

**APPALACHIAN COMMUNITY
ENTERPRISES, INC.**

**Financial Statements
Year Ended December 31, 2004**

APPALACHIAN COMMUNITY ENTERPRISES, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Appalachian Community Enterprises, Inc.

I have audited the accompanying statement of financial position of Appalachian Community Enterprises, Inc. (a nonprofit organization) as of December 31, 2004 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appalachian Community Enterprises, Inc. as of December 31, 2004, 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.

A handwritten signature in black ink, appearing to read "D Benfield".

June 27, 2005

David Benfield, CPA

APPALACHIAN COMMUNITY ENTERPRISES, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2004

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 32,835
Grants receivable	110,031
Gross loans receivable - current portion	80,414
Interest receivable	6,354
Employee advances	<u>1,000</u>
Total Current Assets	230,634
Noncurrent Assets:	
Gross loans receivable - total	\$ 425,600
Less current portion	(80,414)
Loan loss reserves	<u>(42,315)</u>
	<u>302,871</u>
Total Assets	<u><u>\$ 533,505</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued expenses	<u>\$ 17,089</u>
Total Current Liabilities	17,089
Noncurrent Liabilities:	
Long term debt, see note 5	<u>250,000</u>
Total Liabilities	267,089
Net Assets:	
Unrestricted	84,016
Permanently restricted for financing	<u>182,400</u>
Total Net Assets	<u>266,416</u>
Total Liabilities and Net Assets	<u><u>\$ 533,505</u></u>

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

APPALACHIAN COMMUNITY ENTERPRISES, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2004

Changes in unrestricted net assets		
Revenue, gains, and other support:		
Contributions	\$ 6,725	
Grant revenue	289,191	
Interest income:		
Interest and fee income on loans	\$ 53,507	
Interest expense	<u>(6,454)</u>	
Net interest income	47,053	
Provision for loan losses	<u>(39,539)</u>	
Net interest income after provision for loan losses	<u>7,514</u>	
Total Support unrestricted assets		\$ 303,430
Expenses:		
Program services	289,907	
Supporting services	<u>19,138</u>	
Total Expenses unrestricted assets		<u>309,045</u>
Increase in unrestricted net assets		\$ (5,615)
Changes in permanently restricted net assets		
Contributions	<u>\$ 80,800</u>	
Increase in permanently restricted net assets		<u>80,800</u>
Change in net assets		75,185
Net assets, beginning of the year		<u>191,231</u>
Net assets, end of the year		<u><u>\$ 266,416</u></u>

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

APPALACHIAN COMMUNITY ENTERPRISES, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 For the Year Ended December 31, 2004

	<u>Program Services</u>	<u>Support Services</u>	<u>All Funds</u>
Dues	\$ 597	\$ -	\$ 597
Insurance	-	2,425	2,425
Miscellaneous	1,896	761	2,657
Office Supplies	3,332	2,191	5,523
Payroll Taxes	5,766	-	5,766
Postage, Parcel and Courier	341	403	744
Professional Services	164,185	6,028	170,213
Program Supplies	20,751	-	20,751
Salaries	67,143	-	67,143
Supplies	-	4,753	4,753
Repairs	473	269	742
Training	295	-	295
Telephone	3,907	689	4,596
Travel	21,221	1,619	22,840
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Total Expense	<u>\$ 289,907</u>	<u>\$ 19,138</u>	<u>\$ 309,045</u>

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

APPALACHIAN COMMUNITY ENTERPRISES, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

Cash Flows from Operating Activities:		
Increase in Net Assets	\$	75,184
Adjustments to Reconcile Change in Net Cash Used by Operating Activities:		
(Increase) Decrease in Operating Assets		
Provision for Loan Losses	11,835	
Grants and Interest Receivable	(65,782)	
Other Assets	3,953	
Increase (Decrease) in Operating Liabilities		
Accounts Payable	<u>16,420</u>	
Net Cash Used by Operating Activities	\$	41,610
Investing Activities:		
Loans Receivable	(167,642)	
Repayment of Loan Receivables	<u>56,684</u>	
Net Cash Used by Investing Activities		(110,958)
Financing Activities:		
FHLBA Loan Proceeds	<u>75,000</u>	
Net Cash Used in Financing Activities		<u>75,000</u>
Net Cash Used from All Activities		5,652
Cash, Beginning of the Year		<u>27,183</u>
Cash, End of the Year		<u><u>\$32,835</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest		<u>\$ 6,282</u>

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

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Nature of Activities

The Appalachian Community Enterprises, Inc. is a not-for-profit credit-led microenterprise development organization that the U.S. Department of Treasury recently certified as a community development financial institution (CDFI). In its four-year history, Appalachian Community Enterprises, Inc. has helped 50 businesses to start or expand through microloans and accompanying technical assistance. In 2003 Appalachian Community Enterprises, Inc. began using the nationally recognized Core Four Business Planning for Success curriculum which is ideally suited for rural mountainous communities. Over 100 small business people have taken the course which won a Presidential Entrepreneurial Education Excellence award.

Income Taxes

The organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting Policies

The financial statements are prepared on the accrual basis of accounting. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Accordingly, net assets are classified as:

Temporarily restricted net assets-Net assets subject to donor-imposed stipulation that may or may not be met.

Unrestricted net assets-Net assets not subject to donor-imposed stipulations.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - CONTINUED

Permanently restricted net assets-Net assets subject to donor-imposed stipulations that are to be maintained permanently.

Expenses are reported decreases in unrestricted net assets. Expirations of temporary restrictions occur when the donor-stipulated purpose has been fulfilled. Appalachian Community Enterprises, Inc. currently does not have any temporarily restricted assets at this time.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 period. Actual results could differ from those estimates.

The determination of the adequacy of the loan loss reserves is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

Permanently Restricted Net Assets

Appalachian Community Enterprises, Inc. receives grants that are restricted by the funding agencies to lending operations only.

Loans

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees and unearned discounts.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - CONTINUED

Currently, loan fees and cost are not considered significant and any deferral of the loan fees and cost would not significantly improve the financial reporting of operations.

The accrual of interest on loans is discontinued at the time the loan is determined by management as delinquent beyond 90 days. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Loan Loss Reserves

The loan loss reserves are maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the reserve is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the charge that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the reserves relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms.

Statement of Cash Flows

The company considers all cash and amounts due from depository institutions, interest-bearing deposits in banks to be cash equivalents for purposes of the statements of cash flows.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaled \$32,835 at December 31, 2004. Interest earned for the calendar year on account balances was \$256.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 3 - FIXED ASSETS

Appalachian Community Enterprises, Inc. currently does not have ownership in any equipment as of December 31, 2004. Equipment used in operations is leased from Appalachian Consulting Group, Inc., a related for-profit entity. Rent charged for equipment is determined by outside market rates.

NOTE 4 - GRANTS RECEIVABLE

In connection with working to provide loans to targeted areas and groups and providing other services, Appalachian Community Enterprises, Inc is due to receive \$110,031 from outside agencies as of December 31, 2004. The receivables amount have not been discounted due to their short term status. Contracts are recognized as revenue, as allowed by generally accepted accounting principles, as soon as contract conditions are met.

NOTE 5 - LONG TERM DEBT

In 2003, Appalachian Community Enterprises, Inc. started working with the Federal Home Loan Bank of Atlanta to increase available funds for loans. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 2.75% and repayment of these funds are not due until March 2013.

NOTE 6 - DONATED SERVICES

From time to time, professional services are provided from Appalachian Consulting Group, Inc. There were no donated services for the year 2004.

NOTE 7 - CONCENTRATION RISKS

The Appalachian Community Enterprises, Inc. has a potential risk associated with the concentration of support received from governmental agencies. Any change in finding future funding could have an adverse impact on the Appalachian Community Enterprises, Inc.