease was terminated in August 2011. Facility rent expense for the year ended June 30, 2012 totaled \$11,554, which includes a settlement of \$3,577 from the prior landlord for difference in rent and security deposit for the new lease.

In August 2011, the Fund entered into a new lease agreement with a different entity. The initial lease runs through 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, 2013	\$	14,251
June 30, 2014	\$	14,538
August 31, 2014	\$	2,431

Note 10 – Concentration of Contributions and Grants

The Fund receives approximately 58% of its donor support from two sources.

Note 11 – Contingencies and Subsequent Event

The Fund has asserted claims based on a complaint filed with the Chancery Court for Knox County, Tennessee on May 4, 2012 related to the early termination of a lease between the Fund, Co-lessee and the former Landlord.

A Settlement Agreement and Release between the parties has been 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 both the Fund and Co-lessee in return for dismissal of the complaint. Management is uncertain as to when the Fund's 50% share of the payment will be made by the former Landlord.