

APPALACHIAN CITIZENS LAW CENTER, INC.

WHITESBURG, KY

REGULAR AUDIT

JANUARY 1, 2019 THROUGH DECEMBER 31, 2019



Caudill & Associates, CPA, PLLC

3070 Lake Crest Cir – Ste 400/267
Lexington, KY 40513

Member American Institute of Certified Public Accountants
Member American Institute of Certified Public Accountants – Not for Profit Section
Member American Institute of Certified Public Accountants – Government Audit Quality Center

APPALACHIAN CITIZENS LAW CENTER, INC.
WHITESBURG, KY

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INDEPENDENT AUDITOR'S REPORT

Appalachian Citizens Law Center, Inc.
Whitesburg, Kentucky

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Appalachian Citizens Law Center, Inc., (a nonprofit organization) as of and for the year ended December 31, 2019, and the related statements of activities, statement of functional expenses and cash flows and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

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 the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As discussed in Note 1 to the accompanying financial statements, Appalachian Citizens Law Center, Inc., adopted ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profits Entities*. Our opinion is not modified with respect to these matters.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Appalachian Citizens Law Center, Inc., as December 31, 2019, and the respective changes in net assets, statement of functional expenses and cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC

July 25, 2020

APPALACHIAN CITIZENS LAW CENTER, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

<u>Assets</u>	<u>2019</u>
<u>Current Assets</u>	
Cash and equivalents	\$ 169,711
Program services receivable	-
<u>Total Current Assets</u>	<u>169,711</u>
<u>Fixed Assets:</u>	
Land	-
Buildings and improvements	130,263
Equipment, furniture and fixtures	23,287
Less: Accumulated depreciation	<u>(53,744)</u>
<u>Total Fixed Assets</u>	<u>99,806</u>
<u>Other Assets</u>	
Investments	<u>1,715,731</u>
<u>Total Other Assets</u>	<u>1,715,731</u>
<u>Total Assets</u>	<u>\$ 1,985,248</u>
<u>Liabilities and Net Assets</u>	
<u>Current Liabilities</u>	
Payroll liabilities	<u>\$ 1,413</u>
<u>Total Current Liabilities</u>	<u>1,413</u>
<u>Total Liabilities</u>	<u>1,413</u>
<u>Net Assets</u>	
With Donor Restrictions	-
Without Donor Restrictions	<u>1,983,835</u>
<u>Total Net Assets</u>	<u>1,983,835</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 1,985,248</u>

See accompanying notes to the audited financial statements.

APPALACHIAN CITIZENS LAW CENTER, INC.
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2019

	December 31, 2019		
	Without Restrictions	With Restrictions	Total
<u>Operating Activities</u>			
Grants and contributions	\$ -	\$ 465,438	\$ 465,438
Donations		\$ 58,980	
Program service fees	-	349,500	349,500
<u>Total Revenue and Support before Releases</u>	<u>-</u>	<u>873,918</u>	<u>873,918</u>
 <u>Net Assets Released from Restrictions</u>	 <u>873,918</u>	 <u>(873,918)</u>	 <u>-</u>
 <u>Total Revenue and Support</u>	 <u>873,918</u>	 <u>-</u>	 <u>873,918</u>
 <u>Expenses:</u>			
Program services	816,250	-	816,250
Management and General	139,879	-	139,879
 <u>Total Expenses</u>	 <u>956,129</u>	 <u>-</u>	 <u>956,129</u>
 <u>Changes in Net Assets from Operating Activities</u>	 <u>(82,211)</u>	 <u>-</u>	 <u>(82,211)</u>
 <u>Nonoperating Activities</u>			
Interest Income	1,716	-	1,716
 <u>Change in Net Assets from Nonoperating Activities</u>	 <u>1,716</u>	 <u>-</u>	 <u>1,716</u>
 <u>Change in Net Assets</u>	 <u>(80,495)</u>	 <u>-</u>	 <u>(80,495)</u>
 Increase (decrease) in net assets	 <u>(80,495)</u>	 <u>-</u>	 <u>(80,495)</u>
 Net assets, beginning of year	 <u>2,064,330</u>	 <u>-</u>	 <u>2,064,330</u>
 Net assets, end of year	 <u>\$ 1,983,835</u>	 <u>\$ -</u>	 <u>\$ 1,983,835</u>

See accompanying notes to the audited financial statements.

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APPALACHIAN CITIZENS LAW CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSE

For the Year Ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Personnel	\$ 487,544	\$ 86,037	\$ 573,581
Fringe benefits	174,226	30,746	204,972
Insurance	9,970	1,759	11,729
Utilities	6,571	1,160	7,731
Telephone	5,345	943	6,288
Travel	43,745	7,720	51,465
Medical Evidence	15,068	-	15,068
Training	-	-	-
Registration Fees	-	-	-
Fundraising	4,689	828	5,517
Postage	2,432	429	2,861
Facility/Operating	21,474	3,790	25,264
Dues/Subscriptions	3,566	629	4,195
Supplies	12,695	2,240	14,935
Printing	-	-	-
Legal and Professional	2,330	411	2,741
Maintenance	18,058	3,187	21,245
Advertising	5,002	-	5,002
Depreciation	3,535	-	3,535
	<hr/>	<hr/>	<hr/>
<u>Total</u>	<u>\$ 816,250</u>	<u>\$ 139,879</u>	<u>\$ 956,129</u>

See accompanying notes to the audited financial statements.

APPALACHIAN CITIZENS LAW CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2019</u>
Increase/(Decrease) in net assets	\$ (80,495)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,535
Program services receivable	-
Employee receivable	-
Increase (decrease) in:	
Accounts payable	-
Payroll liabilities	<u>-</u>
Net cash provided/(used) by operating activities	<u>(76,960)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of investments	(1,158,946)
Proceeds from sale or maturities of investments	1,177,709
Transfers of earnings to operations	50,000
	<u>-</u>
Net cash provided/(used) by investing activities	<u>68,763</u>
 NET INCREASE/(DECREASE) IN CASH	(8,197)
CASH, BEGINNING OF YEAR	<u>177,908</u>
CASH, END OF YEAR	<u><u>\$ 169,711</u></u>

See accompanying notes to the audited financial statements.

APPALACHIAN CITIZENS LAW CENTER, INC.
Whitesburg, Kentucky

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Appalachian Citizens Law Center, Inc. (ACLC) was organized in 2001 as a non-profit law firm that fights for justice in the coal fields by representing coal miners and their families on issues of black lung and mine safety, and by working with various grassroots organization to protect the land and people from misuse and degradation caused by extractive industries.

ACLC represents low-income individuals and non-profit groups. Although clients are not charged for representation, ACLC applies for attorney fees under fee-shifting statutes when such fees are available.

ACLC operations are primarily supported by donor contributions, grants and attorney fees.

B. BASIS OF ACCOUNTING

This summary of significant accounting policies of Appalachian Citizens Law Center (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

C. FINANCIAL STATEMENT PRESENTATION

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purposes in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

APPALACHIAN CITIZENS LAW CENTER, INC.
Whitesburg, Kentucky

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reporting of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates.

E. INVESTMENTS

In March 2013,, ACLC's Board of Directors resolved that \$832,000 of the funds invested with the Charles Schwab brokerage firm be reserved for long term growth and stability. That amount represents prior funds received from the Bingham Trust designated to long-term growth and stability for a now expired five years period, along with ACLC's matching contributions. The remainder of monies invested with Charles Schwab represents ACLC surplus cash from operations, as well as interest, dividends and capital gains reinvested. ACLC may withdraw funds up to the \$832,000 reserved by ACLC's board as needed for operations.

Cash and short term investments held in the money market fund are recorded at cost; equity securities, mutual funds, and bond funds are recorded at their fair market value.

The net change in the fair value at December 31 is recorded as an unrealized gain or loss in the statement of financial position. It increases or decreases net assets without restrictions. Any mutual fund, equity security, or bond fund that declines more than 25% in value over a six month period, is considered impaired. The basis of the asset is reduced to its new value and the loss is deducted from operating income on the statement of activities. The only impairment losses recorded by ACLC occurred in 2008.

F. PROPERTY, PLANT & EQUIPMENT

Fixed assets acquired for the general use of the Organization in providing service are recorded at cost. Depreciation of fixed assets of the Organization is calculated utilizing the straight line method of five to forty years. All assets reported in the financial statements are at cost less accumulated depreciation. Fixed asset purchases or construction are capitalized with a cost of \$2,500 or more and with a useful life of more than one year. Certain grantor agencies, through the terms of various grant agreements, maintain a legal interest in property and equipment acquired with grant funding and could take possession of such property and equipment upon improper use of such property and equipment by Inc. or dissolution of ALC, Inc. Depreciation expense for the fiscal year ended December 31, 2019 was \$3,535.

G. INCOME TAXES

The Corporation is exempt from U.S. Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

The Financial Accounting Standards Board (FASB) has issued ASC 740-10, *Income Taxes* (formerly FIN 48, *Accounting for Uncertainty in Income Taxes*), which requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain income tax positions as of July 25, 2020. The Organization could be subject to examination by the Internal Revenue Service or other applicable tax jurisdictions. There are currently no audits for any tax periods in progress.

APPALACHIAN CITIZENS LAW CENTER, INC.
Whitesburg, Kentucky

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. REVENUES

Revenue Recognition – ACLC considers program fees earned when received. Attorney fees are received primarily for representation in black lung claims. The Black Lung Benefits Act prohibits attorneys from charging claimant for legal representation. The Act provides that an attorney who represents a claimant may apply for fee from the party opposing the claim if benefits are awarded. The application includes services rendered and the related expenses and is submitted to the appropriate adjudication officer who determines the appropriate fee. The opposing party has the right to object.

Contributions received are recorded as increases in net assets without donor restrictions and net assets with donor restrictions. Contributions that are restricted by the donor are reported as increases in donors without restrictions net assets if the restrictions expire (that is, when a stipulated time restrictions ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Contributions, promises to give, and multi-year grants with the right to suspend or terminate future payments are also recorded as revenue when received.

I. ADVERTISING EXPENSE

Advertising cost are expensed as incurred. Advertising expense for the fiscal year ended December 31, 2019, totaled \$5,002.

J. EMPLOYEE HEALTH INSURANCE BENEFITS

Pursuant to provisions outlined in Rev. Rule 61-146 and 75-24, ACLC pays for the cost of health insurance for its employees, their spouses, and dependent family members.

ACLC modified its employee health insurance plan effective January 1, 2015 to comply with certain provisions of the Affordable Care Act (ACA). All employees have the option to select an ACA-compliance health insurance plan within ACLC's group plan from the small business marketplace. ACLC contributes 100% of the premium for any individual or family policy within ACLC's group plan.

Employees that opt-out of the ACLC group health plan will have their health insurance premium reimbursed, provided the employee is enrolled in other ACA-compliant group coverage. Employees that opt-out must annually provide proof of coverage and cost, and written requests for reimbursement monthly. Not all employees request reimbursement, accordingly reimbursed costs are recorded as an expense when paid.

H. OTHER EMPLOYEE BENEFITS

ACLC contributes 10% of gross earnings to SEP-IRA for each employee over 21 years of age who earned more than \$600 in the prior year. In addition, the board of directors agreed to reimburse student loan payments for employees. The approves funding on a year-by-year basis.

J. New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly and applied the ASU retrospectively to all periods presented.

APPALACHIAN CITIZENS LAW CENTER, INC.
Whitesburg, Kentucky

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 2—FUNCTIONAL EXPENSES

Expenses by their functional classification for the fiscal year ended December 31, 2019, are as follows:

	<u>2019</u>
Program Services	816,250
Management and administrative Fundraising, membership and grant solicitation	<u>139,879</u>
Total	<u><u>956,129</u></u>

NOTE 3—CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

Protection of the Organization deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Deposits At year end, the carrying amount of the Organization deposits was \$169,711. The entire bank balance was covered by federal depository insurance.

NOTE 4 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 25, 2020 the date the financial statements were available to be issued. ACLC received \$144,800 on April 16, 2020 from the Paycheck Protection Program. The funding was authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law by the President of the United States.

NOTE 5 – RETIREMENT PLAN

The Organization employees are eligible to participate in a SEP-IPA retirement plan. The Organization's contribution is equal to 10% of gross wages. The Organization contributed \$34,461 to the plan for the fiscal year ended December 31, 2019.

APPALACHIAN CITIZENS LAW CENTER, INC.
Whitesburg, Kentucky

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 6 – Investments

Investments including endowment funds held by the Organization at December 31, 2019, consist of the following:

	Cost	Fair Value	Total
Money market funds	\$ 2,993		
Mutual funds		\$ 1,388,085	
Bond funds		\$ 323,076	
Equity funds		\$ 1,577	
	<u>\$ 2,993</u>	<u>\$ 1,712,738</u>	<u>\$ 1,715,731</u>
Dividends on mutual and bond funds			\$ 58,775
Capital gains on mutual and bond funds			\$ 98,373
			<u>\$ 157,148</u>
Analysis of the gains and losses of investments for 2019 as follows:			
Basis of investments at 12/31/2018			\$ 1,464,282
Reinvested in account			\$ 58,749
Withdrawals from account			\$ (50,000)
Unrealized gain on value of investments			<u>\$ 242,700</u>
Basis of investments at 12/31/2019			<u>\$ 1,715,731</u>

Note 7 – Property and Equipment

A summary of property and equipment at December 31, 2019, consist of the following

	<u>1/1/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2019</u>
Land	\$ -	\$ -	\$ -	\$ -
Building and improvement	130,263	-	-	130,263
Equipment furniture and fixtures	<u>23,287</u>	<u>-</u>	<u>-</u>	<u>23,287</u>
Subtotal	153,550	-	-	153,550
Less: accumulated depreciation	<u>(50,209)</u>	<u>(3,535)</u>	<u>-</u>	<u>(53,744)</u>
Total Net Fixed Assets	<u>\$ 103,341</u>	<u>\$ (3,535)</u>	<u>\$ -</u>	<u>\$ 99,806</u>