

**APPALACHIAN COMMUNITY
ENTERPRISES, INC.**

**Financial Statements
Year Ended December 31, 2006**

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, 2006 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, 2006, 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.



May 8, 2007

David Benfield, CPA

APPALACHIAN COMMUNITY ENTERPRISES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006

ASSETS

Current Assets:	
Cash and cash equivalents, see notes 2 & 9	\$ 588,894
Grants receivable	51,956
Gross micro loans receivable - current portion	284,688
Interest receivable	<u>6,368</u>
Total Current Assets	931,906
Noncurrent Assets:	
Gross micro loans receivable - total	\$ 1,481,986
Less current portion	(284,688)
Loan loss reserves	<u>(117,000)</u> 1,080,298
Equipment, net of \$5,156 accumulated depreciation, see note 3	13,867
Loan loss reserve fund, see note 2	<u>60,000</u>
Total Assets	<u><u>\$ 2,086,071</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued expenses	\$ 11,793
Current portion of long-term debt	<u>34,608</u>
Total Current Liabilities	46,401
Noncurrent Liabilities:	
Long term debt, see note 5	\$ 1,502,811
Less current portion	<u>(34,608)</u> 1,468,203
Total Liabilities	1,514,604
Net Assets:	
Unrestricted	302,532
Temporarily restricted	<u>268,935</u>
Total Net Assets	<u>571,467</u>
Total Liabilities and Net Assets	<u><u>\$ 2,086,071</u></u>

See accompanying independent accountant's report.
The accompanying notes are an integral part of these financial statements.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2006

Changes in unrestricted net assets		
Revenue, gains, and other support:		
Contributions	\$ 39,600	
Grant revenue	381,790	
Interest income:		
Interest and fee income on loans	\$ 178,029	
Interest expense	(22,237)	
Net interest income	<u>155,792</u>	
Provision for loan losses	(143,282)	
Net assets released from restrictions	<u>52,611</u>	
Net interest income after provision for loan losses	<u>65,121</u>	
Total support unrestricted assets		\$ 486,511
Expenses:		
Program services	261,415	
Supporting services	<u>77,868</u>	
Total expenses unrestricted assets		<u>339,283</u>
Increase in unrestricted net assets		\$ 147,228
Changes in temporarily restricted net assets		
Loan losses in temporarily restricted net assets	<u>(52,611)</u>	
Increase in temporarily restricted net assets		<u>(52,611)</u>
Change in net assets		94,617
Net assets, beginning of the year		<u>476,850</u>
Net assets, end of the year		<u><u>\$ 571,467</u></u>

See accompanying independent accountant's report.
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, 2006

	<u>Program Services</u>	<u>Support Services</u>	<u>All Funds</u>
Bank Service Charges	\$ -	\$ 64	\$ 64
Depreciation	1,746	1,745	3,491
Insurance	-	2,683	2,683
Miscellaneous	1,843	-	1,843
Payroll	95,125	-	95,125
Payroll Taxes	7,812	-	7,812
Printing	1,831	-	1,831
Professional Services	100,834	59,441	160,275
Program Supplies	15,440	4,983	20,423
Postage	1,105	-	1,105
Rent & Utilities	10,795	2,699	13,494
Telephone	3,990	998	4,988
Travel	20,894	5,255	26,149
	<u> </u>	<u> </u>	<u> </u>
Total Expense	<u>\$ 261,415</u>	<u>\$ 77,868</u>	<u>\$ 339,283</u>

See accompanying independent accountant's report.
 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, 2006

Cash Flows from Operating Activities:	
Increase in Net Assets	\$ 94,617
Adjustments to Reconcile Change in Net Cash Used by Operating Activities:	
(Increase) Decrease in Operating Assets	
Depreciation	3,491
Loan Loss Reserves	6,222
Grants and Interest Receivable	68,266
Increase (Decrease) in Operating Liabilities	
Accounts Payable and Accrued Expenses	<u>6,393</u>
 Net Cash Used by Operating Activities	 \$ 178,989
Investing Activities:	
Lending to Customers	(1,031,950)
Repayment of Loans	285,319
Capital Expenditures	(1,607)
Loan Loss Reserve Fund	<u>(30,000)</u>
 Net Cash Used by Investing Activities	 (778,238)
Financing Activities:	
SBA Loan Proceeds	200,000
USDA Loan Proceeds	627,500
FHLBA Loan Proceeds	125,000
Payments on Long-Term Debt	<u>(18,733)</u>
 Net Cash Used in Financing Activities	 <u>933,767</u>
 Net Cash Used from All Activities	 334,518
 Cash, Beginning of the Year	 <u>254,376</u>
 Cash, End of the Year	 <u><u>\$588,894</u></u>
 Supplemental Disclosure of Cash Flow Information	
 Cash paid during the year for interest	 <u>\$ 15,651</u>

See accompanying independent accountant's report.
The accompanying notes are an integral part of these financial statements.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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 micro enterprise development organization that the U.S. Department of Treasury recently certified as a community development financial institution (CDFI). In its six-year history, Appalachian Community Enterprises, Inc. has helped 110 businesses to start or expand through micro loans and accompanying technical assistance. Appalachian Community Enterprises, Inc. has provided business and financial education to over 500 people since 2003. Income for Appalachian Community Enterprises, Inc is derived from lending interest income, grants and donations.

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. As of December 31, 2006, \$268,935 was temporarily restricted due to grant stipulations. These stipulations limit the use of grant funds to lending purposes only.

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

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.

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.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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

Use of 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.

Loans

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

Currently, loan fees and costs are not considered significant and any deferral of the loan fees and costs 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.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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

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 \$588,894 at December 31, 2006. Interest earned for the calendar year on account balances was \$7,241. As part of a loan covenant, a cash balance of \$60,000 is being maintained in a separate bank savings account and is not included in the current asset section. This covenant requires 15% of this programs outstanding loans be maintained as a cash loan loss reserve fund. As of December 31, 2006, \$137,090 is being maintained in bank accounts beyond the federally insured limits.

NOTE 3 - FIXED ASSETS

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation for the year ended December 31, 2006 was \$3,491. As a grant stipulation, equipment will revert back to grantor if not used as part of the micro lending process. The depreciable lives of property are as follows:

	<u>Lives</u>
Fixtures	7 - 12 years
Equipment	3 - 7 years

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 \$51,956 from outside agencies as of December 31, 2006. 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.

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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 lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 2.75% and repayment of these funds are not due until March 2013. The amount remaining of this debt was \$250,000 at December 31, 2006.

In 2006, Appalachian Community Enterprises, Inc. increased its debt from the Federal Home Loan Bank of Atlanta to increase available funds for lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 2.75% and repayment of these funds are not due until June 2016. The amount remaining of this debt was \$125,000 at December 31, 2006.

In 2005, Appalachian Community Enterprises, Inc. started working with the United States Department of Agriculture to increase available funds for lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 1% and repayment of these funds are not due until May 2038. The amount remaining of this debt was \$750,000 at December 31, 2006.

In 2005, Appalachian Community Enterprises, Inc. started working with the US Small Business Administration to increase available funds for lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 2.625% and makes monthly payments based on a variable rate starting at \$2,140 per month. The amount remaining of this debt was \$177,811 at December 31, 2006.

In 2006, Appalachian Community Enterprises, Inc. increased its debt from the US Small Business Administration to increase available funds for lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 3.25% and will make monthly payments based on a variable rate starting at \$2,116.21 per month. The amount remaining of this debt was \$200,000 at December 31, 2006. Payments will began January 2007.

Future scheduled maturities of long-term debt are as follows:

2007	\$ 34,608
2008	54,683
2009	65,212
2010	66,561
Thereafter	1,281,747
	<u>\$ 1,502,811</u>

APPALACHIAN COMMUNITY ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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 2006.

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. In addition, by the nature of micro lending, a significant downturn in the regional economy could also have an adverse impact.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Appalachian Community Enterprises, Inc. purchases management, accounting, finance and marketing support from Appalachian Consulting Group, Inc. (ACG) This company is in part owned by the president and CEO of Appalachian Community Enterprises, Inc. Payments to ACG during 2006 were \$107,590 which included two employees and travel expenses. The contract with ACG is approved by the board of directors of Appalachian Community Enterprises, Inc. on a yearly basis and is designed to pay independent third party rates for these services and expertise.

NOTE 9 - RESTRICTED ASSETS

Due to grant and debt restrictions, \$220,740 of the cash and cash equivalent balance is restricted for use in the Micro Loan lending program only and is not available for operations. At times, additional restrictions from various grants and lenders require separate bank accounts to maintain a program's funds.

NOTE 10 - ANALYSIS OF MICRO LOANS

The following represents the amounts past due as of December 31, 2006.

PERIOD	Payment Past Due	Principle Amount
91 - 120 Days	\$ 1,201	
120+ Days	9,639	
Total	<u>\$ 10,840</u>	\$ 65,769