

**APPALACHIAN COMMUNITY FUND, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

APPALACHIAN COMMUNITY FUND, INC.  
YEAR ENDED JUNE 30, 2010

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Program  
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of Certified Public Accountants

Appalachian Community Fund, Inc.  
Knoxville, Tennessee

We have reviewed the accompanying statement of financial position of Appalachian Community Fund, Inc. (a nonprofit organization), as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended, in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Appalachian Community Fund, Inc.

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression on an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modification that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.



Bible Harris Smith, P.C.

Knoxville, Tennessee  
January 14, 2011

APPALACHIAN COMMUNITY FUND, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2010

	Program Services	Supporting Services		Total Expenses
		Fundraising	Mgmt/Gen.	
Grant Expense	\$ 359,089	\$ -	\$ -	\$ 359,089
Payroll	53,357	38,856	33,985	126,198
Employee Benefits	9,379	6,830	5,974	22,183
Marketing and Donor Development	6,422	8,126	2,499	17,047
Facility Rent and Utilities	700	700	12,606	14,006
Board Governance	5,975	-	6,785	12,760
Newsletters & Annual Report	12,208	-	-	12,208
Staff Expenses	5,097	4,767	177	10,041
Memberships	427	427	7,682	8,536
Audit and Tax	-	-	4,750	4,750
Telephone	217	217	3,907	4,341
Postage	127	127	2,291	2,545
Office Supplies, Equip., Ins.	113	113	2,029	2,255
Subscriptions	48	48	871	967
Equipment Rental	47	47	845	939
Consultant Services	935	-	-	935
Copying & Printing	36	36	647	719
Depreciation	22	22	402	446
Other Expenses	246	246	2,267	2,759
<b>TOTAL EXPENSES</b>	<b>\$ 454,445</b>	<b>\$ 60,562</b>	<b>\$ 87,717</b>	<b>\$ 602,724</b>

See accompanying notes and accountant's report.

APPALACHIAN COMMUNITY FUND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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, 2010 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.

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).

Effect 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, 2010, and determined that there were no matters that would require recognition in the financial statements or which may have any affect on its tax-exempt status. As of June 30, 2010, the statute of limitations for tax years 2006 through 2008 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Fund files tax returns. 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, 2010 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 January 14, 2011, 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	<u>\$ 2,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,202</u>
Total	<u>\$ 2,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,202</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, 2009	\$ 2,137
Reinvested Earnings	<u>65</u>
Balance as of June 30, 2010	<u>\$ 2,202</u>

## Note 3 - Other Current Assets

Other current assets consist of:

Prepaid Expenses	\$ 9,121
Deposits	<u>956</u>
Total Other Current Assets	<u>\$ 10,077</u>

## Note 4 – Other Liabilities

Other liabilities consist of:

Accrued Vacation Leave	<u>\$ 2,532</u>
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## 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	\$ 66,043	\$ -	\$ (64,700)	\$ 1,343
Hearthstone	146,029	-	-	146,029
FOCIS	53,808	-	-	53,808
GLBTQ	8,753	-	-	8,853
Other	178	-	(51)	127
Total	<u>\$ 274,911</u>	<u>\$ -</u>	<u>\$ (64,751)</u>	<u>\$ 210,160</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 \$5,500 was included in Employee Benefits for this purpose in the year ended June 30, 2010.

#### 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 \$29,500 during the year ended June 30, 2010, 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, one of the Fund's Board members is also a Board member of the Funding Exchange, a national organization of which the Fund is a member, and from which the Fund received grants.

#### Note 9- Commitments

The Fund signed a five year real property lease agreement with 5 Torrey Hills, LLC (previously Kailyn Realty Management) payable in installments of \$956 per month through June 2013. Facility rent expense for the current year was \$11,468. Future lease payments are as follows.

June 30, 2011	11,468
June 30, 2012	11,468
June 30, 2013	9,557