MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

April 30, 2011 and 2010

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

TABLE OF CONTENTS
April 30, 2011 and 2010

Page

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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. (a nonprofit organization) and Affiliates (MACED) as of April 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of MACED's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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, 2011 and 2010 and the changes in its net assets and its 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.

Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2011 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Blue & Co., LLC

July 28, 2011

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
April 30, 2011 and 2010

ASSETS

	2011	2010
Current assets:		
Cash and cash equivalents	$ 6,087,693	$ 4,569,940
Cash and cash equivalents, restricted	4,048,620	1,977,377
Current portion of loans receivable, net of allowance for bad debts of $117,644 and $151,742	1,066,381	1,429,200
Accounts receivable	53,084	78,770
Grants receivable	1,505,605	1,226,376
Prepaid expenses	8,727	4,780
Total current assets	12,770,110	9,286,443
Property and equipment, net	577,261	615,444
Other assets:		
Investments	296,550	360,050
Loans receivable, net of allowance for bad debts of $840,175 and $698,163	7,884,912	6,771,713
Total other assets	8,181,462	7,131,763
Total assets	$ 21,528,833	$ 17,033,650

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities:		
Current portion notes payable	$ 675,961	$ 521,343
Current portion subordinated loans payable	200,000	-0-
Accounts payable and accrued expenses	238,882	175,131
Deferred revenue	1,870,421	1,576,544
Total current liabilities	2,985,264	2,273,018
Long-term liabilities:		
Notes payable, less current portion	7,216,248	5,220,263
Subordinated loans payable, less current portion	500,000	700,000
Total long-term liabilities	7,716,248	5,920,263
Total liabilities	10,701,512	8,193,281
Net assets:		
Unrestricted:		
Operating	5,955,609	4,338,930
Board designated	20,000	20,000
Total unrestricted net assets	5,975,609	4,358,930
Temporarily restricted:		
Programs	1,939,213	1,977,688
Enterpise Development, capital	578,600	500,000
Enterpise Development, capital or operations	1,147,223	1,146,041
Total temporarily restricted net assets	3,665,036	3,623,729
Permanently restricted	1,186,676	857,710
Total net assets	10,827,321	8,840,369
Total liabilities and net assets	$ 21,528,833	$ 17,033,650

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended April 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Non-financing revenues and support				
Private grants and contributions	$ 932,310	$ 2,285,446	$	$ 3,217,756
Government grants	443,221	954,498	230,000	1,627,719
Project income	33,470			33,470
Rent and lease income	7,050			7,050
In-kind income	2,450			2,450
Miscellaneous income	30,886			30,886
Reimbursements	6,025			6,025
Total non-financing revenues and support	1,455,412	3,239,944	230,000	4,925,356
Financing revenues				
Interest income on loans	465,019	98,923	62	564,004
Fee income on loans	31,870	1,207		33,077
Dividend income	1,794			1,794
Interest on idle funds	63,711	5,431		69,142
Realized gain (loss) on program investments	(9,820)		98,904	89,084
Impairment of program investments	(45,000)			(45,000)
Total financing revenues	507,574	105,561	98,966	712,101
Satisfaction of program and time restrictions	3,304,198	(3,304,198)		-0-
Total revenues and other support	5,267,184	41,307	328,966	5,637,457
Expenses:				
Non-financing expenses				
Program	2,485,499			2,485,499
Fundraising	70,013			70,013
Management and general	573,714			573,714
Total non-financing expenses	3,129,226	-0-	-0-	3,129,226
Financing expenses				
Interest	97,934			97,934
Provision for loan losses	423,345			423,345
Total financing expenses	521,279	-0-	-0-	521,279
Total expenses	3,650,505	-0-	-0-	3,650,505
Change in net assets	1,616,679	41,307	328,966	1,986,952
Net assets, beginning of year	4,358,930	3,623,729	857,710	8,840,369
Net assets, end of year	$ 5,975,609	$ 3,665,036	$ 1,186,676	$ 10,827,321

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Non-financing revenues and support				
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 loss on disposition of property	(3,108)			(3,108)
Total non-financing revenues and support	574,963	3,796,362	91,689	4,463,014
Financing revenues				
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 loss on program investments	(16,098)			(16,098)
Total financing revenues	440,152	114,369	9,712	564,233
Satisfaction of program and time restrictions	4,498,112	(4,498,112)		-0-
Total revenues and other support	5,513,227	(587,381)	101,401	5,027,247
Expenses:				
Non-financing expenses				
Program	2,393,354			2,393,354
Fundraising	57,701			57,701
Management and general	513,235			513,235
Total non-financing expenses	2,964,290	-0-	-0-	2,964,290
Financing expenses				
Interest	84,296			84,296
Provision for loan losses	320,925			320,925
Total financing expenses	405,221	-0-	-0-	405,221
Total expenses	3,369,511	-0-	-0-	3,369,511
Change in net assets	2,143,716	(587,381)	101,401	1,657,736
Net assets, beginning of year	2,215,214	4,211,110	756,309	7,182,633
Net assets, end of year	$ 4,358,930	$ 3,623,729	$ 857,710	$ 8,840,369

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended April 30, 2011

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	$ 1,193,722	$ 56,749	$ 424,520	$ 1,674,991
Consultants and professional services				
Consultants	303,447	2,303	23,021	328,771
Professional services	17,139		33,853	50,992
IT services	23,249		14,929	38,178
Interns and contract labor	5,852		3,427	9,279
Travel and meetings				
Travel	57,425	5,303	7,235	69,963
Meetings, registration and training	35,373	2,651	7,392	45,416
Maintenance, lease and equipment purchase				
Equipment lease	5,680	276	2,017	7,973
Equipment and software expense	11,054		6,297	17,351
Repairs and maintenance	14,632	134	8,306	23,072
Office operations				
Rent and utilities	12,438	425	3,370	16,233
Insurance	9,461	29	3,240	12,730
Postage	5,234	93	2,468	7,795
Supplies	17,918	277	5,186	23,381
Telephone	20,043	569	6,228	26,840
Miscellaneous	10,789	116	957	11,862
Depreciation	53,621	693	5,135	59,449
Re-grants	627,514		10	627,524
Other				
Advertising and promotion	8,319	240	801	9,360
Publications, memberships and subscriptions	7,784	73	7,221	15,078
Printing and duplication	20,082	59	7,830	27,971
Licenses and fees	11,047	23	271	11,341
Taxes	13,676			13,676
Total non-financing expenses	2,485,499	70,013	573,714	3,129,226
Financing expenses:				
Interest	97,934			97,934
Provision for loan losses	423,345			423,345
Total financing expenses	521,279	-0-	-0-	521,279
Total expenses	$ 3,006,778	$ 70,013	$ 573,714	$ 3,650,505

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 Services	Fundraising	Management and General	Total
Non-financing expenses:				
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
Financing expenses:				
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

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended April 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 1,986,952	$ 1,657,736
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	59,449	56,963
Provision for loan losses	423,345	320,925
Realized (gain) loss on sales of investments	(89,084)	16,098
Realized loss on disposition of property	-0-	3,108
Impairment of program investments	45,000	-0-
Non-cash grant revenue	(54,862)	-0-
Changes in operating assets and liabilities:		
Accounts receivable	25,686	(21,306)
Grants receivable	(279,229)	579,091
Prepaid expenses	(3,947)	(524)
Accounts payable and accrued expenses	63,751	(45,088)
Deferred revenue	293,877	390,350
Net cash flows from operating activities	2,470,938	2,957,353
Cash flows from investing activities:		
Proceeds from sales of investments	225,584	68,902
Proceeds from sales of property and equipment	-0-	100
Purchase of property and equipment	(21,266)	(47,373)
Loans to other entities	(2,942,232)	(2,252,034)
Principal collections on loans receivable	1,705,369	1,123,412
Net cash flows from investing activities	(1,032,545)	(1,106,993)
Cash flows from financing activities:		
Proceeds from notes payable	2,668,800	344,468
Principal payments on notes payable	(518,197)	(512,116)
Net cash flows from financing activities	2,150,603	(167,648)
Net change in cash and cash equivalents	3,588,996	1,682,712
Cash and cash equivalents, beginning of year	6,547,317	4,864,605
Cash and cash equivalents, end of year	$ 10,136,313	$ 6,547,317
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 95,307	$ 84,762
Property received in lieu of cash for loan receivable	$ 118,000	$ 122,500
Loans receivable obtained from separate entity	$ 54,862	$ 0

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

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.

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.

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 6), MACED is required to maintain separate bank accounts, Loan Loss Reserve Fund and Microloan Revolving Fund (for regular and American Recovery and Reinvestment Act funding), for activities pertaining to SBA loans. Pursuant to its agreement with the Ford Foundation, MACED is required to maintain a separate bank account for activities pertaining to the Program Related Investment loan.

Receivables

Accounts receivable and grants receivable are reflected in the accompanying statement of financial position net of an allowance for doubtful accounts receivable of $0 at April 30, 2011 and 2010. MACED provides an allowance based on historical collection experience and a review of the current status of existing receivables. The allowance represents an amount, which, in management's judgment, will be adequate to absorb future losses on existing accounts receivable that may become uncollectible. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the account receivable. Receivables are considered past due based on contractual terms.

Loans receivable are executed by MACED based on a recipient's financial need. Generally real estate and 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.

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, 2011 and 2010 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, 2011 and 2010 amounted to $9,360 and $12,087, respectively.

Subsequent Events

MACED 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 28, 2011, 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 presentation used in the current year. The reclassifications had no effect on total assets, liabilities, net assets, revenues, or expenses.

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 businesses interested in offsetting their carbon footprint. While MACED has credits available for sale as of April 30, 2011, 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 is recorded as credits are sold or retired. During the year ended April 30, 2011, MACED received payment of $27,017 for the purpose of retiring carbon credits. 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. Costs of verification and registration in fiscal years 2011 and 2010 were approximately $12,000 and $18,000, respectively.

2. LOANS RECEIVABLE

At April 30, 2011 and 2010, loans receivable consist of current amounts of $1,184,025 and $1,580,942 and noncurrent amounts of $8,725,087 and $7,469,876, 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.

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, 2011 and 2010 consist of the following:

	2011	2010
Loans receivable	$ 9,909,112	$ 9,050,818
Less allowance for loan losses	957,819	849,905
Loans receivable, net	$ 8,951,293	$ 8,200,913

Loans serving as collateral on notes payable amounted to approximately $3,400,000 and $3,500,000, respectively, at April 30, 2011 and 2010.

Included in loans receivable are approximately $104,000 and $110,000 due from a related party at April 30, 2011 and 2010, respectively. MACED performs administrative functions for the related party and is compensated for those services.

Accrued interest receivable amounted to approximately $35,000 and $40,000 at April 30, 2011 and 2010, respectively.

Non-accrual loans totaled $1,280,104 and $1,010,549, respectively, at April 30, 2011 and 2010.

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.

During fiscal year 2011, East Kentucky Corporation (EKC) decided to terminate certain loan accounts and transfer those accounts to MACED for the purpose of improving and enhancing the economic well-being of the Appalachian region served by EKC. MACED recognized the value of the notes receivable as $54,862 in grant revenue.

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 as applicable.

The following is an analysis of the allowance for loan losses for the years ended April 30, 2011 and 2010:

	2011	2010
Beginning balance	$ 849,905	$ 825,463
Provision charged to operations	423,346	320,925
Less charge-offs	317,831	306,093
Recoveries	2,399	9,610
Ending balance	$ 957,819	$ 849,905

The following is a summary of information pertaining to impaired loans at April 30, 2011 and 2010:

	2011	2010
Impaired loans with a valuation allowance	$ 1,147,977	$ 522,494
Valuation allowance related to impaired loans	$ 564,271	$ 163,546
Average investment in impaired loans	$ 95,666	$ 87,082
Interest income recognized on impaired loans	$ 27,446	$ 7,864
Interest income recognized on a cash basis on impaired loans	$ 34,051	$ 7,662

3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30, 2011 and 2010:

	2011	2010
Land	$ 40,000	$ 40,000
Buildings and improvements	783,412	783,412
Equipment	202,279	203,232
Automobiles	57,402	57,402
	1,083,093	1,084,046
Less accumulated depreciation	505,832	468,602
Property and equipment, net	$ 577,261	$ 615,444

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30, 2011 and 2010:

	2011	2010
Federal grants receivable:		
U.S. Small Business Administration	$ 48,461	$ 114,946
Local Initiative Support Corporation	3,601	8,872
USDA Natural Resources Conservation Service	92,637	169,001
U.S. Department of Health and Human Services, Office of Community Services	-0-	2,057
USEPA Division of Water	10,800	-0-
U.S. Department of Energy Kentucky Housing Corporation	55,606	-0-
Total federal grants receivable	211,105	294,876
Other grants receivable:		
Ford Foundation	150,000	626,500
F. B. Heron Foundation	100,000	-0-
Mary Reynolds Babcock Foundation	500,000	175,000
Marguerite Casey Foundation	112,500	-0-
SURDNA Foundation	200,000	-0-
Wood Education Resource Center	12,250	-0-
New Horizon Grant	219,750	-0-
Blue Moon Fund	-0-	100,000
Charles M. and Mary D. Grant Foundation	-0-	30,000
Total other grants receivable	1,294,500	931,500
Total grants receivable	$ 1,505,605	$ 1,226,376

5. INVESTMENTS

Following is the composition of investments at April 30:

	2011	2010
Equities, non-publicly traded stocks	$ 178,550	$ 237,550
Collateral held for resale, real property	118,000	122,500
Total	$ 296,550	$ 360,050

During the year ended April 30, 2011, sales of an equity investment provided a gain of $98,904 which was offset by a loss from the sale of collateral held for resale which resulted in a net gain of $89,084. During the year ended April 30, 2010, sales from collateral held for resale resulted in a loss of $16,098.

All equities are non-publicly traded stocks. They are reported using the cost method and were evaluated for impairment at April 30, 2011 and 2010. The amount of accumulated impairment was $45,000 and $126,000 at April 30, 2011 and 2010, respectively.

The value of collateral held for resale is determined using level 3 inputs. See additional discussion at Note 14.

6. NOTES PAYABLE

Notes payable consist of the following at April 30, 2011 and 2010:

	2011	2010
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.	688,890	734,606

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.	468,284	495,170
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.	574,403	600,238
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.	625,482	650,810
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.	725,662	750,000
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 March. The note matures in March 2039.	398,833	206,033
Appalachian Development Alliance, quarterly interest-only payments at two percent until maturity in June 2014, collateralized by a $50,000 certificate of deposit.	125,000	125,000
Appalachian Development Alliance, quarterly interest-only payments at two percent until maturity in June 2012, collateralized by a $56,250 certificate of deposit.	158,333	158,333

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.	97,827	125,881
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.	403,495	495,535
U.S. Small Business Administration (May 2010), 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 1.125 percent. Monthly payments of $2,220. Amortization schedule for years two through ten based on 0.375 percent interest plus payments for first year interest. Balance due at maturity in May 2020.	226,000	-0-
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. Note was repaid in January 2011.	-0-	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	300,000
Bon Secours Health System, Inc. (September 2010), unsecured, interest only at 2.5 percent per annum. The note matures in October 2013; except in event of default, maturity will be extended until October 2015.	250,000	-0-
Ford Foundation Program-Related Investment (January 2011), unsecured, interest only at 1 percent per annum, payable quarterly. Principal to be repaid in three equal payments in January 2019, 2020 and 2021.	2,000,000	-0-
Total	7,892,209	5,741,606
Less current maturities	675,961	521,343
Long-term portion	$ 7,216,248	$ 5,220,263

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

Year ending April 30:	
2012	$ 675,961
2013	790,413
2014	961,972
2015	320,127
2016	484,051
Thereafter	4,659,685
	$ 7,892,209

In fiscal year 2008, MACED obtained a $500,000 operating line of credit from Citizens Bank. As of April 30, 2011, MACED had not borrowed under the line of credit. The unsecured line of credit bears interest at the interbank lending rate. Interest is payable monthly. The outstanding principal together with any unpaid interest accrued thereon is due January 21, 2012.

In May 2011, MACED obtained a line of credit with a limit of $250,000 from Cumberland Security Bank. There were no draws against the line of credit through July 28, 2011. The line of credit is unsecured and bears interest at 2.5 percent per annum. The outstanding principal together with any unpaid interest accrued thereon is due on August 12, 2014.

7. SUBORDINATED LOANS PAYABLE

Subordinated loans payable consist of the following at April 30, 2011 and 2010:

	2011	2010
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
CNC Development Foundation, Inc. (April 2005), equity-equivalent loan, annual interest-only payments at one percent. Note matured on April 27, 2011 and was paid in full on June 20, 2011.	200,000	200,000
Total	700,000	700,000
Current maturities	200,000	-0-
Long-term portion	$ 500,000	$ 700,000

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

Year ending April 30:	
2012	$ 200,000
2013	-0-
2014	-0-
2015	-0-
2016	-0-
Thereafter	500,000
	$ 700,000

8. RESTRICTED NET ASSETS

Temporarily restricted net assets at April 30, 2011 and 2010 are available for the following uses:

	2011	2010
Community development	$ 783,522	$ 948,528
Energy sector	686,567	-0-
Natural resources	21,730	53,486
Alternative to payday lending		33,625
Research and policy	339,483	129,042
Central Appalachian Network	94,517	795,000
Enterprise development:		
Operations only	13,394	18,007
Capital	578,600	500,000
Capital or operations	1,147,223	1,146,041
	$ 3,665,036	$ 3,623,729

Permanently restricted net assets at April 30, 2011 and 2010 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, 2011 and 2010, contributions to the Plan were $70,944 and $67,228.

10. 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, 2011 and 2010, MACED had cash balances of $1,086,369 and $1,078,200, respectively, in excess of insured limits.

11. COMMITMENTS AND CONTINGENCIES

The grant revenue amounts are subject to review by grantors. If any expenditure is disallowed for reimbursement grants, any claim for reimbursement to the grantor would become a liability of MACED. In the opinion of management, all grant expenditures and corresponding revenues are in compliance with the terms of the grant agreements and applicable laws and regulations.

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 $1,395,925. To the extent the funds are subsequently paid back to MACED, they need to be reinvested or would be subject to reclaim.

12. CONTRIBUTED SERVICES RECEIVED

During the years ended April 30, 2011 and 2010, MACED had in-kind contributions of rent for a field office valued at $2,450 and $4,200, respectively, which was used in the enterprise development program.

13. RELATED PARTY TRANSACTIONS

Ridgecrest received rent for office space from Kentucky Coalition, a partner with MACED on energy sector work and the Appalachian Transition Initiative, in the amount of $1,800. MACED re-granted funds for energy sector work to Kentucky Coalition in the amount of $90,000 and $25,000 during 2011 and 2010, respectively. Kentucky Coalition granted $25,000 to MACED for the Appalachian Transition Initiative in 2011.

14. 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 MACED has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active market
- 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.

Following is a reconciliation of activity for collateral held for resale (real property) valued using level 3 inputs for years ending April 30, 2011 and 2010.

	2011	2010
Beginning balance	$ 122,500	$ 85,000
Amounts obtained in lieu of loans receivable	118,000	122,500
Sales	(122,500)	(85,000)
Ending balance	$ 118,000	$ 122,500

As discussed in Note 5, MACED has equity investments in non-publicly traded entities. During fiscal year 2011, an impairment was noted for one of those investments based on Level 3 inputs. The impairment was based on information provided by the investee that it was operating under a revised business model and may not be sustainable. Per review of information provided by the investee, there appears to be substantial doubt that it will obtain sufficient cash flows to meet its obligations.

Following is a reconciliation of activity for equities held in non-publicly traded stocks valued using level 3 inputs for years ending April 30, 2011 and 2010.

	2011	2010
Beginning balance	$ 237,550	$ 237,550
Sales	(14,000)	0
Impairments	(45,000)	0
Ending balance	$ 178,550	$ 237,550

15. ENDOWMENT NET ASSETS

MACED has adopted the enhanced disclosure provisions of FASB ASC 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The adoption of ASC 958-205 did not have a material impact on MACED's financial statements. ASC 958-205 provides for improved disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds).

Endowment funds at April 30, 2011 and 2010 consist of amounts to be retained in perpetuity for MACED's revolving loan programs. Investment income from endowment funds is considered restricted or unrestricted depending on donor instructions. MACED maintains an investment policy for all investments, including endowment funds. The policy is to avoid conflicts of interest (or appearance thereof) in negotiating, approving or renewing financing; concentrations of investments or credits with one borrower, group of borrowers or borrowers engaged in or dependent on a single industry; and participating in or attempting to influence a management decision of any borrower. Responsibility for MACED's investments rests with the Board of Directors and is delegated to the Loan Committee.

Following is a detail of activity for endowment funds for the year ended April 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 0	$ 5,379	$ 857,710	$ 863,089
Contributions			230,000	230,000
Investment return		19,160	98,966	118,126
Release from restriction		(21,858)		(21,858)
Endowment net assets, end of year	$ 0	$ 2,681	$ 1,186,676	$ 1,189,357

Following is a detail of activity for endowment funds for the year ended April 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	$	$ 756,309	$ 756,309
Contributions			91,689	91,689
Investment return		11,586	9,712	21,298
Release from restriction		(6,207)		(6,207)
Endowment net assets, end of year	$ 0	$ 5,379	$ 857,710	$ 863,089

16. 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.

Tax returns for fiscal years 2008 through 2010 are subject to review by taxing authorities. As of April 30, 2011, Ridgecrest had a net operating loss (NOL) carryforward. None of this amount was considered as an asset in the accompanying financials because taxable income in future periods for Ridgecrest is uncertain.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended April 30, 2011

Federal Grantor/Program	CFDA Number	Grantor Number	Federal Expenditures
MAJOR PROGRAMS			
U.S. Department of Treasury			
Community Development Financial Institutions Fund	21.020	081FA007497	$ 12,902
Community Development Financial Institutions Fund	21.020	081FA007497	240,248
Community Development Financial Institutions Fund - ARRA	21.020	091FA007867	299,861
			553,011
U.S. Department of Energy			
State Energy Program Special Projects - ARRA	81.119	PSC-KHC-2011-22	256,129
Small Business Administration			
SBA Microloan Program - ARRA	59.046	SBAHQ-10-YR-0068	75,221
SBA Microloan Program	59.046	SBAHQ-09-Y-0003	63,258
SBA Microloan Program - ARRA	59.046	Loan # 3962195007	226,000
SBA Microloan Program	59.046	SBAHQ-09-Y-0003	10,926
			375,405
Total major programs			1,184,545
NONMAJOR PROGRAMS			
Small Business Administration			
Energy Efficient Enterprise Project	59.000	SBAHQ-09-I-0008	77,085
Appalachian Regional Commission			
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	408,474
Department of Health and Human Services			
Administration for Children and Families	93.570	90EE0850/01	230,268
Department of Agriculture			
Rural Development (Rural Business Enterprise Grant)	10.769	20-076-0310900246	68,787
Rural Development (Rural Business Enterprise Grant)	10.769	20-076-0310900246	130,000
			198,787
Department of Agriculture			
Rural Development (Intermediary Relending Program)	10.767	20-076-0611254830 Loan 6	192,800
United States Department of Agriculture			
Natural Resources Conservation Service	10.912	69-3A75-9-143	132,587
U.S. Environmental Protection Agency			
Nonpoint Source Pollution Control Program	66.460	PSC#1100001134	10,800
Department of Housing & Urban Development			
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.218	41942-0016	8,627
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.218	41942-0017	7,908
			16,535
Total nonmajor programs			1,267,336
Total			$ 2,451,881

See report of independent auditors and accompanying notes to consolidated schedule of expenditures of federal awards.

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, 2011 consist of the following:

IRP #1 - USDA (August, 1994)	$	688,890
IRP #2 - USDA (August, 1996)		468,284
IRP #3 - USDA (August, 2000)		574,403
IRP #4 - USDA (April, 2003)		625,482
IRP #5 - USDA (October, 2006)		725,662
IRP #6 - USDA (March, 2009)		398,833
U.S. Small Business Administration (September 2004)		97,826
U.S. Small Business Administration (August 2005)		403,495
U.S. Small Business Administration (March 2010)		226,000
Total	$	4,208,875

The proceeds of loans that were received and expended in prior years are not considered federal awards expended when the laws, regulations, and the provisions of contracts or grant agreements pertaining to such loans impose no continuing compliance requirements other than to repay the loans and have been excluded from the Consolidated Schedule of Expenditures of Federal Awards.

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, 2011, and have issued our report thereon dated July 28, 2011. 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.

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

Page Two

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.

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*.

This report is intended solely for the information of the board of directors, 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 28, 2011

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 could have a direct and material effect on each of MACED's major federal programs for the year ended April 30, 2011. MACED's major federal programs are identified in the summary of auditor's results section of the accompanying 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 the 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 could have a direct and material effect on each of its major federal programs for the year ended April 30, 2011.

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 *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 the board of directors, 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 28, 2011

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended April 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	unqualified
Internal Control over financial reporting:	
Material weakness(es) identified?	______ yes __X__ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	______ yes __X__ none reported
Noncompliance material to financial statements noted?	______ yes __X__ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	______ yes __X__ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	______ yes __X__ none reported
Type of auditor's report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A–133?	______ yes __X__ no

Identification of major programs:

CFDA Number	Name of Federal Program
21.020	Community Development Financial Institutions Fund
81.119	State Energy Program Special Projects
59.046	Microloan Program

Dollar threshold used to distinguish between type A and B programs: $300,000.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended April 30, 2011

Findings - Financial Statement Audit

None reported.

Federal Award Findings and Questioned Costs

None reported.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND THEIR RESOLUTIONS

Year ended April 30, 2011

No findings or questioned costs were reported for the year ended April 30, 2010.