

**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**April 30, 2010 and 2009**

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC  
DEVELOPMENT, INC. AND AFFILITATES**

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April 30, 2010 and 2009

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Mountain Association for Community Economic  
Development, Inc.  
Berea, Kentucky

We have audited the accompanying consolidated statements of financial position of Mountain Association for Community Economic Development, Inc. and Affiliates as of April 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements as of June 30, 2009, were audited by Potter & Company, LLP, who merged with Blue & Co., LLC as of January 1, 2010, and whose report dated July 28, 2009, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain Association for Community Economic Development, Inc. and Affiliates as of April 30, 2010 and 2009 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Mountain Association for Community Economic  
Development, Inc.

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In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2010 on our consideration of Mountain Association for Community Economic Development, Inc. and Affiliates' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mountain Association for Community Economic Development, Inc. and Affiliates taken as a whole. The accompanying Consolidated Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Blue & Co., LLC*

July 29, 2010

**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
April 30, 2010 and 2009

<b>ASSETS</b>	<u>2010</u>	<u>2009</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 6,547,317	\$ 4,864,605
Current portion of loans receivable, net of allowance for bad debts of \$151,742 and \$175,171	1,429,200	1,266,698
Accounts receivable	78,770	57,464
Grants receivable	1,226,376	1,805,467
Prepaid expenses	4,780	4,256
Total current assets	<u>9,286,443</u>	<u>7,998,490</u>
<b>Property and equipment, net</b>	<u>615,444</u>	<u>628,241</u>
<b>Other assets:</b>		
Investments	360,050	322,550
Loans receivable, net of allowance for bad debts of \$698,163 and \$650,292	6,771,713	6,249,022
Total other assets	<u>7,131,763</u>	<u>6,571,572</u>
Total assets	<u>\$ 17,033,650</u>	<u>\$ 15,198,303</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Current portion notes payable	\$ 521,343	\$ 462,923
Accounts payable and accrued expenses	175,131	220,219
Deferred revenue	1,576,544	1,186,194
Total current liabilities	<u>2,273,018</u>	<u>1,869,336</u>
<b>Long-term liabilities:</b>		
Notes payable, less current portion	5,220,263	5,446,334
Subordinated loans payable	700,000	700,000
Total long-term liabilities	<u>5,920,263</u>	<u>6,146,334</u>
Total liabilities	<u>8,193,281</u>	<u>8,015,670</u>
<b>Net assets:</b>		
Unrestricted:		
Operating	4,338,930	2,195,214
Board designated	20,000	20,000
Total unrestricted net assets	<u>4,358,930</u>	<u>2,215,214</u>
Temporarily restricted:		
Operations	1,977,688	2,019,098
Capital	500,000	500,000
Other	1,146,041	1,692,012
Total temporarily restricted net assets	<u>3,623,729</u>	<u>4,211,110</u>
Permanently restricted	<u>857,710</u>	<u>756,309</u>
Total net assets	<u>8,840,369</u>	<u>7,182,633</u>
Total liabilities and net assets	<u>\$ 17,033,650</u>	<u>\$ 15,198,303</u>

See report of independent auditors and  
accompanying notes to financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

CONSOLIDATED STATEMENT OF ACTIVITIES  
Year ended April 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>				
<b>Non-financing revenues and support</b>				
Private grants and contributions	\$ 1,769	\$ 1,983,500	\$	\$ 1,985,269
Government grants	481,788	1,805,090	90,800	2,377,678
Project income	31,440	7,772		39,212
Rent and lease income	14,400			14,400
In-kind income	4,200			4,200
Miscellaneous income	44,474		889	45,363
Realized gain/loss on sale of property	<u>(3,108)</u>			<u>(3,108)</u>
Total non-financing revenues and support	574,963	3,796,362	91,689	4,463,014
<b>Financing revenues</b>				
Interest income on loans	369,508	107,251	9,355	486,114
Fee income on loans	20,612	1,881	316	22,809
Dividend income	2,004			2,004
Interest on idle funds	64,126	5,237	41	69,404
Realized gain/loss on program investments	<u>(16,098)</u>			<u>(16,098)</u>
Total financing revenues	440,152	114,369	9,712	564,233
Satisfaction of program and time restrictions	<u>4,498,112</u>	<u>(4,498,112)</u>		<u>-0-</u>
Total revenues and other support	<u>5,513,227</u>	<u>(587,381)</u>	<u>101,401</u>	<u>5,027,247</u>
<b>Expenses:</b>				
<b>Non-financing expenses</b>				
Program expenses	2,393,354			2,393,354
Fundraising expenses	57,701			57,701
Other support expenses	<u>513,235</u>			<u>513,235</u>
Total non-financing expenses	2,964,290	-0-	-0-	2,964,290
<b>Financing expenses</b>				
Interest	84,296			84,296
Provision for loan losses	320,925			320,925
Total financing expenses	<u>405,221</u>	<u>-0-</u>	<u>-0-</u>	<u>405,221</u>
Total expenses	<u>3,369,511</u>	<u>-0-</u>	<u>-0-</u>	<u>3,369,511</u>
Change in net assets	2,143,716	(587,381)	101,401	1,657,736
<b>Net assets at beginning of year</b>	<u>2,215,214</u>	<u>4,211,110</u>	<u>756,309</u>	<u>7,182,633</u>
<b>Net assets at end of year</b>	<u>\$ 4,358,930</u>	<u>\$ 3,623,729</u>	<u>\$ 857,710</u>	<u>\$ 8,840,369</u>

See report of independent auditors and accompanying notes to financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

CONSOLIDATED STATEMENT OF ACTIVITIES  
Year ended April 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>				
<b>Non-financing revenues and support</b>				
Private grants and contributions	\$ 251,000	\$ 2,229,750	\$	\$ 2,480,750
Government grants		457,749	194,304	652,053
Project income	14,256	40,396		54,652
Rent and lease income	14,400			14,400
In-kind income	4,200			4,200
Miscellaneous income	4,659			4,659
Realized gain/loss on sale of property	<u>(1,779)</u>			<u>(1,779)</u>
Total non-financing revenues and support	286,736	2,727,895	194,304	3,208,935
<b>Financing revenues</b>				
Interest income on loans	367,317	151,373	183	518,873
Fee income on loans	36,508	3,676		40,184
Dividend income	2,180			2,180
Interest on idle funds	77,943	10,088		88,031
Realized gain/loss on program investments	<u>(10,595)</u>			<u>(10,595)</u>
Total financing revenues	473,353	165,137	183	638,673
Satisfaction of program and time restrictions	<u>2,712,282</u>	<u>(2,712,282)</u>		<u>-0-</u>
Total revenues and other support	<u>3,472,371</u>	<u>180,750</u>	<u>194,487</u>	<u>3,847,608</u>
<b>Expenses:</b>				
<b>Non-financing expenses</b>				
Program expenses	1,871,627			1,871,627
Fundraising expenses	49,466			49,466
Other support expenses	<u>495,454</u>			<u>495,454</u>
Total non-financing expenses	2,416,547	-0-	-0-	2,416,547
<b>Financing expenses</b>				
Interest	86,341			86,341
Provision for loan losses	<u>576,827</u>			<u>576,827</u>
Total financing expenses	663,168	-0-	-0-	663,168
Total expenses	<u>3,079,715</u>	<u>-0-</u>	<u>-0-</u>	<u>3,079,715</u>
Change in net assets	<u>392,656</u>	<u>180,750</u>	<u>194,487</u>	<u>767,893</u>
<b>Net assets at beginning of year, as previously stated</b>	1,809,636	4,605,104	-0-	6,414,740
<b>Prior period adjustment, reclassification of net assets</b>	<u>12,922</u>	<u>(574,744)</u>	<u>561,822</u>	<u>-0-</u>
<b>Net assets at beginning of year, as restated</b>	<u>1,822,558</u>	<u>4,030,360</u>	<u>561,822</u>	<u>6,414,740</u>
<b>Net assets at end of year</b>	<u>\$ 2,215,214</u>	<u>\$ 4,211,110</u>	<u>\$ 756,309</u>	<u>\$ 7,182,633</u>

See report of independent auditors and accompanying notes to financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended April 30, 2010

	Program <u>Services</u>	<u>Fundraising</u>	Other <u>Support</u>	<u>Total</u>
<b>Non-financing expenses:</b>				
Personnel	\$ 1,140,733	\$ 49,763	\$ 388,150	\$ 1,578,646
Consultants and professional services				
Consultants	263,048	2	10,054	273,104
Professional services	20,475		31,150	51,625
IT services	6,535		14,298	20,833
Interns and contract labor	8,532		3,251	11,783
Travel and meetings				
Travel	60,256	4,341	3,913	68,510
Meetings, registration and training	33,897	586	4,351	38,834
Maintenance, lease and equipment purchase				
Equipment lease	6,080	301	2,319	8,700
Equipment and software expense	20,395	99	11,684	32,178
Repairs and maintenance	38,408	70	5,467	43,945
Office operations				
Rent and utilities	11,213	429	3,302	14,944
Insurance	14,647		2,143	16,790
Postage	4,382	99	1,365	5,846
Supplies	19,479	506	7,879	27,864
Telephone	19,573	589	6,206	26,368
Miscellaneous	7,845	170	1,148	9,163
Depreciation	51,979	583	4,401	56,963
Re-grants	616,820			616,820
Other				
Advertising and promotion	11,924		163	12,087
Publications, memberships and subscriptions	12,729	148	7,260	20,137
Printing and duplication	5,456		4,502	9,958
Licenses and fees	13,183	15	229	13,427
Taxes	5,765			5,765
Total non-financing expenses	2,393,354	57,701	513,235	2,964,290
<b>Financing expenses:</b>				
Interest	84,296			84,296
Provision for loan losses	320,925			320,925
Total financing expenses	405,221	-0-	-0-	405,221
Total expenses	\$ 2,798,575	\$ 57,701	\$ 513,235	\$ 3,369,511

See report of independent auditors and accompanying notes to financial statements. 6



**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended April 30, 2009

	Program <u>Services</u>	<u>Fundraising</u>	Other <u>Support</u>	<u>Total</u>
<b>Non-financing expenses:</b>				
Personnel	\$ 999,369	\$ 41,272	\$ 357,636	\$ 1,398,277
Consultants and professional services				
Consultants	245,185	4	15,905	261,094
Professional services	26,043	19	30,861	56,923
IT services	6,792	17	17,455	24,264
Interns and contract labor	6,293		4,245	10,538
Travel and meetings				
Travel	52,802	2,519	6,809	62,130
Meetings, registration and training	43,858	251	4,971	49,080
Maintenance, lease and equipment purchase				
Equipment lease	5,957	286	2,468	8,711
Equipment and software expense	12,001	4	13,517	25,522
Repairs and maintenance	10,338	64	1,401	11,803
Office operations				
Rent and utilities	12,529	437	3,780	16,746
Insurance	5,233	27	2,224	7,484
Postage	3,439	141	1,867	5,447
Supplies	14,751	306	6,275	21,332
Telephone	21,044	475	5,910	27,429
Miscellaneous	8,041	231	2,900	11,172
Depreciation	47,660	748	6,146	54,554
Re-grants	306,496			306,496
Other				
Advertising and promotion	7,242	2	222	7,466
Publications, memberships and subscriptions	13,330	2,646	6,463	22,439
Printing and duplication	5,099	6	4,304	9,409
Licenses and fees	7,470	11	95	7,576
Taxes	10,655			10,655
Total non-financing expenses	1,871,627	49,466	495,454	2,416,547
<b>Financing expenses:</b>				
Interest	86,341			86,341
Provision for loan losses	576,827			576,827
Total financing expenses	663,168	-0-	-0-	663,168
Total expenses	\$ 2,534,795	\$ 49,466	\$ 495,454	\$ 3,079,715

See report of independent auditors and accompanying notes to financial statements. 7

**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years ended April 30, 2010 and 2009

	2010	2009
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,657,736	\$ 767,893
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	56,963	54,554
Bad debt expense	320,925	576,827
Realized loss on investments	16,098	10,595
Realized loss on property and equipment	3,108	1,779
Capitalized interest	-0-	(1,601)
Changes in operating assets and liabilities:		
Accounts receivable	(21,306)	18,013
Grants receivable	579,091	(650,826)
Prepaid expenses	(524)	2,553
Accounts payable and accrued expenses	(45,088)	33,421
Deferred revenue	390,350	1,060,041
Net cash provided by operating activities	2,957,353	1,873,249
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	68,902	4,405
Purchase of investments	0	(50,000)
Proceeds from sales of property and equipment	100	65,351
Purchase of property and equipment	(47,373)	(65,380)
Loans to other entities	(2,252,034)	(2,505,911)
Principal collections on loans receivable	1,123,412	1,303,025
Net cash used in investing activities	(1,106,993)	(1,248,510)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	344,468	150,000
Principal payments on notes payable	(512,116)	(245,307)
Net cash used in financing activities	(167,648)	(95,307)
<b>Net increase in cash and cash equivalents</b>	1,682,712	529,432
<b>Cash and cash equivalents at beginning of year</b>	4,864,605	4,335,173
<b>Cash and cash equivalents at end of year</b>	\$ 6,547,317	\$ 4,864,605
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 84,762	\$ 84,644
Property received in lieu of cash for loan receivable	\$ 122,500	\$ 85,000

See report of independent auditors and accompanying notes to financial statements. 8

# **MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** April 30, 2010 and 2009

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Mountain Association for Community Economic Development, Inc. and Affiliates (MACED) is presented to assist in understanding MACED's consolidated financial statements. The consolidated financial statements and notes are representations of MACED'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 consolidated financial statements.

#### Consolidation and Nature of Activities

The consolidated financial statements of MACED include the accounts of Mountain Association for Community Economic Development, Inc., its wholly owned subsidiary, Ridgecrest Enterprises, Inc. (Ridgecrest) and its affiliate under common control, Appalachian Investment Corporation (AIC). Mountain Association for Community Economic Development, Inc. was founded in 1976 as a private, nonprofit corporation organized to provide comprehensive community development support to Appalachian communities by enhancing employment and living conditions in the area. MACED's major programs consist of business development, sustainable forestry, energy efficiency, and public policy research and education. MACED generates revenue primarily through assistance provided by federal, state, and private grants; and program service revenue.

Ridgecrest was organized by Mountain Association for Community Economic Development, Inc. as a for-profit corporation to assist Mountain Association for Community Economic Development, Inc. in its economic development activities. All significant inter-company accounts and transactions have been eliminated in consolidation.

AIC was established as a nonprofit organization to provide financing for the expansion and development of small businesses in eastern Kentucky. AIC obtains federal funding from the United States Department of Agriculture, Rural Business-Cooperative Service, through an Intermediary Relending Program (IRP), whereby they administer various loans that are made to qualified ultimate recipients. All relending activity is subject to formal approval by Rural Development. All significant inter-company accounts and transactions have been eliminated in consolidation.

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

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### Basis of Accounting

The consolidated financial statements of MACED have been prepared on the accrual method of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred. Governmental grant awards are deemed to be earned and reported as grant revenues when MACED has incurred expenses in compliance with the specific restrictions of the applicable grants. Expenses incurred for which grant funds have not been received are reported as grants receivable, while grant funds received but not yet earned are reported as deferred grant revenue.

Non-governmental grant awards are deemed to be earned and reported as grant revenues once all conditions for an award have been met. If grant funds have not been received once conditions are met, MACED reports the present value of the grant award as a receivable.

### Financial Statement Presentation

The consolidated financial statements are presented in accordance with the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 958. Under the provisions set forth therein, net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations, and used for various program expenses and general operating functions.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of MACED pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by MACED.

### Use of Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the determination of the valuation allowance for loan losses.

# **MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** **April 30, 2010 and 2009**

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### Cash and Cash Equivalents

For the purposes of the Consolidated Statements of Cash Flows, MACED considers cash and certificates of deposits with no prepayment penalty or with original maturities of one year or less to be cash equivalents.

Pursuant to its agreement with U.S. Small Business Administration (SBA, see discussion at Note 7), MACED is required to maintain separate bank accounts, Loan Loss Reserve Fund and Microloan Revolving Fund, for activities pertaining to SBA loans. Pursuant to its agreement with the Ford Foundation, MACED is required to maintain a separate bank account, Payday Lending Loan Fund, for activities pertaining to the grant.

### Loans Receivable

Loans receivable are executed by MACED based on a recipient's financial need. Generally real estate and various types of personal property collateralize the loans. Losses are provided for in the financial statements based upon management's evaluation of the recipient's ability to pay relative to current economic conditions. MACED has loans receivable with both for profit and non-profit enterprises, all in Central Appalachia. The loans bear interest at various rates ranging up to 10.5 percent.

### Investments

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. MACED's investments are carried at lower of cost or market value. Dividends are recognized in the statement of activities during the period they are earned.

### Property and Equipment

Property and equipment acquired is stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 31 years. Acquisitions of property and equipment in excess of \$2,000 are capitalized. The cost of repairs and maintenance is expensed as incurred.

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

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### Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction.

### Deferred Revenue

Deferred revenue as of April 30, 2010 and 2009 consists of unexpended grant funds held as of the end of the fiscal year.

### Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended April 30, 2010 and 2009 amounted to \$12,087 and \$7,466, respectively.

### Income Taxes

MACED has been determined to qualify as a tax-exempt organization by the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code as a nonprofit organization other than a private foundation. AIC has been granted tax-exempt status by the Internal Revenue Service under section 501(c)(4) of the Internal Revenue Code. Ridgecrest is a for-profit company and recognizes federal and state income tax expense based on enacted rates currently applicable. Accordingly, the accompanying consolidated financial statements reflect income tax expense only to the extent that Ridgecrest has generated taxable income.

### Carbon Offsets

During the year ended April 30, 2008, MACED created a program to quantify and sell carbon offsets. Program participants engage in a project that either reduces greenhouse gas emissions or increases the amount of greenhouse gasses being sequestered. MACED's role in this program is to identify and contract with project owners, quantify the net number of offsets generated by each owner, verify the pool of projects by an independent, third party organization and register the offsets with an appropriate entity. Once registered, MACED sells the offsets to individuals and

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

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businesses interested in offsetting their carbon footprint. While MACED has credits available for sale as of April 30, 2010, it is too early in the life cycle of the carbon credit program to arrive at a reasonable estimate of value and accordingly, an asset for available credits has not been recorded in the financial statements. Program costs are expensed as incurred and revenue will be recorded as credits are sold. During the year ended April 30, 2010, MACED received \$73,225 from the Blue Moon Fund to retire 14,500 metric tons of carbon credits on the Fund's behalf. MACED recorded \$7,975 as revenue from this transaction and landowners received \$65,250.

### Subsequent Events

The Organization evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through July 29, 2010, which is the date the financial statements were available to be issued.

### Reclassifications

Certain amounts as originally presented in the prior year have been reclassified to conform to current year presentation. The reclassifications had no effect on previously reported total assets, liabilities, net assets, revenues, or expenses.

## 2. LOANS RECEIVABLE

At April 30, 2010 and 2009, loans receivable consist of current amounts of \$1,580,942 and \$1,441,869 and noncurrent amounts of \$7,469,876 and \$6,899,314, respectively.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal adjusted by any charge-offs, and the allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Loan origination fees are considered immaterial in amount and are recognized as income in the year collected.

Interest income is accrued on loan balances outstanding. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is secured and in the process of collection.

Loans are placed on non-accrual status at an earlier date if collection of principal and interest is considered doubtful. When a loan is placed on non-accrual status, any uncollected interest in the current year is charged against current income.

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

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Subsequent interest on non-accrual loans is recognized as income only when collected, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts are current and future payments are reasonably assured.

Loans receivable at April 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Loans receivable	\$ 9,050,818	\$ 8,341,183
Less: Allowance for loan losses	<u>849,905</u>	<u>825,463</u>
Loans receivable, net	<u>\$ 8,200,913</u>	<u>\$ 7,515,720</u>

Loans serving as collateral on notes payable amounted to approximately \$3,500,000 at April 30, 2010 and 2009.

Included in loans receivable are \$160,309 and \$168,304 due from related parties at April 30, 2010 and 2009, respectively.

Accrued interest receivable amounted to approximately \$40,000 and \$34,000 at April 30, 2010 and 2009, respectively.

Non-accrual loans totaled \$1,010,549 and \$520,761, respectively, at April 30, 2010 and 2009.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. It is reasonably possible that a change in the estimates will occur in the near term.



# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

A loan is considered to be impaired when, based on current information and events, it is probable that MACED will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Also, loans are not considered impaired if payment is delayed but management expects to collect all amounts due plus accrued interest at the contractual rate for the period of the delay. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The following is an analysis of the allowance for loan losses for the years ended April 30, 2010 and 2009:

	2010	2009
Beginning balance	\$ 825,463	\$ 492,538
Provision charged to operations	320,925	576,827
Less: Charge-offs	306,093	245,603
Recoveries	9,610	1,701
Ending balance	\$ 849,905	\$ 825,463

The following is a summary of information pertaining to impaired loans at April 30, 2010 and 2009:

	2010	2009
Impaired loans with a valuation allowance	\$ <u>522,494</u>	\$ <u>724,797</u>
Valuation allowance related to impaired loans	\$ <u>163,546</u>	\$ <u>211,145</u>
Average investment in impaired loans	\$ <u>87,082</u>	\$ <u>90,600</u>
Interest income recognized on impaired loans	\$ <u>7,864</u>	\$ <u>32,161</u>
Interest income recognized on a cash basis on impaired loans	\$ <u>7,662</u>	\$ <u>31,938</u>

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

### 3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30, 2010 and 2009:

	2010	2009
Land	\$ 40,000	\$ 40,000
Buildings and improvements	783,412	787,905
Equipment	203,232	158,052
Automobiles	57,402	57,402
	1,084,046	1,043,359
Less accumulated depreciation	468,602	415,118
Property and equipment, net	\$ 615,444	\$ 628,241

### 4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30, 2010 and 2009:

	2010	2009
Federal grants receivable:		
U.S. Small Business Administration	\$ 114,946	\$ 37,597
USDA Rural Development (RBEG)	-0-	77,315
Local Initiative Support Corporation	8,872	270
USDA Natural Resources Conservation Service	169,001	-0-
Appalachian Regional Commission	-0-	55,535
U.S. Department of Health and Human Services, Office of Community Services	2,057	-0-
Total federal grants receivable	294,876	170,717
Other grants receivable:		
Ford Foundation	626,500	640,000
F. B. Heron Foundation	-0-	100,000
Mary Reynolds Babcock Foundation	175,000	775,000
Annie E. Casey Foundation	-0-	25,000
U.S. Endowment for Forestry and Communities	-0-	94,750
Blue Moon Fund	100,000	-0-
Charles M. and Mary D. Grant Foundation	30,000	-0-
Total other grants receivable	931,500	1,634,750
Total grants receivable	\$ 1,226,376	\$ 1,805,467

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC  
DEVELOPMENT, INC. AND AFFILITATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2010 and 2009

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**5. INVESTMENTS**

Following is the composition of investments at April 30:

	<u>2010</u>	<u>2009</u>
Equities, cost method	\$ 237,550	\$ 237,550
Collateral held for resale, real property	<u>122,500</u>	<u>85,000</u>
Total	<u>\$ 360,050</u>	<u>\$ 322,550</u>

During the year ended April 30, 2010 sales from collateral held for resale resulted a loss of \$16,098. During the year ended April 30, 2009, MACED sold \$2,500 of its investments and recognized a gain of \$1,905.

All cost method investments were evaluated for impairment at April 30, 2010 and 2009. The amount of impairment was \$126,000 at April 30, 2010 and 2009. During fiscal year 2009, MACED wrote off one equity investment valued at \$12,500.

The value of collateral held for resale is determined using level 3 inputs. See additional discussion at Note 15.

**6. NOTES PAYABLE**

Notes payable consist of the following at April 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Due to Farmers Home Association, semi-annual installments of \$10,000 plus interest at one percent until maturity in September, 2010, unsecured. The note was paid off in March 2010.	\$ -0-	\$ 19,850
IRP #1 - USDA (August, 1994), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$53,063 due in August. The note matures in August, 2024.	734,606	779,872

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

<p>IRP #2 - USDA (August, 1996), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$31,838 due in August. The note matures in August, 2026.</p>	495,170	521,790
<p>IRP #3 - USDA (August, 2000), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$31,838 due in August. The note matures in August, 2030.</p>	600,238	625,819
<p>IRP #4 - USDA (April, 2003), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$31,834 due in April. The note matures in April, 2033.</p>	650,810	675,891
<p>IRP #5 - USDA (October, 2006), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$23,836 due in November. The note matures in November 2036.</p>	750,000	711,565
<p>IRP #6 - USDA (March 2009), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$8,485 due in November. The note matures in March 2039.</p>	206,033	-0-
<p>Appalachian Development Alliance, quarterly interest-only payments at two percent until maturity in June 2014, collateralized by a \$50,000 certificate of deposit.</p>	125,000	125,000
<p>Appalachian Development Alliance, quarterly interest-only payments at two percent until maturity in June 2012, collateralized by a \$56,250 certificate of deposit.</p>	158,333	158,333

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC  
DEVELOPMENT, INC. AND AFFILITATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2010 and 2009

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Community Trust Bank (November 2004), annual interest-only payments at one percent until maturity in November 2011, unsecured.	350,000	350,000
U.S. Small Business Administration (September 2004), collateralized by all assets derived from loans made with proceeds, and with funds on deposit at Peoples Bank in MACED's SBA Loan Loss Reserve Fund and Microloan Revolving Fund. Interest at 2.5 percent. Monthly payments of \$2,544. Amortization schedule for years two through ten based on 1.75 percent interest plus payments for first year interest. Balance due at maturity in September 2014.	125,881	154,047
U.S. Small Business Administration (August 2005), collateralized by all assets derived from loans made with proceeds, and with funds on deposit at Peoples Bank in MACED's SBA Loan Loss Reserve Fund. Interest at 2.5 percent. Monthly payments of \$7,632. Amortization schedule for years two through twelve based on 1.75 percent interest plus payments for first year interest. Balance due at maturity in September 2015.	495,535	587,090
Ford Foundation recoverable grant (January 2006). No interest. Repayable 2011 only to the extent that funds are available from interest earned on and repayments of funds lent from grant funds.	250,000	250,000
Mary Reynolds Babcock Foundation (January 2007), unsecured, interest only at two percent per annum. The note matures in January 2014.	500,000	500,000
Monarch Community Loan Fund (June 2006), unsecured, interest only at three percent per annum. The note matures in June 2012.	300,000	200,000

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

Peoples Bank (June 2006), unsecured, interest only at four percent per annum. The note was paid off in September 2009.

	-0-	250,000
Total	5,741,606	5,909,257
Less current maturities	521,343	462,923
Long-term portion	\$ 5,220,263	\$ 5,446,334

The aggregate principal repayments required on notes payable are as follows:

<u>Year ending April 30:</u>	
2011	\$ 521,343
2012	631,709
2013	743,978
2014	914,709
2015	267,600
Thereafter	2,662,267
	\$ 5,741,606

In fiscal year 2008, MACED obtained a \$250,000 operating line of credit from Cumberland Bank and a \$500,000 operating line of credit from Citizens Bank. As of April 30, 2010, MACED had not borrowed under the lines of credit. The unsecured lines of credit bear interest at the interbank lending rate. Interest is payable monthly. The outstanding principal together with any unpaid interest accrued thereon is due for the Cumberland Bank and Citizens Bank on April 18, 2011 and January 14, 2011, respectively.

## 7. SUBORDINATED LOANS PAYABLE

Subordinated loans payable consist of the following at April 30, 2010 and 2009:

	2010	2009
Community Trust Bank (December 2004), equity-equivalent loan at no-interest for first five years, thereafter annual interest-only payments at prime minus one percent. Lender must extend term annually as long as MACED maintains 501(c)(3) tax-exempt status, unsecured.	\$ 500,000	\$ 500,000

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

CNC Development Foundation, Inc. (April 2005), equity-equivalent loan, annual interest-only payments at one percent. Lender must extend term annually as long as MACED maintains 501(c)(3) tax-exempt status, unsecured.

	200,000	200,000
Total	700,000	700,000
Current maturities	-0-	-0-
Long-term portion	\$ 700,000	\$ 700,000

The aggregate principal repayments required on subordinated loans payable are as follows:

<u>Year ending April 30:</u>		
2011	\$	-0-
2012		-0-
2013		-0-
2014		-0-
2015		-0-
Thereafter		700,000
	\$	700,000

## 8. RESTRICTED NET ASSETS

Temporarily restricted net assets at April 30, 2010 and 2009 are available for the following uses:

	2010	2009
Community development	\$ 948,528	\$ 637,755
Natural resources	53,486	144,288
Alternative to payday lending	33,625	204,347
Research and policy	129,042	60,428
Central Appalachian Network	795,000	955,387
Enterprise development:		
Operations only	18,007	16,893
Capital	500,000	500,000
Capital or operations	1,146,041	1,692,012
	\$ 3,623,729	\$ 4,211,110

# **MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** April 30, 2010 and 2009

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Permanently restricted net assets at April 30, 2010 and 2009 consist of amounts to be retained in perpetuity for MACED's revolving loan programs.

### **9. RETIREMENT PLAN**

MACED sponsors a defined contribution retirement plan (Plan) covering all eligible employees, including employees of certain affiliates that participate in the Plan. MACED contributes five percent of each employee's annual compensation to the Plan. For the years ended April 30, 2010 and 2009, contributions to the Plan were \$67,228 and \$60,232.

### **10. MAJOR GRANTORS**

For the years ended April 30, 2010 and 2009 approximately 72% and 70%, respectively, of MACED's grant revenues consist of major grants received from federal agencies and private foundations.

### **11. CONCENTRATION**

Financial instruments which potentially subject MACED to concentrations of credit risk include cash, accounts receivable, loans receivable and investments. MACED maintains its cash accounts with federally insured banks primarily in Berea, Kentucky and Mount Vernon, Kentucky. Four of these accounts are collateralized by investments in governmental securities for amounts in excess of \$20,000. The balances in the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. At April 30, 2010 and 2009, MACED had cash balances of \$1,078,200 and \$1,254,046, respectively, in excess of insured limits.

### **12. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, MACED makes commitments and incurs certain contingent liabilities that are not reflected in the accompanying financial statements. MACED does not anticipate any material losses as a result of these commitments and contingent liabilities.

The federal government retains a reversionary interest in six grants that have been previously expended by MACED for equity investments and/or lending. The original total of the grants was \$1,165,925. To the extent the funds are subsequently paid back to MACED, they need to be reinvested or would be subject to reclaim.



# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

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### 13. CONTRIBUTED SERVICES RECEIVED

During the years ended April 30, 2010 and 2009, MACED had in-kind contribution of rent for a field office valued at \$4,200 which was used in the business development program.

### 14. RELATED PARTY TRANSACTIONS

Ridgecrest received rent for office space from Kentucky Coalition, a partner with MACED on the High Road Initiative, in the amount of \$7,200. MACED re-granted funds raised for the High Road Initiative to Kentucky Coalition during 2010 and 2009 in the amount of \$25,000 and \$100,000, respectively.

### 15. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board's ASC 820, Fair Value Measurements (FASB ASC 820), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS April 30, 2010 and 2009

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities are reflected as level 2.

Following is a reconciliation of activity for collateral held for resale (real property) for years ending April 30. Collateral held for resale is valued using level 3 inputs.

	2010	2009
Beginning balance	\$ 85,000	\$ -0-
Amounts obtained in lieu of loans receivable	122,500	85,000
Sales	(85,000)	-0-
Ending balance	\$ 122,500	\$ 85,000

### 16. RECLASSIFICATION OF NET ASSETS

At April 30, 2008, certain amounts were reported as temporarily restricted net assets which were unrestricted or permanently restricted at the time of donation. These amounts have been reclassified from unrestricted and temporarily restricted net assets to permanently restricted net assets as of April 30, 2008, in the accompanying financial statements.

The above reclassification had no effect on total assets, total liabilities or total net assets of MACED as previously reported at April 30, 2008. The effect of the reclassification on the net assets previously reported at April 30, 2008 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at April 30, 2008, as previously reported	\$ 1,809,636	\$ 4,605,104	\$ -0-	\$ 6,414,740
Effect of reclassification	12,922	(574,744)	561,822	-0-
Net assets at April 30, 2008	\$ 1,822,558	\$ 4,030,360	\$ 561,822	\$ 6,414,740

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC  
DEVELOPMENT, INC. AND AFFILITATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2010 and 2009

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The effect of the reclassification on the change in net assets previously reported for the year ended April 30, 2009 is summarized as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Change in net assets for the year ended April 30, 2009, as previously reported	\$ 392,656	\$ 375,237	\$ -0-	\$ 767,893
Effect of reclassification	<u>-0-</u>	<u>(194,487)</u>	<u>194,487</u>	<u>-0-</u>
Change in net assets for the year ended April 30, 2009	<u>\$ 392,656</u>	<u>\$ 180,750</u>	<u>\$ 194,487</u>	<u>\$ 767,893</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended April 30, 2010

Federal Grantor/Program	CFDA Number	Grantor Number	Federal Expenditures
<u>MAJOR PROGRAMS</u>			
<u>U.S. Department of Treasury</u>			
Community Development Financial Institutions Fund	21.020	061FA006625	\$ 27,748
Community Development Financial Institutions Fund	21.020	071TA007075	59,748
Community Development Financial Institutions Fund	21.020	081FA007497	440,306
			<u>527,802</u>
Community Development Financial Institutions Fund (part of American Recovery and Reinvestment Act)	21.020	09IFA007867	751,599
<u>Small Business Administration</u>			
SBA Microloan Program	59.046	SBAHQ-09-Y-003	128,770
SBA Microloan Program	59.046	SBAHQ-10-YR-0068	43,125
			<u>171,895</u>
Total major programs			<u>1,451,296</u>
<u>NONMAJOR PROGRAMS</u>			
<u>Appalachian Regional Commission</u>			
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	322,307
<u>Department of Health and Human Services</u>			
Administration for Children and Families	93.570	90EE0850/01	81,068
Administration for Children and Families	93.570	90EE0850/01	53,149
			<u>134,217</u>
<u>Department of Agriculture</u>			
Rural Development (Rural Business Enterprise Grant)	10.769	200-76-0310900246	9,954
Rural Development (Rural Business Enterprise Grant)	10.769	200-76-0310900246	90,800
			<u>100,754</u>
<u>Department of Agriculture</u>			
Rural Development (Intermediary Relending Program)	10.767	20-076-0611254830 Loan 5	38,435
Rural Development (Intermediary Relending Program)	10.767	20-076-0611254830 Loan 6	206,033
			<u>244,468</u>
<u>Small Business Administration</u>			
Energy Efficient Enterprise Project	59.000	SBAHQ-09-I-0008	168,558
<u>United States Department of Agriculture</u>			
Natural Resources Conservation Service	10.912	69-3A75-9-143	169,001
<u>Department of Housing &amp; Urban Development</u>			
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.218	41942-0015	14,730
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.218	41942-0016	8,873
			<u>23,603</u>
Total nonmajor programs			<u>1,162,908</u>
Total			<u>\$ 2,614,204</u>

# MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILITATES

## NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED APRIL 30, 2010

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### 1. BASIS OF PRESENTATION

The accompanying Consolidated Schedule of Expenditures of Federal Awards includes the federal grant activity of MACED and is presented on the accrual basis of accounting with the following exception.

Appalachian Regional Commission Business Development Revolving Loan Fund:

The amount of expenditures for the Appalachian Regional Commission Business Development Revolving Loan Fund (RLF) is computed as defined in Appalachian Regional Commission Business Development Revolving Loan Fund Guidelines, October 1999 revision (the Guidelines). The Guidelines define current year expenditures, identified as the RLF contribution, as the grantee's fiscal year beginning balance of outstanding loans plus current year loan expenditures plus the amount of RLF income earned and expended on eligible administrative costs during the grantee's fiscal year.

### 2. LOANS OUTSTANDING

Federal loans outstanding at April 30, 2010 consist of the following:

IRP #1 - USDA (August, 1994)	\$ 734,606
IRP #2 - USDA (August, 1996)	495,170
IRP #3 - USDA (August, 2000)	600,238
IRP #4 - USDA (April, 2003)	650,810
IRP #5 - USDA (October, 2006)	750,000
IRP #6 - USDA (March, 2009)	206,033
U.S. Small Business Administration (September 2004)	125,881
U.S. Small Business Administration (August 2005)	<u>495,535</u>
Total	<u>\$ 4,058,273</u>

### 3. GENERAL

The grant revenue amounts received and expensed are subject to audit and adjustment. If any expenditures are disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of MACED. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.



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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Mountain Association for Community Economic  
Development, Inc.  
Berea, Kentucky

We have audited the consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED) as of and for the year ended April 30, 2010, and have issued our report thereon dated July 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered MACED's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MACED's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MACED's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors  
Mountain Association for Community Economic  
Development, Inc.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MACED's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters involving compliance and other matters that we reported to management of MACED in a separate letter dated July 29, 2010.

This report is intended solely for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Blue & Co., LLC*

July 29, 2010



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Mountain Association for Community Economic  
Development, Inc.  
Berea, Kentucky

Compliance

We have audited the compliance of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2010. MACED's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Consolidated Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of MACED's management. Our responsibility is to express an opinion on MACED's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MACED's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MACED's compliance with those requirements.

In our opinion, MACED complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended April 30, 2010.



To the Board of Directors  
Mountain Association for Community Economic  
Development, Inc.

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### Internal Control Over Compliance

Management of MACED is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MACED's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MACED's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Blue & Co., LLC*

July 29, 2010

# **MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES**

## **CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED APRIL 30, 2010**

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### Summary of Auditor's Results

The auditor's report expresses an unqualified opinion on the consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED).

No material weaknesses were identified during the audit of the financial statements.

No instances of noncompliance material to the financial statements of MACED were disclosed during the audit.

No material weaknesses were identified during the audit of the major federal award program.

The auditor's report on compliance for the major federal award program for MACED expresses an unqualified opinion.

There were no audit findings related to the major federal award programs for MACED.

MACED's major federal programs for the year ended April 30, 2010 were the U.S. Department of Treasury Community Development Financial Institutions Fund (CFDA No. 21.020) and Small Business Administration Microloan Program (CFDA No. 59.046).

The dollar threshold used to distinguish between Type A and B programs was \$300,000.

MACED was considered a low-risk auditee.

### Findings - Financial Statement Audit

None reported.

### Federal Award Findings and Questioned Costs

None reported.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC  
DEVELOPMENT, INC. AND AFFILITATES**

CONSOLIDATED SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND THEIR  
RESOLUTIONS  
YEAR ENDED APRIL 30, 2010

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No findings or questioned costs were reported for the year ended April 30, 2009.