

APPALACHIAN COMMUNITY FUND, INC.

FINANCIAL STATEMENTS

JUNE 30, 2008

APPALACHIAN COMMUNITY FUND, INC.
YEAR ENDED JUNE 30, 2008

CONTENTS

	Page
Report of Independent Auditors	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 9

Bible Harris Smith, P.C.

Certified Public Accountants and Business Advisors Since 1949

507 West Clinch Avenue
Knoxville, TN 37902-2104
Phone 865-546-2300
Fax 865-525-7454
E-mail contactname@BHSpc.com

Member of the AICPA Peer Review
Program
Member of the Tennessee Society
of Certified Public Accountants

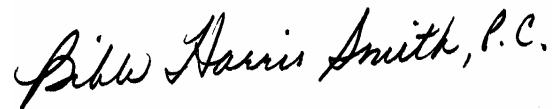
INDEPENDENT AUDITORS' REPORT

Appalachian Community Fund, Inc.
Knoxville, Tennessee

We have audited the accompanying statement of financial position of the Appalachian Community Fund, Inc. (a nonprofit organization), as of June 30, 2008, 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 the Appalachian Community Fund, Inc., as of June 30, 2008, 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.

Knoxville, Tennessee
January 6, 2009

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents		\$ 253,459
Accounts Receivable		2,501
Grants Receivable		75,000
Short-Term Investments		244,088
Other Current Assets		6,234
Total Current Assets		581,282

FIXED ASSETS

Property and Equipment	\$ 8,218	
Less Accumulated Depreciation	(8,013)	
Total Fixed Assets		205

NON-OPERATING ASSETS

7,500

TOTAL ASSETS

\$ 588,987

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable		\$ 2,748
Grants Payable		108,250
Other Liabilities		1,245
Total Current Liabilities		112,243

NET ASSETS

Unrestricted	\$ 230,261	
Temporarily Restricted	246,483	
Total Net Assets		476,744

TOTAL LIABILITIES AND NET ASSETS

\$ 588,987

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

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Donor Support	\$ 329,350	\$ 215,716	\$ -	\$ 545,066
FEX Endowment	51,288	-	-	51,288
Interest and Dividend Income	10,286	9,874	-	20,160
Investment Gains (Losses):				
Realized Gain (Loss)	-	-	-	-
Unrealized Gain (Loss)	-	-	-	-
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of Program Restrictions	210,012	(210,012)	-	-
TOTAL REVENUES AND OTHER SUPPORT	<u>600,936</u>	<u>15,578</u>	<u>-</u>	<u>616,514</u>
EXPENSES				
Program	401,301	-	-	401,301
Fundraising	36,604	-	-	36,604
Management and General	46,742	-	-	46,742
Total Expenses	<u>484,647</u>	<u>-</u>	<u>-</u>	<u>484,647</u>
CHANGE IN NET ASSETS	116,289	15,578	-	131,867
NET ASSETS - BEGINNING	114,972	229,905	-	344,877
TRANSFER	<u>(1,000)</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 230,261</u>	<u>\$ 246,483</u>	<u>\$ -</u>	<u>\$ 476,744</u>

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

APPALACHIAN COMMUNITY FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008

	Program	Supporting Services		Total
	Services	Fundraising	Mgmt/Gen.	Expenses
Grant Expense	\$ 267,898	\$ -	\$ 1,404	\$ 269,302
Payroll	64,627	17,214	21,698	103,539
Employee Benefits	19,967	5,153	7,085	32,205
Staff Expenses	10,019	3,239	1,333	14,591
Board Governance	6,395	1,650	2,621	10,666
Facility Rent and Utilities	6,597	1,703	2,341	10,641
Office Supplies, Equip., Ins.	5,607	1,447	1,990	9,044
Marketing and Donor Development	5,629	1,824	-	7,453
Audit and Tax	-	-	4,619	4,619
Newsletters	3,324	1,108	-	4,432
Telephone	2,402	620	852	3,874
Website Expenses	2,842	947	-	3,789
Funding Exchange Membership	1,752	452	622	2,826
Postage	1,053	272	374	1,699
Direct Fundraising Expenses	-	482	1,125	1,607
Consultant Services	1,277	-	-	1,277
Equipment Rental	710	183	252	1,145
Copying & Printing	652	168	231	1,051
Subscriptions and Memberships	274	71	97	442
Other Expenses	157	41	56	254
Depreciation	119	30	42	191
TOTAL EXPENSES	\$ 401,301	\$ 36,604	\$ 46,742	\$ 484,647

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

APPALACHIAN COMMUNITY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 131,867
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	191
(Increase) Decrease in Assets:	
Accounts Receivable	(1,821)
Grants Receivable	(55,000)
Other Current Assets	(3,987)
Increase (Decrease) in Liabilities:	
Accounts Payable	1,658
Grants Payable	22,050
Other Liabilities	<u>(2,346)</u>
Net Cash Provided By (Used In) Operating Activities	<u>92,612</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Withdrawals and Purchases in Investments	<u>22,826</u>
Net Cash Provided By (Used In) Investing Activities	<u>22,826</u>

NET INCREASE (DECREASE) IN CASH	115,438
CASH AND CASH EQUIVALENTS - BEGINNING AS RESTATED	<u>138,021</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 253,459</u></u>

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

APPALACHIAN COMMUNITY FUND, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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 Financial Accounting Standard No. 117, 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 purchased with a maturity of three months or less 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. Certificates of deposit included in cash and cash equivalents at June

30, 2007 totaled \$264,915. Beginning cash for purposes of the cash flow statement has been restated accordingly.

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).

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.

Note 2 – Short-term Investments

Short-term investments as of June 30, 2008 consist of unrestricted debt instruments.

Note 3 - Other Current Assets

Other current assets consist of:

Prepaid Expenses	\$ 5,278
Deposits	<u>956</u>
Total Other Current Assets	<u>\$ 6,234</u>

Note 4 – Other Liabilities

Other liabilities consist of:

Accrued Vacation Leave	<u>\$ 1,245</u>
Total Other Liabilities	<u>\$ 1,245</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	\$ 104,333	\$ -	\$ (85,750)	\$ 18,583
Hearthstone	148,400	-	-	148,400
Media Justice	1,051	-	-	1,051
FOCIS	52,867	-	-	52,867
Babcock Foundation	5,956	-	-	5,956
Other	19,626	-	-	19,626
Total	<u>\$ 332,233</u>	<u>\$ -</u>	<u>\$ (85,750)</u>	<u>\$ 246,483</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 \$5,563 was included in Employee Benefits for this purpose in the year ended June 30, 2008. One employee resigned during the year and a balance of \$563 was paid for the 4.5 months the employee worked in 2008.

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 \$39,950 during the year ended June 30, 2008, 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 leased its facilities under a month to month operating lease through April 2008. The Fund signed a five year lease agreement with Kailyn Realty Management payable in installments of \$956 per month through June 2013. Facility rent expense for the current year was \$8,911. Future lease payments are as follows.

June 30, 2009	\$11,468
June 30, 2010	11,468
June 30, 2011	11,468
June 30, 2012	11,468
June 30, 2013	9,557