MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS

April 30, 2012 and 2011

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

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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, 2012 and 2011, 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 MACED as of April 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2012, on our consideration of MACED's 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 MACED 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 to 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 26, 2012

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
APRIL 30, 2012 AND 2011

ASSETS

	2012	2011
Current assets:		
Cash and cash equivalents	$ 5,004,104	$ 4,817,679
Cash and cash equivalents, restricted	6,248,878	5,318,634
Current portion of loans receivable, net of allowance for bad debts of $201,289 and $117,644	972,043	1,066,381
Accounts receivable	386,149	53,084
Grants receivable	1,275,643	1,505,605
Prepaid expenses and other assets	25,834	8,727
Total current assets	13,912,651	12,770,110
Property and equipment, net	702,911	577,261
Other assets:		
Investments	291,550	296,550
Loans receivable, net of allowance for bad debts of $684,972 and $840,175	8,239,428	7,884,912
Total other assets	8,530,978	8,181,462
Total assets	$ 23,146,540	$ 21,528,833

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities:		
Current portion notes payable	$ 1,134,040	$ 675,961
Current portion subordinated loans payable	-0-	200,000
Accounts payable and accrued expenses	279,281	238,882
Deferred revenue	1,013,992	1,870,421
Total current liabilities	2,427,313	2,985,264
Long-term liabilities:		
Notes payable, less current portion	6,755,199	7,216,248
Subordinated loans payable, less current portion	500,000	500,000
Total long-term liabilities	7,255,199	7,716,248
Total liabilities	9,682,512	10,701,512
Net assets:		
Unrestricted:		
Operating	9,407,564	5,955,609
Board designated	20,000	20,000
Total unrestricted net assets	9,427,564	5,975,609
Temporarily restricted:		
Programs	2,035,848	1,939,213
Enterpise Development, capital	194,600	578,600
Enterpise Development, capital or operations	619,340	1,147,223
Total temporarily restricted net assets	2,849,788	3,665,036
Permanently restricted	1,186,676	1,186,676
Total net assets	13,464,028	10,827,321
Total liabilities and net assets	$ 23,146,540	$ 21,528,833

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

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Non-financing revenues and support				
Private grants and contributions	$ 163,223	$ 2,709,417	$	$ 2,872,640
Government grants	2,162,673	654,512		2,817,185
Project income	34,839			34,839
Rent and lease income	16,050			16,050
In-kind income		6,766		6,766
Miscellaneous income	41,564			41,564
Total non-financing revenues and support	2,418,349	3,370,695	-0-	5,789,044
Financing revenues				
Interest income on loans	496,677	95,983		592,660
Fee income on loans	30,265	243		30,508
Dividend income	952			952
Interest on idle funds	51,478	1,319		52,797
Impairment of program investments	(5,000)			(5,000)
Total financing revenues	574,372	97,545	-0-	671,917
Satisfaction of program and time restrictions	4,283,488	(4,283,488)		-0-
Total revenues and other support	7,276,209	(815,248)	-0-	6,460,961
Expenses:				
Non-financing expenses				
Program	2,702,104			2,702,104
Fundraising	87,775			87,775
Management and general	583,952			583,952
Total non-financing expenses	3,373,831	-0-	-0-	3,373,831
Financing expenses				
Interest	117,891			117,891
Provision for loan losses	332,532			332,532
Total financing expenses	450,423	-0-	-0-	450,423
Total expenses	3,824,254	-0-	-0-	3,824,254
Change in net assets	3,451,955	(815,248)	-0-	2,636,707
Net assets, beginning of year	5,975,609	3,665,036	1,186,676	10,827,321
Net assets, end of year	$ 9,427,564	$ 2,849,788	$ 1,186,676	$ 13,464,028

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

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 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 consolidated financial statements.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED APRIL 30, 2012

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	$ 1,359,570	$ 78,566	$ 447,118	$ 1,885,254
Consultants and professional services				
Consultants	379,155	2	10,710	389,867
Professional services	31,633	400	31,723	63,756
IT services	36,791	285	24,268	61,344
Interns and contract labor	4,402		2,555	6,957
Travel and meetings				
Travel	95,032	3,412	5,030	103,474
Meetings, registration and training	29,910	106	10,305	40,321
Maintenance, lease and equipment purchase				
Equipment lease	5,772	270	1,478	7,520
Equipment and software expense	29,108	247	5,058	34,413
Repairs and maintenance	13,411	77	5,604	19,092
Office operations				
Rent and utilities	20,050	841	4,645	25,536
Insurance	11,749	49	3,357	15,155
Postage	3,472	67	1,109	4,648
Supplies	14,064	402	4,392	18,858
Telephone	20,949	770	5,966	27,685
Miscellaneous	7,859	223	1,298	9,380
Depreciation	52,062	805	4,402	57,269
Re-grants	546,006			546,006
Other				
Advertising and promotion	6,472		1,819	8,291
Publications, memberships and subscriptions	11,690	1,021	7,314	20,025
Printing and duplication	8,195	159	5,058	13,412
Licenses and fees	6,318	73	743	7,134
Taxes	8,434			8,434
Total non-financing expenses	2,702,104	87,775	583,952	3,373,831
Financing expenses:				
Interest	117,891			117,891
Provision for loan losses	332,532			332,532
Total financing expenses	450,423	-0-	-0-	450,423
Total expenses	$ 3,152,527	$ 87,775	$ 583,952	$ 3,824,254

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

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 consolidated financial statements.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 2,636,707	$ 1,986,952
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	57,269	59,449
Provision for loan losses	332,532	423,345
Realized (gain) loss on sales of investments	-0-	(89,084)
Impairment of program investments	5,000	45,000
Non-cash grant revenue	(97,167)	(54,862)
Changes in operating assets and liabilities:		
Accounts receivable	(333,065)	25,686
Grants receivable	229,962	(279,229)
Prepaid expenses and other assets	(17,107)	(3,947)
Accounts payable and accrued expenses	40,399	63,751
Deferred revenue	(856,429)	293,877
Net cash flows from operating activities	1,998,101	2,470,938
Cash flows from investing activities:		
Proceeds from sales of investments	-0-	225,584
Purchase of property and equipment	(182,919)	(21,266)
Loans to other entities	(2,468,009)	(2,942,232)
Principal collections on loans receivable	1,972,466	1,705,369
Net cash flows from investing activities	(678,462)	(1,032,545)
Cash flows from financing activities:		
Proceeds from notes payable	285,000	2,668,800
Principal payments on notes payable	(487,970)	(518,197)
Net cash flows from financing activities	(202,970)	2,150,603
Net change in cash and cash equivalents	1,116,669	3,588,996
Cash and cash equivalents, beginning of year	10,136,313	6,547,317
Cash and cash equivalents, end of year	$ 11,252,982	$ 10,136,313
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 120,937	$ 95,307
Property received in lieu of cash for loan receivable	$ -0-	$ 118,000
Loans receivable granted from separate entity	$ 97,167	$ 54,862

See report of independent auditors and accompanying notes to consolidated 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 enterprise 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 AIC administers 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 the 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, 2012 and 2011. 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 $2,500 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, 2012 and 2011 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, 2012 and 2011 amounted to $8,291 and $9,360, 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 26, 2012, 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 the 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, 2012, 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 and landowners are paid. Funds received for carbon credits are carried as a liability until there is sufficient accumulation to make payments to landowners. During fiscal years 2012 and 2011 MACED received payments of $30,293 and $27,017, respectively, for the purpose of retiring carbon credits. During fiscal years 2012 and 2011 MACED recorded revenue of $4,429 and $0, respectively. During fiscal years 2012 and 2011, MACED made payments to landowners totaling $38,912 and $0, respectively. Costs of verification and registration in fiscal years 2012 and 2011 were approximately $13,000 and $12,000, respectively.

2. LOANS RECEIVABLE

Accounting Standards Update 2010-20, *Receivables* (Topic 310) ("Update") was issued in July 2010 covering disclosures about the credit quality of financing receivables and the allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses.

At April 30, 2012 and 2011, loans receivable consist of current amounts, at gross, of $1,173,332 and $1,184,025 and noncurrent amounts of $8,924,400 and $8,725,087, respectively.

MACED's loans receivable are comprised of three segments:

- Enterprise development loans, further divided into two classes:
  - Microloans (originated at $50,000 or less).
  - Other enterprise development loans.

- Forest inventory loans. These are loans made to landowner participants in MACED's carbon offsets program to cover costs of inventorying their forests.

- How$martKY™ loans to utilities. These are lines of credit made available by MACED to utilities to finance energy-efficiency retrofits on utility customers' residences.

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.

Loans are considered past due if the required principal and interest payments have not been received 30 days after the date such payments were due.

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 consist of the following at April 30:

	2012	2011
Loans receivable	$ 10,097,732	$ 9,909,112
Less allowance for loan losses	886,261	957,819
Loans receivable, net	$ 9,211,471	$ 8,951,293

Loans serving as collateral on notes payable amounted to approximately $2,400,000 and $3,400,000, respectively, at April 30, 2012 and 2011.

Included in loans receivable at April 30, 2011 was approximately $104,000 due from a related party. MACED performs administrative functions for the related party and is compensated for those services. The loan was paid in full in June 2011.

Accrued interest receivable amounted to approximately $32,000 and $35,000 at April 30, 2012 and 2011, respectively.

Non-accrual loans totaled $1,186,724 and $1,280,104 at April 30, 2012 and 2011, respectively.

The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2012:

	Current	30-59 days past due	60-59 days past due	90+ days past due	Total
Enterprise development loans					
Microloans	$ 1,085,315	$ 23,705	$ -0-	120,493	$ 1,229,513
Other enterprise loans	7,807,378	28,427	149,147	539,802	8,524,754
Total enterprise development loans	8,892,693	52,132	149,147	660,295	9,754,267
Forest inventory loans	63,425	-0-	-0-	-0-	63,425
How$mart loans to utilities	280,040	-0-	-0-	-0-	280,040
Total loans	$ 9,236,158	$ 52,132	$ 149,147	660,295	$ 10,097,732

Management uses internally assigned risk ratings as indicators of credit quality. Each loan's risk rating is assigned at origination and updated at least annually and more frequently if circumstances warrant a change in risk rating. MACED uses a loan grading system that follows its loan policy:

1. Excellent - No credit or collateral exception exists and the loan adheres to MACED's loan policy. The borrower has the ability to repay or convert liquid assets to cash; or is a loan to an established business that represents a reasonable credit risk. A financial analysis displays a satisfactory financial condition and earnings ability along with sound asset quality and cash flow capacity to meet debt obligations in a timely manner.
2. Good - Loans in this category are considered to have satisfactory asset quality and are made to borrowers with proven earnings history, liquidity or other adequate margins of credit protection. Loans are considered collectible in full, but may require additional supervision. Loans in this category are evidenced by a level of slow outside reduction, along with extensions and/or renewals outside the original payment plan. The borrower is capable of absorbing normal setbacks without the advent of failure. The ability to repay is considered average through the conversion of liquid assets, cash flow or co-signer's ability to reduce the debt.

3. Fair - Loans in this category do not demonstrate immediate loss; however, weaknesses do exist which could cause future impairment of repayment. These loans require more than ordinary amount of supervision and may exhibit weakness due to questionable trends in financial position or questionable or unproven management capabilities. Loans may be made to new or expanding businesses or borrowers whose ability to repay is considered only average. Collateral affords marginal protection and may not be readily marketable. Loans in this category may be overdue or have extensions or overdrafts on demand accounts. Loans in this category may also exhibit weak origination and/or servicing policies and may contain documentation deficiencies. The risk-rating category may also be used for new or untested borrowers.
4. Watch - Loans in this category are characterized by deterioration in quality exhibited by any number of weaknesses requiring corrective action. The weaknesses may include, but are not limited to: high debt-to-worth ratios, declining or negative earnings trends, declining or inadequate liquidity, questionable repayment sources, lack of well-defined secondary repayment sources and unfavorable competitive comparisons. Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status, extensions and/or renewals.
5. Sub-Standard - Loans in this category are inadequately protected by the current net worth of the business. The business may be led by management with inadequate knowledge of industry or leadership abilities are questionable. The loan collateral may be inadequate, and secondary source of repayment will likely be required, the business has seen a downturn due to changes in the national/regional or local demand/supply for the product/service. The business may not produce regular financial statements. Financially, the borrower has a low debt-service coverage and may have trouble making loan payments on time and may require concessions in the future.
6. Doubtful - Loans in this category exhibit the same weaknesses found in the sub-standard category; however, the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as a loss because events may occur which would salvage the debt. Among these events are acquisition by or merger with a stronger entity, injection of capital, alternative financing, liquidation of assets or the pledging of additional collateral. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status and no definite repayment schedule exists.

The following is an analysis of MACED's loan portfolio by credit quality, as of April 30, 2012:

	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	Total Loans
Enterprise development loans							
Microloans	$ 9,768	$ 365,549	$ 371,549	$ 207,701	$ 94,391	$ 180,556	$ 1,229,514
Other enterprise loans	1,489,470	1,515,742	1,968,656	2,119,774	644,069	787,042	8,524,753
Total enterprise development loans	1,499,238	1,881,291	2,340,205	2,327,475	738,460	967,598	9,754,267
Forest inventory loans	-0-	-0-	63,425	-0-	-0-	-0-	63,425
							-
How$mart loans to utilities	-0-	163,034	117,006	-0-	-0-	-0-	280,040
Total loans	$ 1,499,238	$ 2,044,325	$ 2,520,636	$ 2,327,475	$ 738,460	$ 967,598	$ 10,097,732

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 in grant revenue of $97,167 and $54,862 in in the years ended April 30, 2012 and 2011, respectively.

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

	2012	2011
Beginning balance	$ 957,819	$ 849,905
Provision charged to operations	332,532	423,346
Less charge-offs	705,969	317,831
Recoveries	301,879	2,399
Ending balance	$ 886,261	$ 957,819

During fiscal year 2012, there was a recovery of a loan receivable in the amount of $287,349 that had been charged off during the year. MACED's collateral on the loan receivable consisted of a first position on the machinery and a shared second position on the real estate. The machinery was sold at auction in February 2012 and the proceeds were used to pay off all first position lenders. As of April 30, 2012, MACED was waiting to receive its portion of the sale and had recorded a receivable of $311,597 for the principal, legal fees, and interest accrued through April 30, 2012. This amount was received in May 2012.

The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2012:

	Beginning Balance	Provision Charged to Operations	Less Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	$ 122,569	$ 94,991	$ (59,877)	$ 205	$ 157,888
Other enterprise loans	828,709	228,628	(646,092)	301,675	712,920
Total enterprise development loans	951,278	323,619	(705,969)	301,880	870,808
Forest inventory loans	6,540	(198)	-	-	6,342
How$mart loans to utilities	-	9,111	-	-	9,111
Total loans	$ 957,818	$ 332,532	$ (705,969)	$ 301,880	$ 886,261

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 a summary of information pertaining to impaired loans at April 30:

	2012	2011
Impaired loans with a valuation allowance	$ 1,156,118	$ 1,147,977
Valuation allowance related to impaired loans	$ 386,646	$ 564,271
Average investment in impaired loans	$ 82,580	$ 95,666
Interest income recognized on impaired loans	$ 39,552	$ 27,446
Interest income recognized on a cash basis on impaired loans	$ 40,871	$ 34,051

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2012:

						Loans individually evaluated for impairment		Loans collectively evaluated for impairment	
	Beginning Balance	Provision Charged to Operations	Less Charge-offs	Recoveries	Ending Balance	Ending Balance of Loans	Ending Balance in Allowance	Ending Balance of Loans	Ending Balance in Allowance
Enterprise development loans									
Microloans	$ 122,569	$ 94,991	$ (59,877)	$ 205	$ 157,888	$ 1,229,514	$ 157,888	$ -0-	$ -0-
Other enterprise loans	828,709	228,628	(646,092)	301,675	712,920	8,524,753	712,920	-0-	-0-
Total enterprise development loans	951,278	323,619	(705,969)	301,880	870,808	9,754,267	870,808	-0-	-0-
Forest inventory loans	6,540	(198)	-	-	6,342	-0-	-0-	63,425	6,342
How$mart loans to utilities	-	9,111	-	-	9,111	280,040	9,111	-0-	-0-
Total loans	$ 957,818	$ 332,532	$ (705,969)	$ 301,880	$ 886,261	$ 10,034,307	$ 879,919	$ 63,425	$ 6,342

Troubled debt restructurings (TDRs) carry modified repayment terms that MACED has conceded to accommodate financial or other difficulties which impair the borrower's capacity to repay the loan under its original terms. The modified terms include terms that MACED would not offer if the loan was new. These may include payments reduced below an amount that would repay the loan within an acceptable period, an interest rate reduced below a fair return, or adjustments to collateral or guarantors which increase credit risk above an acceptable level.

Loans with modified terms which MACED would have willingly offered originally are not TDRs. Loans with modified terms which MACED considers reasonable based on reductions in the loan balance are not TDRs.

TDRs are assigned risk ratings and evaluated for non-accrual status and impairment in the same way as non-TDRs.

The following is an analysis of troubled debt restructurings as of April 30, 2012:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	$ 2,600	1	$ 135,566	6	$ 138,166	7
Other enterprise loans	35,376	1	539,223	3	574,599	4
Total enterprise development loans	37,976	2	674,789	9	712,765	11
Forest inventory loans	-0-	-0-	-0-	-0-	-0-	-0-
How$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	$ 37,976	$ 2	$ 674,789	$ 9	$ 712,765	$ 11

3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30:

	2012	2011
Land	$ 40,000	$ 40,000
Buildings and improvements	934,899	783,412
Equipment	208,104	202,279
Automobiles	83,010	57,402
	1,266,013	1,083,093
Less accumulated depreciation	563,102	505,832
Property and equipment, net	$ 702,911	$ 577,261

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30:

	2012	2011
Federal grants receivable:		
U.S. Small Business Administration	$ 41,662	$ 48,461
Local Initiative Support Corporation	500	3,601
U.S. Department of Agriculture (USDA) Natural Resources Conservation Service	-0-	92,637
Appalachian Regional Commission	71,041	-0-
USEPA Division of Water	-0-	10,800
U.S. Department of Energy Kentucky Housing Corporation	-0-	55,606
Total federal grants receivable	113,203	211,105
Other grants receivable:		
Ford Foundation	587,440	150,000

F. B. Heron Foundation	-0-	100,000
Mary Reynolds Babcock Foundation	450,000	500,000
Marguerite Casey Foundation	-0-	112,500
SURDNA Foundation	-0-	200,000
Wood Education Resource Center	-0-	12,250
New Horizon Grant	-0-	219,750
Blue Moon Fund	100,000	-0-
Kentucky Coalition/Blue Moon	25,000	-0-
Total other grants receivable	1,162,440	1,294,500
Total grants receivable	$ 1,275,643	$ 1,505,605

5. INVESTMENTS

Following is the composition of investments at April 30:

	2012	2011
Equities, non-publicly traded stocks	$ 173,550	$ 178,550
Collateral held for resale, real property	118,000	118,000
Total	$ 291,550	$ 296,550

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

All equities are non-publicly traded stocks. They are reported using the cost method and were evaluated for impairment at April 30, 2012 and 2011. The amount of accumulated impairment was $5,000 and $45,000 at April 30, 2012 and 2011, 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:

	2012	2011
IRP #1 - USDA (August, 1994), collateralized by all assets of AIC derived from the loans and assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of $53,063 due in August. Matures August, 2024.	642,716	688,890
IRP #2 - USDA (August, 1996), collateralized by all assets of AIC derived from the loans and assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of $31,838 due in August. Matures August, 2026.	441,128	468,284
IRP #3 - USDA (August, 2000), collateralized by all assets of AIC derived from the loans and assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of $31,838 due in August. Matures August, 2030.	548,309	574,403
IRP #4 - USDA (April, 2003), collateralized by all assets of AIC derived from the loans and assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of $31,838 due in April. Matures April, 2033.	599,898	625,482
IRP #5 - USDA (October, 2006), collateralized by all assets of AIC derived from the loans and assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of $31,838 due in November. Matures November 2036.	701,081	725,662
IRP #6 - USDA (March 2009), collateralized by all assets of AIC derived from the loans and assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of $31,838 due in March. Matures March 2039.	608,833	398,833

Appalachian Development Alliance (ADA), quarterly interest-only payments at two percent until maturity in June 2014 (extended to June 2017, see Note 18), collateralized by a $50,000 certificate of deposit.	125,000	125,000
ADA, quarterly interest-only payments at two percent until maturity in June 2012, collateralized by a $56,250 certificate of deposit.	158,333	158,333
ADA (December 2011), quarterly interest-only payments at two percent until maturity in June 2017, collateralized by $56,250 cash deposit.	75,000	-0-
Community Trust Bank (November 2004), annual interest-only payments at one percent until maturity in February 2013, unsecured.	350,000	350,000
Mary Reynolds Babcock Foundation (January 2007), unsecured, interest only at two percent per annum. The note matures in January 2014.	500,000	500,000
U.S. Small Business Administration (SBA), 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 $2,520. 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.	72,465	97,827
SBA, 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 $8,327. 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.	312,410	403,495

SBA, 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 $7,935. 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.	204,066	226,000
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. Matures in October 2013; except in event of default, maturity will be extended until October 2015.	250,000	250,000
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. As of April 30, 2012, MACED was not in compliance with one of the covenants. MACED is receiving a waiver of these covenants from the lender for the quarters that they were not in compliance.	2,000,000	2,000,000
Total	7,889,239	7,892,209
Less current maturities	1,134,040	675,961
Long-term portion	$ 6,755,199	$ 7,216,248

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

Year ending April 30:	
2013	$ 1,134,040
2014	828,758
2015	315,959
2016	477,734
2017	208,153
Thereafter	4,924,595
	$ 7,889,239

In fiscal year 2008, MACED obtained a $500,000 operating line of credit from Citizens Bank. As of April 30, 2012, 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, 2013.

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 April 30, 2012. The line of credit is unsecured and bears a variable interest rate. 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:

	2012	2011
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.	-0-	200,000
Total	500,000	700,000
Current maturities	-0-	200,000
Long-term portion	$ 500,000	$ 500,000

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

Year ending April 30:	
2013	$ -0-
2014	-0-
2015	-0-
2016	-0-
2017	-0-
Thereafter	500,000
	$ 500,000

8. RESTRICTED NET ASSETS

Temporarily restricted net assets at April 30, 2012 and 2011 are available for the following uses:

	2012	2011
Community development	$ 425,720	$ 783,522
Energy sector	781,474	686,567
Natural resources	34,430	21,730
Research and policy	316,798	339,483
Central Appalachian Network	477,426	94,517
Enterprise development:		
Operations only	-0-	13,394
Capital	194,600	578,600
Capital or operations	619,340	1,147,223
	$ 2,849,788	$ 3,665,036

Permanently restricted net assets at April 30, 2012 and 2011 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, 2012 and 2011, contributions to the Plan were $79,493 and $70,944.

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, 2012 and 2011, MACED had cash balances of $243,943 and $1,086,369, respectively, in excess of insured limits.

For the year ended April 30, 2012, approximately 63% of MACED’s grant revenues consist of major grants received from federal and private foundations. There were no concentrations of grant revenues for the year ended April 30, 2011.

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 AND MATERIALS

During the year ended April 30, 2012, MACED had an in-kind contribution of weatherization equipment valued at $6,766. During the year ended April 30, 2011, MACED had an in-kind contribution of rent for a field office valued at $2,450, 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 during 2011. MACED re-granted funds for energy sector work to Kentucky Coalition in the amount of $80,000 and $90,000 during 2012 and 2011, respectively. Kentucky Coalition granted $75,000 and $25,000 to MACED for the Appalachian Transition Initiative during 2012 and 2011, respectively.

MACED is a member of the Appalachian Development Association (ADA) and the senior lender is the ADA treasurer. MACED has an equity investment in ADA in the amount of $56,250 and three loans from ADA in the amount of $358,333 for 2012.

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;
- 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, 2012 and 2011.

	2012	2011
Beginning balance	$ 118,000	$ 122,500
Amounts obtained in lieu of loans receivable	-0-	118,000
Sales	-0-	(122,500)
Ending balance	$ 118,000	$ 118,000

As discussed in Note 5, MACED has equity investments in non-publicly traded entities. During fiscal years 2012 and 2011, an impairment was noted for one of those investments based on Level 3 inputs. In fiscal year 2011, the impairment was based on information provided by the investee that it was operating under a revised business model and may not be sustainable. In fiscal year 2012, the investee filed for bankruptcy and the investment was written off.

Following is a reconciliation of activity for equities held in non-publicly traded stocks valued using level 3 inputs for years ending April 30, 2012 and 2011 .

	2012	2011
Beginning balance	$ 178,550	$ 237,550
Sales	-0-	(14,000)
Impairments	(5,000)	(45,000)
Ending balance	$ 173,550	$ 178,550

15. ENDOWMENT NET ASSETS

Endowment funds at April 30, 2012 and 2011 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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -0-	$ 2,681	$ 1,186,676	$ 1,189,357
Contributions				
Investment income		15,957		15,957
Release from restriction		(18,638)		(18,638)
Endowment net assets, end of year	$ -0-	$ -0-	$ 1,186,676	$ 1,186,676

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 income		19,160	98,904	118,126
Net appreciation of investments			62	62
Release from restriction		(21,858)		(21,858)
Endowment net assets, end of year	$ -0-	$ 2,681	$ 1,186,676	$ 1,189,357

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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by MACED and recognize a tax liability if MACED has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by MACED, and has concluded that as of April 30, 2012 and 2011 there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

Tax returns for fiscal years 2009 through 2011 are subject to review by taxing authorities. As of April 30, 2012, Ridgecrest had a net operating loss (NOL) carryforward. The effects of recording a deferred tax position are immaterial as income in future periods for Ridgecrest is uncertain.

17. RISK MANAGEMENT

MACED is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; general liability claims; and natural disasters. MACED manages these risks through the purchase of commercial insurance.

18. SUBSEQUENT EVENTS

On June 29, 2012, MACED sold the property held for investment included in investments on the consolidated statements of financial position for $90,203. The investment was originally recorded at $118,000, with a loss on investment of $27,797. The investment was from conversion of a building that was collateral for a loan.

Subsequent to April 30, 2012 MACED was awarded several grants from private foundations. The total amount of these grants totaled $704,000.

As of June 13, 2012, MACED's note payable to the Appalachian Development Alliance was extended to July 1, 2017. As of June 8, 2012, MACED's note payable to Monarch Community Loan Fund was extended to September 30, 2012.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2012

Federal Grantor/Program	CFDA Number	Grantor Number	Federal Expenditures
MAJOR PROGRAMS			
U.S. Department of Treasury			
Community Development Financial Institutions Fund	21.020	081FA007497	$ 81,756
Community Development Financial Institutions Fund	21.020	081FA007497	323,485
Community Development Financial Institutions Fund - ARRA	21.020	091FA007867	903,840
Community Development Financial Institutions Fund	21.020	101FA008800	138,587
Community Development Financial Institutions Fund	21.020	111FA010074	733,017
			2,180,685
Appalachian Regional Commission			
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	346,075
Supporting Local Food Entrepreneurs in Central Appalachia	23.011	CO-17142-2011	76,685
			422,760
Department of Agriculture			
Rural Development (Intermediary Relending Program)	10.767	20-076-0611254830 Loan 6	210,000
Total major programs			2,813,445
NONMAJOR PROGRAMS			
U.S. Department of Energy			
State Energy Program Special Projects - ARRA	81.119	PSC-KHC-2011-22	43,871
Small Business Administration			
SBA Microloan Program - ARRA	59.046	SBAHQ-10-YR-0068	14,678
SBA Microloan Program	59.046	SBAHQ-11-Y-0054	89,369
			104,047
Department of Health and Human Services			
Administration for Children and Families	93.570	90EE0850/01	20,150
United States Department of Agriculture			
Natural Resources Conservation Service	10.912	69-3A75-9-143	198,412
Department of Housing & Urban Development			
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.252	41942-0018	14,091
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.252	41942-0017	3,000
			17,091
Total nonmajor programs			383,571
Total			$ 3,197,016

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 (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.

The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. LOANS OUTSTANDING

Federal loans outstanding at April 30, 2012 consist of the following:

IRP #1 - USDA (August, 1994)	$ 642,717
IRP #2 - USDA (August, 1996)	441,129
IRP #3 - USDA (August, 2000)	548,309
IRP #4 - USDA (April, 2003)	599,898
IRP #5 - USDA (October, 2006)	701,081
IRP #6 - USDA (March, 2009)	608,833
U.S. Small Business Administration (September 2004)	72,465
U.S. Small Business Administration (August 2005)	312,410
U.S. Small Business Administration (March 2010)	204,066
Total	$ 4,130,908

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.

CPAs / ADVISORS

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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, 2012, and have issued our report thereon dated July 26, 2012. 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.

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Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use 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 26, 2012

CPAs / ADVISORS

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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 Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates' (MACED) compliance 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, 2012. 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 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 compliance 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, 2012.

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 26, 2012

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2012

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
23.011	Business Development Revolving Loan Fund
10.767	Intermediary Relending Program

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

MACED qualifies as a low-risk auditee under the provisions of OMB Circular A-133.

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, 2011.