MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS

APRIL 30, 2014 AND 2013

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

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, 2014 and 2013, 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.

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

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, 2014 and 2013, 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.

Restatement of Net Assets

As discussed in Note 14 to the financial statements certain amounts were previously reported as permanently restricted net assets which are considered temporarily restricted based on industry guidance. These amounts have been restated in the accompanying financial statements. Our opinion is not modified with respect to that matter.

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

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2014 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 22, 2014

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
APRIL 30, 2014 AND 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	$ 8,512,504	$ 9,419,885
Cash and cash equivalents, restricted	3,624,763	3,691,230
Loans receivable, current portion, net of allowance for bad debts of $120,670 and $123,421, respectively	1,337,750	1,256,742
Accounts receivable	60,381	88,604
Grants receivable, current portion	1,604,699	764,529
Prepaid expenses and other assets	19,144	15,407
Total current assets	15,159,241	15,236,397
Property and equipment, net	611,236	643,353
Other assets:		
Investments	343,550	243,550
Grants receivable, less current portion	1,982,000	-0-
Loans receivable, less current portion, net of allowance for bad debts of $724,206 and $820,783, respectively	8,984,867	8,632,500
Total other assets	11,310,417	8,876,050
Total assets	$ 27,080,894	$ 24,755,800

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities:		
Notes payable, current portion	$ 1,031,269	$ 1,665,188
Accounts payable and accrued expenses	252,771	229,757
Deferred revenue	141,111	1,689,989
Total current liabilities	1,425,151	3,584,934
Long-term liabilities:		
Notes payable, less current portion	6,755,206	6,510,530
Subordinated loans payable	500,000	500,000
Total long-term liabilities	7,255,206	7,010,530
Total liabilities	8,680,357	10,595,464
Net assets:		
Unrestricted:		
Operating	12,091,037	10,341,798
Board designated	-0-	20,000
Total unrestricted net assets	12,091,037	10,361,798
Temporarily restricted:		
Operations	4,081,749	1,533,479
Financing	2,227,751	2,265,059
Total temporarily restricted net assets	6,309,500	3,798,538
Total net assets	18,400,537	14,160,336
Total liabilities and net assets	$ 27,080,894	$ 24,755,800

See accompanying notes to consolidated financial statements.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	$ 20,150	$ 5,329,000	$ 5,349,150
Government grants	1,689,823	382,956	2,072,779
Project income	38,689		38,689
Realized gain on disposition of property	8,908		8,908
Miscellaneous income	6,318		6,318
Total non-financing revenues and support	1,763,888	5,711,956	7,475,844
Financing revenues			
Interest income on loans	540,517	89,333	629,850
Fee income on loans	24,977	52	25,029
Dividend income	101		101
Interest on idle funds	20,149	625	20,774
Total financing revenues	585,744	90,010	675,754
Satisfaction of program and time restrictions	3,291,004	(3,291,004)	-0-
Total revenues and other support	5,640,636	2,510,962	8,151,598
Expenses:			
Non-financing expenses			
Program	2,703,600		2,703,600
Fundraising	119,343		119,343
Management and general	688,050		688,050
Total non-financing expenses	3,510,993	-0-	3,510,993
Financing expenses			
Interest	113,643		113,643
Provision for loan losses	286,761		286,761
Total financing expenses	400,404	-0-	400,404
Total expenses	3,911,397	-0-	3,911,397
Change in net assets	1,729,239	2,510,962	4,240,201
Net assets, beginning of year	10,361,798	3,798,538	14,160,336
Net assets, end of year	$ 12,091,037	$ 6,309,500	$ 18,400,537

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 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	(3,044,335)	-0-	-0-
Total revenues and other support	4,499,507	(237,926)	-0-	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	(237,926)	-0-	696,308
Net assets, beginning of year, as previously stated	9,427,564	2,849,788	1,186,676	13,464,028
Prior period adjustment, restatement of net assets	-0-	1,186,676	(1,186,676)	-0-
Net assets, beginning of year, as restated	9,427,564	4,036,464	-0-	13,464,028
Net assets, end of year	$ 10,361,798	$ 3,798,538	$ -0-	$ 14,160,336

See accompanying notes to consolidated financial statements.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED APRIL 30, 2014

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	$ 1,528,170	$ 108,607	$ 562,351	$ 2,199,128
Consultants and professional services				
Consultants	181,579		11,566	193,145
Professional services	55,599		41,027	96,626
IT services	31,969		19,072	51,041
Interns and contract labor	1,499		795	2,294
Travel and meetings				
Travel	67,043	3,244	4,280	74,567
Meetings, registration and training	25,798	488	7,408	33,694
Maintenance, lease and equipment purchase				
Equipment lease	3,433	244	1,267	4,944
Equipment and software expense	13,515	1,885	9,317	24,717
Repairs and maintenance	13,598	62	373	14,033
Office operations				
Rent and utilities	18,034	921	4,700	23,655
Insurance	13,553	68	3,759	17,380
Postage	2,879	53	853	3,785
Supplies	13,633	617	3,597	17,847
Telephone	15,828	674	4,911	21,413
Miscellaneous	4,828	257	1,322	6,407
Depreciation	58,502	901	4,586	63,989
Re-grants	603,192	1	6	603,199
Other				
Advertising and promotion	4,461			4,461
Publications, memberships and subscriptions	6,956	1,051	2,562	10,569
Printing and duplication	5,039	2	2,595	7,636
Carbon offsets expense	13,275			13,275
Licenses and fees	14,647	268	1,703	16,618
Taxes	6,570			6,570
Total non-financing expenses	2,703,600	119,343	688,050	3,510,993
Financing expenses:				
Interest	113,643			113,643
Provision for loan losses	286,761			286,761
Total financing expenses	400,404	-0-	-0-	400,404
Total expenses	$ 3,104,004	$ 119,343	$ 688,050	$ 3,911,397

See 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

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 4,240,201	$ 696,308
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	63,989	62,283
Provision for loan losses	286,761	83,003
Realized loss on sales of investments	-0-	27,190
Realized gain on disposition of property	(8,908)	-0-
Changes in operating assets and liabilities:		
Accounts receivable	28,223	297,545
Grants receivable	(2,822,170)	511,114
Prepaid expenses and other assets	(3,737)	10,427
Accounts payable and accrued expenses	23,014	(49,524)
Deferred revenue	(1,548,878)	675,997
Net cash flows from operating activities	258,495	2,314,343
Cash flows from investing activities:		
Proceeds from sales of investments	-0-	90,810
Proceeds from sales of property and equipment	8,908	-0-
Purchase of property and equipment	(31,872)	(2,725)
Loans to other entities	(2,551,337)	(2,647,424)
Principal collections on loans receivable	1,731,201	1,816,650
Net cash flows from investing activities	(843,100)	(742,689)
Cash flows from financing activities:		
Proceeds from notes payable	300,000	665,167
Principal payments on notes payable	(689,243)	(378,688)
Net cash flows from financing activities	(389,243)	286,479
Net change in cash and cash equivalents	(973,848)	1,858,133
Cash and cash equivalents, beginning of year	13,111,115	11,252,982
Cash and cash equivalents, end of year	$ 12,137,267	$ 13,111,115

Supplemental disclosure of cash flow information:

	2014	2013
Cash paid during the year for interest	$ 114,380	$ 120,650
Real property received in lieu of payment for loans receivable	$ 100,000	$ 70,000

See 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, 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 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.

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.

Restricted cash includes amounts held in separate accounts for donor-specified purposes.

Receivables

Accounts receivable and grants receivable are reflected in the accompanying consolidated statement of financial position net of an allowance for doubtful accounts receivable of $0 at April 30, 2014 and 2013. 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. 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. See Note 2 for discussion of allowance for loan losses.

Investments

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met 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 consists of advances received for services to be performed in future periods for contracts and grants.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended April 30, 2014 and 2013 amounted to $4,461 and $4,947, 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 22, 2014, which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts in the fiscal year 2013 financial statements have been reclassified to conform to the current year's presentation with no effect on total assets, total liabilities, total net assets, and change in net assets.

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, 2014, 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 2014 and 2013, MACED received payments of approximately $13,000 and $55,000 for the purpose of retiring carbon offsets, and made payments to landowners totaling approximately $14,000 and $56,000. Costs of verifying and registering carbon offsets in fiscal years 2014 and 2013 were approximately $0 and $1,500.

2. LOANS RECEIVABLE

At April 30, 2014 and 2013, loans receivable consist of current amounts, at gross, of approximately $1,458,000 and $1,380,000 and noncurrent amounts of $9,709,000 and $9,453,000, 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:

	2014	2013
Loans receivable	$ 11,167,493	$ 10,833,446
Less allowance for loan losses	844,876	944,204
Loans receivable, net	$ 10,322,617	$ 9,889,242

Loans serving as collateral on notes payable amounted to approximately $2,256,000 and $2,700,000, respectively, at April 30, 2014 and 2013.

Accrued interest receivable amounted to approximately $33,000 and $21,000 at April 30, 2014 and 2013, respectively.

Non-accrual loans totaled approximately $1,289,000 and $1,282,000 at April 30, 2014 and 2013, respectively.

Aging

The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2014:

	Current	30-59 days past due	60-89 days past due	90+ days past due	Total
Enterprise development loans					
Microloans	$ 1,046,927	$ 20,221	$ 12,831	19,633	$ 1,099,612
Other enterprise loans	8,549,087	-0-	-0-	765,828	9,314,915
Total enterprise development loans	9,596,014	20,221	12,831	785,461	10,414,527
Forest inventory loans	59,890	-0-	-0-	-0-	59,890
How$mart loans to utilities	693,076	-0-	-0-	-0-	693,076
Total loans	$ 10,348,980	$ 20,221	$ 12,831	785,461	$ 11,167,493

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

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 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, 2014:

	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	Total Loans
Enterprise development loans							
Microloans	$ 3,816	$ 266,136	$ 320,883	$ 274,249	$ 86,640	$ 147,889	$ 1,099,613
Other enterprise loans	1,216,381	2,572,669	3,938,152	108,315	825,939	653,458	9,314,914
Total enterprise development loans	1,220,197	2,838,805	4,259,035	382,564	912,579	801,347	10,414,527
Forest inventory loans	-0-	-0-	59,890	-0-	-0-	-0-	59,890
How$mart loans to utilities	-0-	266,143	426,933	-0-	-0-	-0-	693,076
Total loans	$ 1,220,197	$ 3,104,948	$ 4,745,858	$ 382,564	$ 912,579	$ 801,347	$ 11,167,493

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

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.

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

	2014	2013
Beginning balance	$ 944,204	$ 886,261
Provision charged to operations	286,761	83,003
Less charge-offs	595,702	137,334
Recoveries	209,613	112,274
Ending balance	$ 844,876	$ 944,204

The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2014:

	Beginning Balance	Provision Charged to Operations	Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	$ 174,696	$ 136,635	$ (66,947)	$ 29,356	$ 273,740
Other enterprise loans	740,334	146,642	(528,755)	180,257	538,478
Total enterprise development loans	915,030	283,277	(595,702)	209,613	812,218
Forest inventory loans	5,989	-0-	-0-	-0-	5,989
How$mart loans to utilities	23,185	3,484	-0-	-0-	26,669
Total loans	$ 944,204	$ 286,761	$ (595,702)	$ 209,613	$ 844,876

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

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:

	2014	2013
Impaired loans with a valuation allowance	$ 1,289,299	$ 1,285,671
Valuation allowance related to impaired loans	$ 407,105	$ 428,768
Average investment in impaired loans	$ 71,628	$ 67,667
Interest income recognized on impaired loans	$ 45,133	$ 28,414
Interest income recognized on a cash basis on impaired loans	$ 46,398	$ 28,809

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2014:

	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	$ 160,670	$ 74,791	$ 16,067	$ 8,104	$ 8,184
Other enterprise loans	1,128,629	332,314	$ 141,079	37,029	38,214
Total enterprise development	1,289,299	407,105	$ 71,628	45,133	46,398
Forest inventory loans	-0-	-0-		-0-	-0-
How$mart loans to utilities	-0-	-0-		-0-	-0-
Total loans	$ 1,289,299	$ 407,105	$ 71,628	$ 45,133	$ 46,398

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

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, 2014:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	$ 38,493	5	$ 111,456	5	$ 149,949	10
Other enterprise loans	92,004	2	1,128,629	5	1,220,632	7
Total enterprise development loans	130,497	7	1,240,085	10	1,370,581	17
Forest inventory loans	-0-	-0-	-0-	-0-	-0-	-0-
How$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	$ 130,497	$ 7	$ 1,240,085	$ 10	$ 1,370,581	$ 17

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

3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30:

	2014	2013
Land	$ 40,000	$ 40,000
Buildings and improvements	938,973	934,899
Equipment	126,900	147,587
Automobiles	83,636	83,010
	1,189,509	1,205,496
Less accumulated depreciation	578,273	562,143
Property and equipment, net	$ 611,236	$ 643,353

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30:

	2014	2013
Government grants receivable:		
Kentucky Housing Corporation	$ 100,000	$ -0-
Energy and Environment Cabinet of Kentucky	6,500	-0-
Appalachian Regional Commission	105,000	-0-
U.S. Small Business Administration	44,865	29,814
Local Initiatives Support Corporation	-0-	2,715
	256,365	32,529
Other grants receivable:		
The Chorus Foundation (see below)	2,362,000	100,000
Mary Reynolds Babcock Foundation	475,000	175,000
Ford Foundation	283,334	132,000
Marguerite Casey Foundation	150,000	-0-
Charles M. & Mary D. Grant Foundation	30,000	-0-
The Energy Foundation	30,000	-0-
Blue Moon Fund	-0-	200,000
Stoneman Family Foundation	-0-	75,000
MERCK Family Fund	-0-	50,000
	3,330,334	732,000
Grants receivable	$ 3,586,699	$ 764,529

Total amounts due for the year ended April 30:	
2015	$ 1,604,699
2016	330,000
2017	330,000
2018	330,000
2019	330,000
Thereafter	1,320,000
	4,244,699
Present value discount	(658,000)
Grants receivable	$ 3,586,699

In October 2013, MACED received a grant from The Chorus Foundation for $3,300,000 to be paid in equal installments of $330,000 each October starting in October 2013. MACED received $330,000 in October 2013. The receivable at April 30, 2014 reflects a net present value discount of $658,000 computed using a discount rate of 6.0%. Amounts for current and long-term receivables for this grant at April 30, 2014 are $330,000 and $1,982,000 respectively. MACED was owed an additional $50,000 at April 30, 2014 for a separate grant from The Chorus Foundation which is due in fiscal year 2015.

There were no amounts for long-term grants receivable at April 30, 2013.

5. INVESTMENTS

Investments consist of the following as of April 30:

	2014	2013
Equities, non-publicly traded stocks	$ 173,550	$ 173,550
Collateral held for resale, real property	170,000	70,000
Total investments	$ 343,550	$ 243,550

During fiscal year 2014, MACED acquired real property valued at $100,000 to partially settle a loan in default.

During fiscal year 2013, 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, 2014 and 2013. There were no amounts for accumulated impairment at April 30, 2014 and 2013.

The value of collateral held for resale is determined using level 3 inputs. See additional discussion at Note 13.

6. NOTES PAYABLE

Notes payable consist of the following at April 30 (IRP, Intermediary Relending Program):

	2014	2013
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.	$ 548,979	$ 596,081
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.	386,001	413,702
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.	495,336	521,955
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.	547,962	574,059
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 October 2036.	651,178	676,253
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.	700,612	725,197

Appalachian Development Alliance (ADA) (June 2003 - extended), collateralized by a $56,250 certificate of deposit. Interest per annum at two percent. Quarterly interest-only payments. Matures July 2018.	125,000	125,000
ADA (July 2007 - extended), collateralized by a $56,250 certificate of deposit. Interest per annum at two percent. Quarterly interest-only payments. Matures July 2017.	158,333	158,333
ADA (December 2011), collateralized by a $56,250 certificate of deposit. Interest per annum at two percent. Quarterly interest-only payments. Matures June 2017.	75,000	75,000
Community Trust Bank (November 2004), unsecured. Interest per annum at one percent. Annual interest-only payments. Matures February 2015.	350,000	350,000
Mary Reynolds Babcock Foundation (January 2007), unsecured. Interest per annum at two percent. Semi-annual interest-only payments. Matures January 2019.	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. Matures September 2014.	14,998	44,088
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 and Microloan Revolving Fund. Interest at 2.5 percent. Monthly payments of $8,327. Matures September 2015.	125,187	219,961

	2014	2013
SBA (May 2010), collateralized by all assets derived from loans made with proceeds, and with funds on deposit at Community Trust Bank in MACED's SBA Loan Loss Reserve Fund and Microloan Revolving Fund. Interest at 1.125 percent. Monthly payments of $7,935. Matures May 2020.	557,889	646,089
Calvert Social Investment Foundation (July 2013), unsecured. Interest per annum at three percent. Semi-annual interest-only payments. Matures July 2014.	300,000	-0-
Monarch Community Loan Fund (June 2006), unsecured. Interest per annum at three percent. Semi-annual interest-only payments. Matured June 2013.	-0-	300,000
Bon Secours Health System, Inc. (September 2010), unsecured. Interest per annum at 2.5 percent. Quarterly interest-only payments. Matures October 2015.	250,000	250,000
Ford Foundation Program-Related Investment (January 2011), unsecured. Interest per annum at one percent. Quarterly interest-only payments. Principal to be repaid in three equal payments in January 2019, 2020, and 2021.	2,000,000	2,000,000
Total	7,786,475	8,175,718
Less current maturities	1,031,269	1,665,188
Long-term portion	$ 6,755,206	$ 6,510,530

For purposes of collateral, total SBA loans receivable were approximately $582,000 and $662,000, respectively, at April 30, 2014 and 2013. Total assets of AIC derived from USDA loans were approximately $4,015,000 and $4,089,000, respectively, at April 30, 2014 and 2013.

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

Year Ending April 30:		
2015	$	1,031,269
2016		548,428
2017		273,985
2018		510,179
2019		1,571,403
2020 - 2039		3,851,211
	$	7,786,475

In April 2014, MACED renewed a $500,000 operating line of credit from Citizens Bank. As of April 30, 2014, 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 April 3, 2015.

In May 2011, MACED obtained a $250,000 operating line of credit from Cumberland Security Bank. As of April 30, 2014, MACED had not borrowed under the line of credit. The unsecured line of credit 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:

	2014	2013
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:		
2015	$	-0-
2016		-0-
2017		-0-
2018		-0-
2019		-0-
Thereafter		500,000
	$	500,000

8. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following uses at April 30:

		2014		2013
Community development	$	3,041,802	$	603,589
Energy sector		441,903		356,505
Research and policy		306,565		442,608
Central Appalachian Network		288,506		125,769
Enterprise development:				
Operations only		2,973		5,008
Financing		2,227,751		2,265,059
	$	6,309,500	$	3,798,538

There were no permanently restricted net assets at April 30, 2014 and 2013. See discussion at Note 14 regarding reclassification of net assets.

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, 2014 and 2013, employer contributions to the Plan were approximately $95,000 and $83,000, 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. Certain amounts are collateralized by investments in bonds and other securities. The balances in the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At April 30, 2014 and 2013, MACED had cash balances of approximately $168,000 and $511,000, respectively, in excess of federally insured limits and which were not collateralized. At April 30, 2014 and 2013, MACED had cash balances of approximately $10,843,000 and $12,060,000, respectively, which were collateralized.

For the year ended April 30, 2014, approximately 70% of MACED's grant revenues were from three grantors. For the year ended April 30, 2013, approximately 53% of MACED's grant revenues were from three grantors.

As of April 30, 2014, approximately 52% of loans receivable were due from 14 customers. As of April 30, 2013, approximately 47% of loans receivable were due from 11 customers.

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. RELATED PARTY TRANSACTIONS

MACED is a member of the ADA and the senior lender is the ADA's treasurer. MACED has an equity investment in the ADA of approximately $56,000 and three loans from the ADA totaling approximately $358,000 for 2014.

13. 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 markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

For real property, the significant unobservable inputs used in the fair value measurement are the historical resale amounts MACED has realized as compared to appraised values. Following is a reconciliation of activity for real property, valued using level 3 inputs for years ended April 30:

	2014	2013
Beginning balance	$ 70,000	$ 118,000
Amounts obtained in lieu of loans receivable	100,000	70,000
Sales		(118,000)
Ending balance	$ 170,000	$ 70,000

MACED accounts for transfers between the levels within the fair value hierarchy at the end of the reporting period. There were no changes in the valuation methods used during 2014 or 2013, and there were no transfers between classes reported.

14. RESTATEMENT OF NET ASSETS

At April 30, 2012, certain amounts were reported as permanently restricted net assets which are considered temporarily restricted based on industry guidance. These amounts have been restated from permanently to temporarily restricted net assets as of May 1, 2012, in the accompanying consolidated financial statements. The above restatement had no effect on total assets, total liabilities or total net assets of MACED as previously reported at April 30, 2012.

The effect of the restatement on the change in net assets previously reported for the year ended April 30, 2013 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Change in net assets for the year ended April 30, 2013, as previously reported	$ 934,234	$ (228,746)	$ (9,180)	$ 696,308
Effect of reclassification		(9,180)	9,180	-0-
Change in net assets for the year ended April 30, 2013	$ 934,234	$ (237,926)	$ -0-	$ 696,308

15. 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, 2014 and 2013, 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 2011 through 2013 are subject to review by taxing authorities. As of April 30, 2014, Ridgecrest had net operating loss carryforwards of approximately $93,000 which expire at various intervals through fiscal year 2033. The effects of recording a deferred tax position are immaterial as income in future periods for Ridgecrest is uncertain.

16. 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.

17. IDLE PROPERTY

A building in use in operations in prior years was idle as of April 30, 2014 and 2013. The property is being held for potential future use. At April 30, 2014 and April 30, 2013, the net book value of the building and associated real estate was approximately $67,000 and $73,000, respectively.

18. SUBSEQUENT EVENTS

Subsequent to April 30, 2014 MACED was awarded several grants from private foundations. The total amount of these grants totaled $450,000.

In July 2014, MACED’s note payable to Calvert Social Investment Foundation in the amount of $300,000 was paid in full.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2014

ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 8,436,729	$	$ 75,775	$	$ 8,512,504
Cash and cash equivalents, restricted	1,339,912	2,284,851			3,624,763
Loans receivable, current portion, net	1,102,884	250,053		(15,187)	1,337,750
Accounts receivable	58,519	131,933		(130,071)	60,381
Grants receivable, current portion	1,604,699				1,604,699
Prepaid expenses and other assets	17,837		1,307		19,144
Total current assets	12,560,580	2,666,837	77,082	(145,258)	15,159,241
Property and equipment, net	57,726	-0-	553,510	-0-	611,236
Other assets:					
Investments	783,754			(440,204)	343,550
Grants receivable, less current portion	1,982,000				1,982,000
Loans receivable, less current portion, net	7,809,387	1,348,503		(173,023)	8,984,867
Total other assets	10,575,141	1,348,503	-0-	(613,227)	11,310,417
Total assets	$ 23,193,447	$ 4,015,340	$ 630,592	$ (758,485)	$ 27,080,894

LIABILITIES AND NET ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current liabilities:					
Notes payable, current portion	$ 852,317	$ 178,952	$ 15,187	$ (15,187)	$ 1,031,269
Accounts payable and accrued expenses	366,093	14,571	2,178	(130,071)	252,771
Deferred revenue	141,111				141,111
Total current liabilities	1,359,521	193,523	17,365	(145,258)	1,425,151
Long-term liabilities:					
Notes payable, less current portion	3,604,091	3,151,115	173,023	(173,023)	6,755,206
Subordinated loans payable	500,000				500,000
Total long-term liabilities	4,104,091	3,151,115	173,023	(173,023)	7,255,206
Total liabilities	5,463,612	3,344,638	190,388	(318,281)	8,680,357
Net assets:					
Unrestricted:					
Operating	11,420,335	670,702	440,204	(440,204)	12,091,037
Temporarily restricted:					
Operations	4,081,749				4,081,749
Financing	2,227,751				2,227,751
Total temporarily restricted net assets	6,309,500	-0-	-0-	-0-	6,309,500
Total net assets	17,729,835	670,702	440,204	(440,204)	18,400,537
Total liabilities and net assets	$ 23,193,447	$ 4,015,340	$ 630,592	$ (758,485)	$ 27,080,894

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	$ 9,352,110	$	$ 67,775	$	$ 9,419,885
Cash and cash equivalents, restricted	1,539,412	2,151,818			3,691,230
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, current portion	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	$ 13,994	$ (13,994)	$ 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	17,332	(17,036)	3,584,934
Long-term liabilities:					
Notes payable, less current portion	3,180,464	3,330,066	188,523	(188,523)	6,510,530
Subordinated loans payable	500,000				500,000
Total long-term liabilities	3,680,464	3,330,066	188,523	(188,523)	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:					
Operations	1,533,479				1,533,479
Financing	2,265,059				2,265,059
Total temporarily restricted net assets	3,798,538	-0-	-0-	-0-	3,798,538
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

See report of independent auditors.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2014

	MACED		AIC	Ridgecrest		
	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted	Eliminations	Total
Revenues and other support:						
Non-financing revenues and support						
Private grants and contributions	$ 20,150	$ 5,329,000	$	$	$	$ 5,349,150
Government grants	1,689,823	382,956				2,072,779
Project income	41,089				(2,400)	38,689
Rent and lease income				79,200	(79,200)	-0-
Realized gain on dispostion of property	8,908					8,908
Miscellaneous income	6,318					6,318
Total non-financing revenues and support	1,766,288	5,711,956	-0-	79,200	(81,600)	7,475,844
Financing revenues						
Interest income on loans	438,040	89,333	114,205		(11,728)	629,850
Fee income on loans	23,212	52	1,765			25,029
Dividend income	101					101
Interest on idle funds	16,058	625	4,014	77		20,774
Total financing revenues	477,411	90,010	119,984	77	(11,728)	675,754
Satisfaction of program and time restrictions	3,291,004	(3,291,004)	-0-	-0-	-0-	-0-
Total revenues and other support	5,534,703	2,510,962	119,984	79,277	(93,328)	8,151,598
Expenses:						
Non-financing expenses						
Program	2,715,151		2,500	74,826	(88,877)	2,703,600
Fundraising	119,343					119,343
Management and general	688,050					688,050
Total non-financing expenses	3,522,544	-0-	2,500	74,826	(88,877)	3,510,993
Financing expenses						
Interest	79,451		34,192	11,728	(11,728)	113,643
Provision for loan losses	307,972		(21,211)			286,761
Total financing expenses	387,423	-0-	12,981	11,728	(11,728)	400,404
Total expenses	3,909,967	-0-	15,481	86,554	(100,605)	3,911,397
Change in net assets	1,624,736	2,510,962	104,503	(7,277)	7,277	4,240,201
Net assets, beginning of year	9,795,599	3,798,538	566,199	447,481	(447,481)	14,160,336
Net assets, end of year	$ 11,420,335	$ 6,309,500	$ 670,702	$ 440,204	$ (440,204)	$ 18,400,537

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	(3,044,335)	-0-	-0-	-0-	-0-	-0-
Total revenues and other support	4,346,017	(237,926)	-0-	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	(237,926)	-0-	126,432	36,110	(36,110)	696,308
Net assets, beginning of year, as previously stated	8,987,797	2,849,788	1,186,676	439,767	411,371	(411,371)	13,464,028
Prior period adjustment, reclassification of net assets	-0-	1,186,676	(1,186,676)	-0-	-0-	-0-	-0-
Net assets, beginning of year, as restated	8,987,797	4,036,464	-0-	439,767	411,371	(411,371)	13,464,028
Net assets, end of year	$ 9,795,599	$ 3,798,538	$ -0-	$ 566,199	$ 447,481	$ (447,481)	$ 14,160,336

See report of independent auditors.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2014

Federal Grantor/Program	CFDA Number	Grantor Number	Federal Expenditures
MAJOR PROGRAMS			
U.S. Department of Treasury			
Community Development Financial Institutions Fund	21.020	101FA008800	$ 302,912
Community Development Financial Institutions Fund	21.020	111FA010074	200,000
Community Development Financial Institutions Fund	21.020	121FA010752	1,113,554
			1,616,466
NONMAJOR PROGRAMS			
Small Business Administration			
SBA Microloan Program	59.046	SBAHQ-12-Y-0116	17,484
SBA Microloan Program	59.046	SBAHQ-13-Y-0080	62,787
			80,271
Appalachian Regional Commission			
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	563,268
Supporting Local Food Entrepreneurs in Central Appalachia	23.011	CO-17718-14	105,000
			668,268
Department of Housing & Urban Development			
Office of Community Planning & Development (Local Initiatives Support Corporation)	14.252	41942-0019	6,501
Total nonmajor programs			755,040
Total			$ 2,371,506

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 (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.

2. LOANS OUTSTANDING

Federal loans outstanding at April 30, 2014 consist of the following:

IRP #1 - USDA (August 1994)	$	548,979
IRP #2 - USDA (August 1996)		386,001
IRP #3 - USDA (August 2000)		495,336
IRP #4 - USDA (April 2003)		547,962
IRP #5 - USDA (October 2006)		651,178
IRP #6 - USDA (March 2009)		700,612
U.S. Small Business Administration (September 2004)		14,998
U.S. Small Business Administration (August 2005)		125,187
U.S. Small Business Administration (May 2010)		557,889
Total	$	4,028,142

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 2014 financial statements:

Expenditures per SEFA	$	2,371,506
Non-federal grants		80,219
Amounts utilized for loan losses		12,445
RLF funds received in prior years, reflected on current year SEFA per the Guidelines		(452,304)
Unrestricted revenues received in current year, to be expended in future years		430,717
Unrestricted revenues received in prior years, expended in current year		(369,804)
Government grants revenue per financial statements	$	2,072,779

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REPORT OF INDEPENDENT AUDITORS 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

Report on the Financial Statements

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, 2014, 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 22, 2014.

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 22, 2014

CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS 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, 2014. 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, 2014.

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 22, 2014

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	unmodified
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:	unmodified
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

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, 2013

No findings or questioned costs were reported for the year ended April 30, 2013.