

**APPALACHIAN COMMUNITY  
ENTERPRISES, INC.**

**Financial Statements  
Year Ended December 31, 2008**

APPALACHIAN COMMUNITY ENTERPRISES, INC.

Table of Contents

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Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-11



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, 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. 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, 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.

Handwritten signature of David Benfield.

July 15, 2009

David Benfield, CPA

APPALACHIAN COMMUNITY ENTERPRISES, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2008

ASSETS

Current Assets:		
Cash and cash equivalents, see notes 2 & 9		\$ 693,156
Grants receivable		739,638
Gross micro loans receivable - current portion		406,860
Interest receivable		<u>17,369</u>
Total Current Assets		1,857,023
Noncurrent Assets:		
Gross micro loans receivable - total	\$ 1,442,728	
Less current portion	(406,860)	
Allowance for loan losses	<u>(175,000)</u>	860,868
Equipment, net of \$13,233 accumulated depreciation, see note 3		9,671
Loan loss reserve fund, see note 2		<u>120,000</u>
Total Assets		<u><u>\$ 2,847,562</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses		\$ 13,292
Current portion of long-term debt		<u>96,154</u>
Total Current Liabilities		109,446
Noncurrent Liabilities:		
Long term debt, see note 5	\$ 1,891,810	
Less current portion	<u>(96,154)</u>	1,795,656
Total Liabilities		1,905,102
Net Assets:		
Unrestricted		180,110
Temporarily restricted		<u>762,350</u>
Total Net Assets		942,460
Total Liabilities and Net Assets		<u><u>\$ 2,847,562</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, 2008

Changes in unrestricted net assets		
Revenue, gains, and other support:		
Contributions	\$ 29,523	
Grant revenue	321,754	
Interest income:		
Interest and fee income on loans	\$ 199,376	
Interest expense	<u>(29,193)</u>	
Net interest income	170,183	
Provision for loan losses	(303,703)	
Net assets released from restrictions	<u>176,148</u>	
Net interest income after provision for loan losses	<u>42,628</u>	
Total support unrestricted assets		\$ 393,905
Expenses:		
Program services	358,523	
Supporting services	<u>36,284</u>	
Total expenses unrestricted assets		<u>394,807</u>
Increase in unrestricted net assets		\$ (902)
Changes in temporarily restricted net assets		
Grants revenue	520,169	
Loan losses in temporarily restricted net assets	<u>(176,148)</u>	
Increase in temporarily restricted net assets		<u>344,021</u>
Change in net assets		343,119
Net assets, beginning of the year		<u>599,341</u>
Net assets, end of the year		<u><u>\$ 942,460</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, 2008

	Program Services	Support Services	All Funds
Depreciation	\$ 2,151	\$ 2,152	\$ 4,303
Insurance	-	4,505	4,505
Miscellaneous	6,438	-	6,438
Payroll	165,774	13,222	178,996
Payroll Taxes	14,397	-	14,397
Printing	3,360	-	3,360
Professional Services	114,982	1,163	116,145
Program Supplies	17,501	7,001	24,502
Postage	954	-	954
Rent & Utilities	13,792	3,448	17,240
Telephone	3,271	817	4,088
Travel	15,903	3,976	19,879
	<hr/>	<hr/>	<hr/>
Total Expense	<u>\$ 358,523</u>	<u>\$ 36,284</u>	<u>\$ 394,807</u>

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

APPALACHIAN COMMUNITY ENTERPRISES, INC.  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2008

Cash Flows from Operating Activities:		
Increase in Net Assets	\$	343,119
Adjustments to Reconcile Change in Net Cash		
Used by Operating Activities:		
(Increase) Decrease in Operating Assets		
Depreciation		4,303
Allowance for Loan Losses		30,000
Grants and Interest Receivable		(530,973)
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses		<u>(5,102)</u>
 Net Cash Used by Operating Activities	 \$	 (158,653)
Investing Activities:		
Lending to Customers		390,220
Repayment of Loans		(142,618)
Capital Expenditures		(1,204)
Loan Loss Reserve Fund		<u>(30,000)</u>
 Net Cash Used by Investing Activities		 216,398
Financing Activities:		
Loan Proceeds for Lending Activities		300,000
Payments on Long-Term Debt		<u>(76,408)</u>
 Net Cash Used in Financing Activities		 <u>223,592</u>
 Net Cash Used from All Activities		 281,337
 Cash, Beginning of the Year		 <u>411,819</u>
 Cash, End of the Year, see note 2		 <u><u>\$693,156</u></u>
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest		<u>\$ 29,193</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, 2008

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

Nature of Activities

Appalachian Community Enterprises, Inc. is a not-for-profit organization that gives families an opportunity to better themselves through micro loans and financial literacy education. In 2004, the U.S. Department of Treasury certified Appalachian Community Enterprises, Inc. as a Community Development Financial Institution to serve low-income individuals, people of color and women in North Georgia. In its eight-year history, Appalachian Community Enterprises, Inc. has helped about 866 families to create financial stability; 238 of them have started or expanded a small business. Appalachian Community Enterprises, Inc. derives its income from loan 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, 2008, \$762,350 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 as 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.

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

## Micro 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 and recognition of income on loans is discontinued at the time the loan is determined by management as delinquent beyond 90 days and is charged off when management considers the collection doubtful. 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. Repossessed assets in 2008 were immaterial to the financial statements.

Micro loans made to customers in the normal course of business are not held for resale and there has been no resale of these loans to other institutions.

As a policy, UCC financing statements are properly executed or other collateral from customer assets are pledged as part of the loan closing process. Management uses their judgment and outside resources when necessary in assessing the value of assets pledged.

## Allowance for Loan Losses

The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowances 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 allowance relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms. As discussed in Note 2, a cash loan loss reserve fund is also maintained. In addition, management strongly considers allowance and cash reserve percentages guidelines recommended by the industry grantors, such as the CDFI, in setting the allowance amounts.

## Statement of Cash Flow

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 flow.

## NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaled \$693,156 at December 31, 2008. Interest earned for the calendar year on account balances was \$15,216. As part of a loan covenant, a cash balance of \$120,000 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, 2008, no funds were 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 expenses as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation for the year ended December 31, 2008 was \$4,303. 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>Life</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 \$739,638 from outside agencies as of December 31, 2008. In management's opinion, due to the nature of the grantors, mainly from governmental sources, receivables amounts have not been discounted. 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 and Community Bank & Trust to increase available funds for lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 2.75% and repayment of these funds is not due until March 2013. The amount remaining of this debt was \$250,000 at December 31, 2008.

In 2006, Appalachian Community Enterprises, Inc. started working with the Federal Home Loan Bank of Atlanta and United Community Bank, Inc. to increase available funds for lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 2.75% and repayment of these funds is not due until November 2016. The amount remaining of this debt was \$125,000 at December 31, 2008.

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 makes annual payments of \$31,837 until May 2038. The amount remaining of this debt was \$725,707 at December 31, 2008.

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 started at \$2,140 per month. The amount remaining of this debt was \$135,451 at December 31, 2008.

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 makes monthly payments based on a variable rate started at \$2,152 per month. The amount remaining of this debt was \$165,334 at December 31, 2008.

In 2007, 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 makes monthly payments based on a variable rate started at \$2,250 per month. The amount remaining of this debt was \$190,318 at December 31, 2008.

In 2008, 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 2.125% and will make monthly payments based on a variable rate starting at \$2,993 per month. The amount remaining of this debt was \$200,000 at December 31, 2008. Payments will begin September 2009.

In 2008, Appalachian Community Enterprises, Inc. started working with Habersham Bank to increase available funds for lending. Under this agreement, Appalachian Community Enterprises, Inc. borrows funds at 2.00% and repayment of these funds is not due until March 2018. The amount remaining of this debt was \$100,000 at December 31, 2008.

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

2009	\$	96,154
2010		112,150
2011		114,392
2012		116,691
Thereafter		<u>1,452,423</u>
	\$	<u>1,891,810</u>

#### 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 2008.

#### NOTE 7 - CONCENTRATION RISKS

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 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

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 2008 were \$103,550, which included two employees. 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. See Note 12.

#### NOTE 9 – RESTRICTED ASSETS

Due to grant and debt restrictions, \$216,645 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, 2008.

Period	Payment Past Due	Principle Amount
91 – 120 Days	\$ 7,248	
120 + Days	<u>38,691</u>	
Total	\$ 45,939	\$ 291,839

NOTE 11- FUNCTIONAL ALLOCATION 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 12- OPERATING LEASES

Appalachian Community Enterprises, Inc leases their office space for \$1,000 monthly from Robinson-Fricks Development Company. The contract is renewable on an annual basis and ACE has no plans to relocate or build their own office space in the near future. The amount of rent paid in 2008 was \$12,000. Robinson-Fricks Development Company is in part owned by the spouse of the president and CEO of Appalachian Community Enterprises, Inc.

NOTE 13- SINGLE AUDIT

In accordance with OMB Circular No. A-133, these financial statements do not fall under the audit requirements of the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. Under these requirements, a single audit is required of non-federal entities that expend \$500,000 in Federal awards. As such, Appalachian Community Enterprises, Inc was awarded over this threshold in 2008 but awards totaling over this threshold were neither received nor expended as of December 31, 2008 as required for a single audit. Management anticipants meeting the requirements of OMB Circular No. A-133 in 2009.