MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

APRIL 30, 2013 AND 2012

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

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Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED), which comprise the consolidated statements of financial position as of April 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating statements of financial position and activities, as listed in the table of contents, are presented for purposes of additional analysis rather than to present the financial position and changes in net assets of the individual entities, and are not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements or to the 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 consolidated financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2013 on our consideration of MACED's internal control over financial reporting and on our tests of its 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MACED's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
July 24, 2013

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
APRIL 30, 2013 AND 2012

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	$ 6,418,090	$ 5,004,104
Cash and cash equivalents, restricted	6,693,025	6,248,878
Loans receivable, current portion, net of allowance for bad debts of $123,421 and $201,289, respectively	1,256,742	972,043
Accounts receivable	88,604	386,149
Grants receivable	764,529	1,275,643
Prepaid expenses and other assets	15,407	25,834
Total current assets	15,236,397	13,912,651
Property and equipment, net	643,353	702,911
Other assets:		
Investments	243,550	291,550
Loans receivable, less current portion, net of allowance for bad debts of $820,783 and $684,972, respectively	8,632,500	8,239,428
Total other assets	8,876,050	8,530,978
Total assets	$ 24,755,800	$ 23,146,540

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities:		
Notes payable, current portion	$ 1,665,188	$ 1,134,040
Accounts payable and accrued expenses	229,757	279,281
Deferred revenue	1,689,989	1,013,992
Total current liabilities	3,584,934	2,427,313
Long-term liabilities:		
Notes payable, less current portion	6,510,530	6,755,199
Subordinated loans payable	500,000	500,000
Total long-term liabilities	7,010,530	7,255,199
Total liabilities	10,595,464	9,682,512
Net assets:		
Unrestricted:		
Operating	10,341,798	9,407,564
Board designated	20,000	20,000
Total unrestricted net assets	10,361,798	9,427,564
Temporarily restricted:		
Programs	1,533,479	2,035,848
Enterprise Development, capital	216,100	194,600
Enterprise Development, capital or operations	871,463	619,340
Total temporarily restricted net assets	2,621,042	2,849,788
Permanently restricted	1,177,496	1,186,676
Total net assets	14,160,336	13,464,028
Total liabilities and net assets	$ 24,755,800	$ 23,146,540

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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Non-financing revenues and support				
Private grants and contributions	$ 80	$ 2,348,476	$	$ 2,348,556
Government grants	777,474	369,109		1,146,583
Project income	68,095	570		68,665
Rent and lease income	5,050			5,050
Miscellaneous income	74,433			74,433
Total non-financing revenues and support	925,132	2,718,155	-0-	3,643,287
Financing revenues				
Interest income on loans	505,641	87,060		592,701
Fee income on loans	19,831	98		19,929
Dividend income	458			458
Interest on idle funds	31,300	1,096		32,396
Realized gain (loss) on program investments	(27,190)			(27,190)
Total financing revenues	530,040	88,254	-0-	618,294
Satisfaction of program and time restrictions	3,044,335	(3,035,155)	(9,180)	-0-
Total revenues and other support	4,499,507	(228,746)	(9,180)	4,261,581
Expenses:				
Non-financing expenses				
Program	2,526,894			2,526,894
Fundraising	116,015			116,015
Management and general	718,088			718,088
Total non-financing expenses	3,360,997	-0-	-0-	3,360,997
Financing expenses				
Interest	121,273			121,273
Provision for loan losses	83,003			83,003
Total financing expenses	204,276	-0-	-0-	204,276
Total expenses	3,565,273	-0-	-0-	3,565,273
Change in net assets	934,234	(228,746)	(9,180)	696,308
Net assets, beginning of year	9,427,564	2,849,788	1,186,676	13,464,028
Net assets, end of year	$ 10,361,798	$ 2,621,042	$ 1,177,496	$ 14,160,336

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 FUNCTIONAL EXPENSES
YEAR ENDED APRIL 30, 2013

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	$ 1,260,060	$ 102,750	$ 577,105	$ 1,939,915
Consultants and professional services				
Consultants	188,994	85	22,682	211,761
Professional services	25,045		31,905	56,950
IT services	32,771		17,467	50,238
Interns and contract labor	3,086		1,956	5,042
Travel and meetings				
Travel	60,989	7,242	4,944	73,175
Meetings, registration and training	23,947	427	6,694	31,068
Maintenance, lease and equipment purchase				
Equipment lease	3,197	268	1,478	4,943
Equipment and software expense	9,657	20	9,090	18,767
Repairs and maintenance	7,045	70	434	7,549
Office operations				
Rent and utilities	15,935	983	5,239	22,157
Insurance	14,623	95	3,596	18,314
Postage	3,358	133	1,320	4,811
Supplies	16,733	622	7,126	24,481
Telephone	19,142	935	6,858	26,935
Miscellaneous	5,498	250	1,426	7,174
Depreciation	55,968	971	5,344	62,283
Re-grants	667,700			667,700
Other				
Advertising and promotion	3,017		1,930	4,947
Publications, memberships and subscriptions	9,099	1,025	2,231	12,355
Printing and duplication	5,880	47	8,539	14,466
Carbon offsets expense	55,418			55,418
Licenses and fees	32,420	71	609	33,100
Taxes	7,312	21	115	7,448
Total non-financing expenses	2,526,894	116,015	718,088	3,360,997
Financing expenses:				
Interest	121,273			121,273
Provision for loan losses	83,003			83,003
Total financing expenses	204,276	-0-	-0-	204,276
Total expenses	$ 2,731,170	$ 116,015	$ 718,088	$ 3,565,273

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 STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 696,308	$ 2,636,707
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	62,283	57,269
Provision for loan losses	83,003	332,532
Realized (gain) loss on sales of investments	27,190	-0-
Impairment of program investments	-0-	5,000
Non-cash grant revenue	-0-	(97,167)
Changes in operating assets and liabilities:		
Accounts receivable	297,545	(333,065)
Grants receivable	511,114	229,962
Prepaid expenses and other assets	10,427	(17,107)
Accounts payable and accrued expenses	(49,524)	40,399
Deferred revenue	675,997	(856,429)
Net cash flows from operating activities	2,314,343	1,998,101
Cash flows from investing activities:		
Proceeds from sales of investments	90,810	-0-
Purchase of property and equipment	(2,725)	(182,919)
Loans to other entities	(2,647,424)	(2,750,935)
Principal collections on loans receivable	1,816,650	2,255,392
Net cash flows from investing activities	(742,689)	(678,462)
Cash flows from financing activities:		
Proceeds from notes payable	665,167	285,000
Principal payments on notes payable	(378,688)	(487,970)
Net cash flows from financing activities	286,479	(202,970)
Net change in cash and cash equivalents	1,858,133	1,116,669
Cash and cash equivalents, beginning of year	11,252,982	10,136,313
Cash and cash equivalents, end of year	$ 13,111,115	$ 11,252,982
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 120,650	$ 120,937
Loans receivable granted from separate entity	$ -0-	$ 97,167

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, 2013 and 2012. 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 ten 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, 2013 and 2012 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, 2013 and 2012 amounted to $4,947 and $8,291, 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 24, 2013, 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 fiscal year 2008, MACED created a program to quantify and market carbon offsets. MACED's role in this program is to identify and contract with forest landowners, quantify the net number of offsets generated by each owner using international protocols and verify the pool of offsets by an independent third party organization. MACED markets the offsets to individuals and businesses interested in offsetting their carbon footprint via a tax-deductible donation. While MACED has offsets available for retirement as of April 30, 2013, there is no reliable way to arrive at a reasonable estimate of value for these offsets, and accordingly, an asset for available offsets has not been recorded in the financial statements.

During fiscal years 2013 and 2012, MACED received payments of approximately $55,000 and $30,000 for the purpose of retiring carbon offsets, and made payments to landowners totaling approximately $57,000 and $39,000. Costs of verifying and registering carbon offsets in fiscal years 2013 and 2012 were approximately $1,500 and $13,000.

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, 2013 and 2012, loans receivable consist of current amounts, at gross, of $1,380,163 and $1,173,332 and noncurrent amounts of $9,453,283 and $8,924,400, 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:

	2013	2012
Loans receivable	$ 10,833,446	$ 10,097,732
Less allowance for loan losses	944,204	886,261
Loans receivable, net	$ 9,889,242	$ 9,211,471

Loans serving as collateral on notes payable amounted to approximately $2,700,000 and $2,400,000, respectively, at April 30, 2013 and 2012.

Accrued interest receivable amounted to approximately $21,000 and $32,000 at April 30, 2013 and 2012, respectively.

Non-accrual loans totaled $1,282,200 and $1,186,724 at April 30, 2013 and 2012, respectively.

Aging

The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2013:

	Current	30-59 days past due	60-89 days past due	90+ days past due	Total
Enterprise development loans					
Microloans	$ 1,059,994	$ 17,158	$ 43,488	$ 19,821	$ 1,140,461
Other enterprise loans	7,809,108	479,141	201,058	525,595	9,014,902
Total enterprise development loans	8,869,102	496,299	244,546	545,416	10,155,363
Forest inventory loans	59,890	-0-	-0-	-0-	59,890
How$mart loans to utilities	618,193	-0-	-0-	-0-	618,193
Total loans	$ 9,547,185	$ 496,299	$ 244,546	$ 545,416	$ 10,833,446

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	60-89 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

Credit Quality

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 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, secondary source of repayment will likely be required, or 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.

Following is an analysis of MACED's loan portfolio by credit quality, as of April 30, 2013:

	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	Total Loans
Enterprise development loans							
Microloans	$ 6,887	$ 236,973	$ 364,370	$ 334,613	$ 58,752	$ 138,866	$ 1,140,461
Other enterprise loans	1,332,683	2,514,603	2,487,431	737,668	1,003,701	938,816	9,014,902
Total enterprise development loans	1,339,570	2,751,576	2,851,801	1,072,281	1,062,453	1,077,682	10,155,363
Forest inventory loans	-0-	-0-	59,890	-0-	-0-	-0-	59,890
How$mart loans to utilities	-0-	257,479	360,714	-0-	-0-	-0-	618,193
Total loans	$ 1,339,570	$ 3,009,055	$ 3,272,405	$ 1,072,281	$ 1,062,453	$ 1,077,682	$ 10,833,446

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

Allowance

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 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 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 $0 and $97,167 in the years ended April 30, 2013 and 2012, respectively.

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

		2013		2012
Beginning balance	$	886,261	$	957,819
Provision charged to operations		83,003		332,532
Less charge-offs		137,334		705,969
Recoveries		112,274		301,879
Ending balance	$	944,204	$	886,261

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, 2013:

		Beginning Balance		Provision Charged to Operations		Charge-offs		Recoveries		Ending Balance
Enterprise development loans										
Microloans	$	157,888	$	136,636	$	(134,809)	$	14,981	$	174,696
Other enterprise loans		712,920		(67,354)		(2,525)		97,293		740,334
Total enterprise development loans		870,808		69,282		(137,334)		112,274		915,030
Forest inventory loans		6,342		(353)		-0-		-0-		5,989
How$mart loans to utilities		9,111		14,074		-0-		-0-		23,185
Total loans	$	886,261	$	83,003	$	(137,334)	$	112,274	$	944,204

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	Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	$ 122,569	$ 94,991	$ (59,877)	$ 205	$ 157,888
Other enterprise loans	828,710	228,628	(646,092)	301,674	712,920
Total enterprise development loans	951,279	323,619	(705,969)	301,879	870,808
Forest inventory loans	6,540	(198)	-0-	-0-	6,342
How$mart loans to utilities	-0-	9,111	-0-	-0-	9,111
Total loans	$ 957,819	$ 332,532	$ (705,969)	$ 301,879	$ 886,261

Impairment

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:

	2013	2012
Impaired loans with a valuation allowance	$ 1,285,671	$ 1,156,118
Valuation allowance related to impaired loans	$ 428,768	$ 386,646
Average investment in impaired loans	$ 67,667	$ 82,580
Interest income recognized on impaired loans	$ 28,414	$ 39,552
Interest income recognized on a cash basis on impaired loans	$ 28,809	$ 40,871

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2013:

	Impaired Loans with a Valuation Allowance	Valuation Allowance Related to Impaired Loans	Average Investment in Impaired Loans	Interest Recognized on Impaired Loans	Interest Recognized on Cash Basis on Impaired Loans
Enterprise development loans:					
Microloans	$ 142,337	$ 79,525	$ 12,940	$ 2,438	$ 2,455
Other enterprise loans	1,143,334	349,243	$ 142,917	25,976	26,354
Total enterprise development	1,285,671	428,768	$ 67,667	28,414	28,809
Forest inventory loans	-0-	-0-		-0-	-0-
How$mart loans to utilities	-0-	-0-		-0-	-0-
Total loans	$ 1,285,671	$ 428,768	$ 67,667	$ 28,414	$ 28,809

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

	Impaired Loans with a Valuation Allowance	Valuation Allowance Related to Impaired Loans	Average Investment in Impaired Loans	Interest Recognized on Impaired Loans	Interest Recognized on Cash Basis on Impaired Loans
Enterprise development loans:					
Microloans	$ 164,559	82,040	$ 23,508	6,149	6,505
Other enterprise loans	991,559	286,606	$ 141,651	33,403	34,366
Total enterprise development	1,156,118	368,646	$ 82,580	39,552	40,871
Forest inventory loans	-0-	-0-		-0-	-0-
How$mart loans to utilities	-0-	-0-		-0-	-0-
Total loans	$ 1,156,118	$ 368,646	$ 67,667	$ 39,552	$ 40,871

Troubled Debt Restructurings

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, 2013:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	$ 35,135	5	$ 105,572	4	$ 140,707	9
Other enterprise loans	701,151	5	1,134,647	8	1,835,798	13
Total enterprise development loans	736,286	10	1,240,219	12	1,976,505	22
Forest inventory loans	-0-	-0-	-0-	-0-	-0-	-0-
How$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	$ 736,286	$ 10	$ 1,240,219	$ 12	$ 1,976,505	$ 22

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:

	2013	2012
Land	$ 40,000	$ 40,000
Buildings and improvements	934,899	934,899
Equipment	147,587	208,104
Automobiles	83,010	83,010
	1,205,496	1,266,013
Less accumulated depreciation	562,143	563,102
Property and equipment, net	$ 643,353	$ 702,911

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30:

	2013	2012
Federal grants receivable:		
U.S. Small Business Administration	$ 29,814	$ 41,662
Local Initiatives Support Corporation	2,715	500
Appalachian Regional Commission	-0-	71,041
Total federal grants receivable	32,529	113,203
Other grants receivable:		
Ford Foundation	132,000	587,440
Mary Reynolds Babcock Foundation	175,000	450,000
Blue Moon Fund	200,000	100,000
Kentucky Coalition/Blue Moon	-0-	25,000
Stoneman Family Foundation	75,000	-0-
MERCK Family Fund	50,000	-0-
The Chorus Foundation	100,000	-0-
Total other grants receivable	732,000	1,162,440
Total grants receivable	$ 764,529	$ 1,275,643

5. INVESTMENTS

Investments consist of the following as of April 30:

	2013	2012
Equities, non-publicly traded stocks	$ 173,550	$ 173,550
Collateral held for resale, real property	70,000	118,000
Total investments	$ 243,550	$ 291,550

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

All equities are non-publicly traded stocks. They are reported using the cost method and were evaluated for impairment at April 30, 2013 and 2012. The amount of accumulated impairment was $0 and $5,000 at April 30, 2013 and 2012, 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:

	2013	2012
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.	$ 596,081	$ 642,716
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.	413,702	441,128
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.	521,955	548,309
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.	574,059	599,898
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.	676,253	701,081
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.	725,197	608,833

Appalachian Development Alliance (ADA) (June, 2003 - extended), quarterly interest-only payments at two percent until maturity in July, 2013, collateralized by a $50,000 certificate of deposit.	125,000	125,000
ADA (July, 2007 - extended), quarterly interest-only payments at two percent until maturity in July, 2017, 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	75,000
Community Trust Bank (November, 2004), annual interest-only payments at one percent until maturity in February, 2014, 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.	44,088	72,465
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.	219,961	312,410

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.	646,089	204,066
Monarch Community Loan Fund (June, 2006), unsecured, interest only at three percent per annum. The note matures in June, 2013.	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 one 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 received a waiver of these covenants from the lender for the quarters that the organization was not in compliance.	2,000,000	2,000,000
Total	8,175,718	7,889,239
Less current maturities	1,665,188	1,134,040
Long-term portion	$ 6,510,530	$ 6,755,199

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

Year Ending April 30:	
2014	$ 1,665,187
2015	381,298
2016	547,667
2017	273,989
2018	510,181
Thereafter	4,797,396
	$ 8,175,718

In fiscal year 2008, MACED obtained a $500,000 operating line of credit from Citizens Bank. As of April 30, 2013, 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 22, 2014.

7. SUBORDINATED LOANS PAYABLE

Subordinated loans payable consist of the following at April 30:

	2013	2012
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
Less current maturities	-0-	-0-
Long-term portion	$ 500,000	$ 500,000

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

Year Ending April 30:		
2014	$	-0-
2015		-0-
2016		-0-
2017		-0-
2018		-0-
Thereafter		500,000
	$	500,000

8. RESTRICTED NET ASSETS

Temporarily restricted net assets at April 30, 2013 and 2012 are available for the following uses:

		2013		2012
Community development	$	603,589	$	425,720
Energy sector		356,505		781,474
Natural resources		-0-		34,430
Research and policy		442,608		316,798
Central Appalachian Network		125,769		477,426
Enterprise development:				
Operations only		5,008		-0-
Capital		216,100		194,600
Capital or operations		871,463		619,340
	$	2,621,042	$	2,849,788

Permanently restricted net assets at April 30, 2013 and 2012 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, 2013 and 2012, contributions to the Plan were $83,050 and $79,493, respectively.

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. Six 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, 2013 and 2012, MACED had cash balances of $510,501 and $243,943, respectively, in excess of insured limits.

For the years ended April 30, 2013 and 2012, approximately 53% and 63%, respectively, of MACED's grant revenues consist of major grants received from federal and private foundations.

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.

13. RELATED PARTY TRANSACTIONS

MACED and Kentucky Coalition collaborate on the Appalachian Transition Initiative. MACED re-granted funds for energy sector work to Kentucky Coalition in the amount of $50,000 and $80,000 during 2013 and 2012, respectively. Kentucky Coalition granted $25,000 and $75,000 to MACED for the Appalachian Transition Initiative during 2013 and 2012, 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 2013.

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, 2013 and 2012.

	2013	2012
Beginning balance	$ 118,000	$ 118,000
Amounts obtained in lieu of loans receivable	70,000	-0-
Sales	(118,000)	-0-
Ending balance	$ 70,000	$ 118,000

As discussed in Note 5, MACED has equity investments in non-publicly traded entities. During fiscal year 2012, an impairment was noted for one of the equity investments based on Level 3 inputs. In fiscal year 2012, the investee filed for bankruptcy and the investment was written off. During fiscal year 2013, MACED obtained the property for a loan that was written off. The real property was valued at $70,000 based on the Master Commissioner's and realtor's appraisals.

15. ENDOWMENT NET ASSETS

Endowment funds at April 30, 2013 and 2012 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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -0-	$ -0-	$ 1,186,676	$ 1,186,676
Loan write-off			(9,180)	(9,180)
Investment return		13,012		13,012
Release from restriction		(13,012)		(13,012)
Endowment net assets, end of year	$ -0-	$ -0-	$ 1,177,496	$ 1,177,496

As noted above, MACED wrote off $9,180 of loans receivable that had been part of its revolving loan fund. The writeoff was considered a release from restriction in the accompanying statement of activities.

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
Investment return		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

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, 2013 and 2012, 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 2010 through 2012 are subject to review by taxing authorities. As of April 30, 2013, Ridgecrest had net operating loss carryforwards of approximately $80,000 which expire at various intervals through fiscal year 2032. 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. IDLE PROPERTY

A building in use in operations as of April 30, 2012 was idle as of April 30, 2013. The property is being held for potential future use. At April 30, 2013 and April 30, 2012, the net book value of the building and associated real estate was approximately $72,000 and $77,000, respectively.

19. SUBSEQUENT EVENTS

Subsequent to April 30, 2013 MACED was awarded several grants from private foundations. The total amount of these grants totaled $345,000.

As of June 24, 2013, MACED received a letter from the Appalachian Development Alliance concerning their intent to renew the $125,000 note payable. On June 27, 2013, MACED's note payable to Monarch Community Loan Fund was paid in full. On July 10, 2013, MACED obtained a note payable from Calvert Social Investment Foundation in the amount of $300,000 with a maturity date of July 10, 2014.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2013

ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 6,350,315	$	$ 67,775	$	$ 6,418,090
Cash and cash equivalents, restricted	4,541,207	2,151,818			6,693,025
Loans receivable, current portion, net	1,051,219	219,865		(14,342)	1,256,742
Accounts receivable	86,941	4,705		(3,042)	88,604
Grants receivable	764,529				764,529
Prepaid expenses and other assets	14,100		1,307		15,407
Total current assets	12,808,311	2,376,388	69,082	(17,384)	15,236,397
Property and equipment, net	59,099	-0-	584,254	-0-	643,353
Other assets:					
Investments	691,031			(447,481)	243,550
Loans receivable, less current portion, net	7,108,161	1,712,514		(188,175)	8,632,500
Total other assets	7,799,192	1,712,514	-0-	(635,656)	8,876,050
Total assets	$ 20,666,602	$ 4,088,902	$ 653,336	$ (653,040)	$ 24,755,800

LIABILITIES AND NET ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current liabilities:					
Notes payable, current portion	$ 1,488,007	$ 177,181	$	$	$ 1,665,188
Accounts payable and accrued expenses	214,005	15,456	3,338	(3,042)	229,757
Deferred revenue	1,689,989				1,689,989
Total current liabilities	3,392,001	192,637	3,338	(3,042)	3,584,934
Long-term liabilities:					
Notes payable, less current portion	3,180,464	3,330,066	202,517	(202,517)	6,510,530
Subordinated loans payable	500,000				500,000
Total long-term liabilities	3,680,464	3,330,066	202,517	(202,517)	7,010,530
Total liabilities	7,072,465	3,522,703	205,855	(205,559)	10,595,464
Net assets:					
Unrestricted:					
Operating	9,775,599	566,199	447,481	(447,481)	10,341,798
Board designated	20,000				20,000
Total unrestricted net assets	9,795,599	566,199	447,481	(447,481)	10,361,798
Temporarily restricted:					
Programs	1,533,479				1,533,479
Enterprise Development, capital	216,100				216,100
Enterprise Development, capital or operations	871,463				871,463
Total temporarily restricted net assets	2,621,042	-0-	-0-	-0-	2,621,042
Permanently restricted	1,177,496	-0-	-0-	-0-	1,177,496
Total net assets	13,594,137	566,199	447,481	(447,481)	14,160,336
Total liabilities and net assets	$ 20,666,602	$ 4,088,902	$ 653,336	$ (653,040)	$ 24,755,800

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2012

ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 4,984,651	$	$ 19,453	$	$ 5,004,104
Cash and cash equivalents, restricted	4,330,183	1,918,695			6,248,878
Loans receivable, current portion, net	730,098	255,416		(13,471)	972,043
Accounts receivable	71,878	316,964		(2,693)	386,149
Grants receivable	1,275,643				1,275,643
Prepaid expenses and other assets	24,527		1,307		25,834
Total current assets	11,416,980	2,491,075	20,760	(16,164)	13,912,651
Property and equipment, net	83,907	-0-	619,004	-0-	702,911
Other assets:					
Investments	702,921			(411,371)	291,550
Loans receivable, less current portion, net	6,933,442	1,508,436		(202,450)	8,239,428
Total other assets	7,636,363	1,508,436	-0-	(613,821)	8,530,978
Total assets	$ 19,137,250	$ 3,999,511	$ 639,764	$ (629,985)	$ 23,146,540

LIABILITIES AND NET ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current liabilities:					
Notes payable, current portion	$ 957,207	$ 176,833	$	$	$ 1,134,040
Accounts payable and accrued expenses	251,725	17,777	12,473	(2,694)	279,281
Deferred revenue	1,013,992				1,013,992
Total current liabilities	2,222,924	194,610	12,473	(2,694)	2,427,313
Long-term liabilities:					
Notes payable, less current portion	3,390,065	3,365,134	215,920	(215,920)	6,755,199
Subordinated loans payable	500,000				500,000
Total long-term liabilities	3,890,065	3,365,134	215,920	(215,920)	7,255,199
Total liabilities	6,112,989	3,559,744	228,393	(218,614)	9,682,512
Net assets:					
Unrestricted:					
Operating	8,967,797	439,767	411,371	(411,371)	9,407,564
Board designated	20,000				20,000
Total unrestricted net assets	8,987,797	439,767	411,371	(411,371)	9,427,564
Temporarily restricted:					
Programs	2,035,848				2,035,848
Enterprise Development, capital	194,600				194,600
Enterprise Development, capital or operations	619,340				619,340
Total temporarily restricted net assets	2,849,788	-0-	-0-	-0-	2,849,788
Permanently restricted	1,186,676	-0-	-0-	-0-	1,186,676
Total net assets	13,024,261	439,767	411,371	(411,371)	13,464,028
Total liabilities and net assets	$ 19,137,250	$ 3,999,511	$ 639,764	$ (629,985)	$ 23,146,540

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2013

	MACED			AIC	Ridgecrest		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Unrestricted	Eliminations	Total
Revenues and other support:							
Non-financing revenues and support							
Private grants and contributions	$ 80	$ 2,348,476	$	$	$	$	$ 2,348,556
Government grants	777,474	369,109					1,146,583
Project income	70,495	570				(2,400)	68,665
Rent and lease income	1,600				79,050	(75,600)	5,050
Miscellaneous income	28,828				45,605		74,433
Total non-financing revenues and support	878,477	2,718,155	-0-	-0-	124,655	(78,000)	3,643,287
Financing revenues							
Interest income on loans	406,390	87,060		111,885		(12,634)	592,701
Fee income on loans	18,088	98		1,743			19,929
Dividend income	458						458
Interest on idle funds	25,459	1,096		5,790	51		32,396
Realized gain (loss) on program investments	(27,190)						(27,190)
Total financing revenues	423,205	88,254	-0-	119,418	51	(12,634)	618,294
Satisfaction of program and time restrictions	3,044,335	(3,035,155)	(9,180)	-0-	-0-	-0-	-0-
Total revenues and other support	4,346,017	(228,746)	(9,180)	119,418	124,706	(90,634)	4,261,581
Expenses:							
Non-financing expenses							
Program	2,475,436			2,511	75,962	(27,015)	2,526,894
Fundraising	119,367					(3,352)	116,015
Management and general	729,611					(11,523)	718,088
Total non-financing expenses	3,324,414	-0-	-0-	2,511	75,962	(41,890)	3,360,997
Financing expenses							
Interest	85,640			35,633	12,634	(12,634)	121,273
Provision for loan losses	128,161			(45,158)			83,003
Total financing expenses	213,801	-0-	-0-	(9,525)	12,634	(12,634)	204,276
Total expenses	3,538,215	-0-	-0-	(7,014)	88,596	(54,524)	3,565,273
Change in net assets	807,802	(228,746)	(9,180)	126,432	36,110	(36,110)	696,308
Net assets, beginning of year	8,987,797	2,849,788	1,186,676	439,767	411,371	(411,371)	13,464,028
Net assets, end of year	$ 9,795,599	$ 2,621,042	$ 1,177,496	$ 566,199	$ 447,481	$ (447,481)	$ 14,160,336

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2012

	MACED			AIC	Ridgecrest		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Unrestricted	Eliminations	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	37,239					(2,400)	34,839
Rent and lease income	10,550				80,300	(74,800)	16,050
In-kind income		6,766					6,766
Miscellaneous income	38,155			3,409			41,564
Total non-financing revenues and support	2,411,840	3,370,695	-0-	3,409	80,300	(77,200)	5,789,044
Financing revenues							
Interest income on loans	371,302	95,983		138,772		(13,397)	592,660
Fee income on loans	22,928	243		7,337			30,508
Dividend income	952						952
Interest on idle funds	43,612	1,319		7,581	285		52,797
Impairment of program investments	(5,000)						(5,000)
Total financing revenues	433,794	97,545	-0-	153,690	285	(13,397)	671,917
Satisfaction of program and time restrictions	4,283,488	(4,283,488)	-0-	-0-	-0-	-0-	-0-
Total revenues and other support	7,129,122	(815,248)	-0-	157,099	80,585	(90,597)	6,460,961
Expenses:							
Non-financing expenses							
Program	2,697,665			3,268	73,883	(72,712)	2,702,104
Fundraising	90,239					(2,464)	87,775
Management and general	592,671					(8,719)	583,952
Total non-financing expenses	3,380,575	-0-	-0-	3,268	73,883	(83,895)	3,373,831
Financing expenses							
Interest	82,978			34,913	13,397	(13,397)	117,891
Provision for loan losses	622,353			(289,821)			332,532
Total financing expenses	705,331	-0-	-0-	(254,908)	13,397	(13,397)	450,423
Total expenses	4,085,906	-0-	-0-	(251,640)	87,280	(97,292)	3,824,254
Change in net assets	3,043,216	(815,248)	-0-	408,739	(6,695)	6,695	2,636,707
Equity contribution					65,000	(65,000)	-0-
Net assets, beginning of year	5,944,581	3,665,036	1,186,676	31,028	353,066	(353,066)	10,827,321
Net assets, end of year	$ 8,987,797	$ 2,849,788	$ 1,186,676	$ 439,767	$ 411,371	$ (411,371)	$ 13,464,028

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2013

Federal Grantor/Program	CFDA Number	Grantor Number		Federal Expenditures
MAJOR PROGRAMS				
Small Business Administration				
SBA Microloan Program - ARRA	59.046	SBAHQ-10-YR-0068	$	20,902
SBA Microloan Program - ARRA	59.046	Loan# 3962195007		524,000
SBA Microloan Program	59.046	SBAHQ-12-Y-0116		42,490
				587,392
Department of Health and Human Services				
Administration for Children and Families	93.570	90EE0850/01		45,970
Administration for Children and Families	93.570	90EE0850/01		196,433
				242,403
Total major programs				829,795
NONMAJOR PROGRAMS				
U.S. Department of Treasury				
Community Development Financial Institutions Fund - ARRA	21.020	091FA007867		44,700
Community Development Financial Institutions Fund	21.020	101FA008800		268,052
Community Development Financial Institutions Fund	21.020	111FA010074		422,001
Community Development Financial Institutions Fund	21.020	121FA010752		54,517
				789,270
Appalachian Regional Commission				
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830		324,246
Supporting Local Food Entrepreneurs in Central Appalachia	23.011	CO-17142-2011		23,315
				347,561
Department of Agriculture				
Rural Development (Intermediary Relending Program)	10.767	20-076-0611254830 Loan 6		141,167
Department of Housing & Urban Development				
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.252	41942-0018		29,500
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.252	41942-0019		10,499
				39,999
Total nonmajor programs				1,317,997
Total			$	2,147,792

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

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2013

1. BASIS OF PRESENTATION

The accompanying consolidated schedule of expenditures of federal awards (SEFA) includes the federal grant activity of MACED and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2013 consist of the following:

IRP #1 - USDA (August, 1994)	$	596,081
IRP #2 - USDA (August, 1996)		413,702
IRP #3 - USDA (August, 2000)		521,955
IRP #4 - USDA (April, 2003)		574,059
IRP #5 - USDA (October, 2006)		676,253
IRP #6 - USDA (March, 2009)		725,197
U.S. Small Business Administration (September, 2004)		44,088
U.S. Small Business Administration (August, 2005)		219,961
U.S. Small Business Administration (March, 2010)		646,089
Total	$	4,417,385

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 SEFA.

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.

4. RECONCILIATION TO FINANCIAL STATEMENTS

Following is a reconciliation of amounts per the SEFA to the fiscal year 2013 financial statements:

Expenditures per SEFA	$	2,147,792
Loans reflected as expenditures on SEFA, liabilities on financial statements		(665,167)
RLF funds received in prior years, reflected on current year SEFA per the Guidelines		(324,246)
Unrestricted revenues received in current year, to be expended in future years		218,071
Unrestricted revenues received in prior years, expended in current year		(229,867)
Government grants revenue per financial statements	$	1,146,583

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blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED), which comprise the consolidated statement of financial position as of April 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MACED's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of MACED's internal control. Accordingly, we do not express an opinion on the effectiveness of MACED's internal control.

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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MACED's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MACED's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
July 24, 2013

CPAS / ADVISORS
blue
Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Federal Program

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, 2013. MACED's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MACED's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of MACED's compliance.

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

Opinion on Each Major Federal Program

In our opinion, MACED complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of MACED is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred above. In planning and performing our audit of compliance, we considered MACED's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
July 24, 2013

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2013

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
59.046	Small Business Administration Microloan Program
93.570	Administration for Children and Families

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, 2012

No findings or questioned costs were reported for the year ended April 30, 2012.