MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

BEREA, KENTUCKY

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

APRIL 30, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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 Title 2 U.S. *Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards,* 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 20, 2016 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 20, 2016

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

APRIL 30, 2016 AND 2015

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	$ 10,511,799	$ 11,009,680
Cash and cash equivalents, restricted	3,652,624	3,305,677
Loans receivable, current portion, net of allowance for bad debts of $69,245 and $77,726, respectively	1,321,226	1,372,637
Accounts receivable	145,385	57,368
Grants receivable, current portion	1,272,578	2,533,833
Prepaid expenses and other assets	27,586	36,086
Total current assets	16,931,198	18,315,281
Property and equipment, net	518,410	555,747
Other assets:		
Investments	151,250	176,250
Investments, restricted	468,513	460,000
Grants receivable, less current portion	1,705,500	2,131,000
Loans receivable, less current portion, net of allowance for bad debts of $477,771 and $528,650, respectively	9,085,161	8,952,901
Total other assets	11,410,424	11,720,151
Total assets	$ 28,860,032	$ 30,591,179

LIABILITIES AND NET ASSETS

	2016	2015
Current liabilities:		
Notes payable, current portion	$ 291,483	$ 899,187
Accounts payable and accrued expenses	247,272	221,251
Deferred revenue	41,133	91,733
Total current liabilities	579,888	1,212,171
Long-term liabilities:		
Notes payable, less current portion	6,165,763	6,282,008
Subordinated loans payable	500,000	500,000
Total long-term liabilities	6,665,763	6,782,008
Total liabilities	7,245,651	7,994,179
Net assets:		
Unrestricted:		
Operating	14,425,055	13,993,592
Temporarily restricted:		
Operations	4,867,191	6,040,767
Financing	2,242,620	2,562,641
Re-granting	79,515	-0-
Total temporarily restricted net assets	7,189,326	8,603,408
Total net assets	21,614,381	22,597,000
Total liabilities and net assets	$ 28,860,032	$ 30,591,179

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	$ 84,243	$ 1,482,361	$ 1,566,604
Government grants		545,625	545,625
Project income	125,423	68,360	193,783
Rent and lease income	14,800		14,800
Miscellaneous income	5,362	87,997	93,359
Total non-financing revenues and support	229,828	2,184,343	2,414,171
Financing revenues			
Interest income on loans	553,027	71,160	624,187
Fee income on loans	48,810	33	48,843
Interest on idle funds	34,944	743	35,687
Realized loss on program investments	(7,493)		(7,493)
Total financing revenues	629,288	71,936	701,224
Satisfaction of program and time restrictions	3,670,361	(3,670,361)	-0-
Total revenues and other support	4,529,477	(1,414,082)	3,115,395
Expenses:			
Non-financing expenses			
Program	3,223,717		3,223,717
Fundraising	87,652		87,652
Management and general	551,619		551,619
Total non-financing expenses	3,862,988	-0-	3,862,988
Financing expenses			
Interest	90,702		90,702
Provision for loan losses	144,324		144,324
Total financing expenses	235,026	-0-	235,026
Total expenses	4,098,014	-0-	4,098,014
Change in net assets	431,463	(1,414,082)	(982,619)
Net assets, beginning of year	13,993,592	8,603,408	22,597,000
Net assets, end of year	$ 14,425,055	$ 7,189,326	$ 21,614,381

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	$ 195,550	$ 5,020,332	$ 5,215,882
Government grants	1,500,000	376,794	1,876,794
Project income	74,801		74,801
Rent and lease income	1,650		1,650
Miscellaneous income	22,579		22,579
Total non-financing revenues and support	1,794,580	5,397,126	7,191,706
Financing revenues			
Interest income on loans	598,748	80,599	679,347
Fee income on loans	30,691	73	30,764
Dividend income	146		146
Interest on idle funds	22,135	816	22,951
Realized gain on program investments	42,561		42,561
Total financing revenues	694,281	81,488	775,769
Satisfaction of program and time restrictions	3,184,706	(3,184,706)	-0-
Total revenues and other support	5,673,567	2,293,908	7,967,475
Expenses:			
Non-financing expenses			
Program	2,845,752		2,845,752
Fundraising	170,153		170,153
Management and general	676,565		676,565
Total non-financing expenses	3,692,470	-0-	3,692,470
Financing expenses			
Interest	101,478		101,478
Provision for loan losses	(22,936)		(22,936)
Total financing expenses	78,542	-0-	78,542
Total expenses	3,771,012	-0-	3,771,012
Change in net assets	1,902,555	2,293,908	4,196,463
Net assets, beginning of year	12,091,037	6,309,500	18,400,537
Net assets, end of year	$ 13,993,592	$ 8,603,408	$ 22,597,000

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED APRIL 30, 2016

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	$ 1,654,245	$ 77,147	466,709	$ 2,198,101
Consultants and professional services				
Consultants	374,484	975	3,905	379,364
Professional services	17,876		7,952	25,828
IT services	27,724	30	17,884	45,638
Interns and contract labor	2,740		1,517	4,257
Travel and meetings				
Travel	117,265	3,101	3,223	123,589
Meetings, registration and training	67,990	2,307	9,838	80,135
Maintenance, lease and equipment purchase				
Equipment lease	4,011	165	969	5,145
Equipment and software expense	31,927	3	11,551	43,481
Repairs and maintenance	15,221	38	4,627	19,886
Office operations				
Rent and utilities	31,685	908	5,417	38,010
Insurance	16,142	59	3,801	20,002
Postage	3,033	542	202	3,777
Supplies	29,085	418	5,109	34,612
Telephone	18,289	558	3,997	22,844
Depreciation	46,802	212	1,319	48,333
Re-grants	703,325			703,325
Other				
Advertising and promotion	17,038		349	17,387
Publications, memberships and subscriptions	8,817	1,041	1,497	11,355
Printing and duplication	6,064	12	814	6,890
Carbon offsets expense	3,778			3,778
Licenses and fees	19,452	119	819	20,390
Taxes	6,724	17	120	6,861
Total non-financing expenses	3,223,717	87,652	551,619	3,862,988
Financing expenses:				
Interest	90,702			90,702
Provision for loan losses	144,324			144,324
Total financing expenses	235,026	-0-	-0-	235,026
Total expenses	$ 3,458,743	$ 87,652	$ 551,619	$ 4,098,014

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED APRIL 30, 2015

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	$ 1,587,645	$ 152,455	$ 546,454	$ 2,286,554
Consultants and professional services				
Consultants	239,033		18,125	257,158
Professional services	33,392		37,438	70,830
IT services	25,204		21,586	46,790
Interns and contract labor	3,157		1,032	4,189
Travel and meetings				
Travel	85,901	8,641	3,774	98,316
Meetings, registration and training	22,211	1,199	7,807	31,217
Maintenance, lease and equipment purchase				
Equipment lease	4,659		1,376	6,035
Equipment and software expense	19,739	1,712	10,841	32,292
Repairs and maintenance	17,770		342	18,112
Office operations				
Rent and utilities	18,921	1,268	4,537	24,726
Insurance	10,738		3,821	14,559
Postage	2,325		645	2,970
Supplies	20,667	1,384	5,661	27,712
Telephone	19,233	1,323	5,296	25,852
Miscellaneous	1,333		538	1,871
Depreciation	51,349	904	3,236	55,489
Re-grants	610,974		50	611,024
Other				
Advertising and promotion	13,682	202		13,884
Publications, memberships and subscriptions	9,695	1,065	1,737	12,497
Printing and duplication	8,278		821	9,099
Carbon offsets expense	24,452			24,452
Licenses and fees	7,638		1,448	9,086
Taxes	7,756			7,756
Total non-financing expenses	2,845,752	170,153	676,565	3,692,470
Financing expenses:				
Interest	101,478			101,478
Provision for loan losses	(22,936)			(22,936)
Total financing expenses	78,542	-0-	-0-	78,542
Total expenses	$ 2,924,294	$ 170,153	$ 676,565	$ 3,771,012

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED APRIL 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (982,619)	$ 4,196,463
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	48,333	55,489
Provision for loan losses	144,324	(22,936)
Realized loss (gain) on program investments	7,493	(42,561)
Changes in operating assets and liabilities:		
Accounts receivable	(88,017)	3,013
Grants receivable	1,686,755	(1,078,134)
Prepaid expenses and other assets	8,500	(16,942)
Accounts payable and accrued expenses	26,021	(31,520)
Deferred revenue	(50,600)	(49,378)
Net cash flows from operating activities	800,190	3,013,494
Cash flows from investing activities:		
Proceeds from sales of investments	112,507	229,861
Purchases of investments and reinvested interest	(1,020)	(460,000)
Purchase of property and equipment	(18,489)	-0-
Loans to other entities	(2,924,488)	(2,923,183)
Principal collections on loans receivable	2,604,315	2,923,198
Net cash flows from investing activities	(227,175)	(230,124)
Cash flows from financing activities:		
Proceeds from notes payable	250,000	75,000
Principal payments on notes payable	(973,949)	(680,280)
Net cash flows from financing activities	(723,949)	(605,280)
Net change in cash and cash equivalents	(150,934)	2,178,090
Cash and cash equivalents, beginning of year	14,315,357	12,137,267
Cash and cash equivalents, end of year	$ 14,164,423	$ 14,315,357

	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 92,715	$ 105,367
Property received in lieu of payment for loans receivable	$ 95,000	$ 20,000

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, 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 statements of financial position net of an allowance for doubtful accounts receivable of $0 at April 30, 2016 and 2015. 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 in real property and equipment are carried at estimated fair value. Non-publicly traded stock and certificates of deposit are carried at cost. Dividends are recognized in the accompanying consolidated statements 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, 2016 and 2015 amounted to approximately $17,000 and $14,000, 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 20, 2016, which is the date the financial statements were available to be issued.

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, 2016, 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 2016 and 2015, MACED received payments of approximately $4,000 and $24,000 for the purpose of retiring carbon offsets, and made payments to landowners totaling approximately $0 and $26,000.

2. LOANS RECEIVABLE

At April 30, 2016 and 2015, loans receivable consist of current amounts, at gross, of approximately $1,390,000 and $1,450,000 and noncurrent amounts of $9,563,000 and $9,482,000, 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 were loans made to landowner participants in MACED's carbon offsets program to cover costs of inventorying their forests. All forest inventory loans were forgiven in fiscal year 2015.

- 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:

	2016	2015
Loans receivable	$ 10,953,401	$ 10,931,914
Less allowance for loan losses	547,016	606,376
Loans receivable, net	$ 10,406,385	$ 10,325,538

Loans serving as collateral on notes payable amounted to approximately $1,612,000 and $1,920,000, respectively, at April 30, 2016 and 2015.

Accrued interest receivable amounted to approximately $39,000 and $33,000 at April 30, 2016 and 2015, respectively.

Non-accrual loans totaled approximately $99,000 and $409,000 at April 30, 2016 and 2015, respectively.

Aging

The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2016:

	Current	30-59 days past due	60-89 days past due	90+ days past due	Total
Enterprise development loans					
Microloans	$ 858,497	$ 41,031	$ -0-	8,831	$ 908,359
Other enterprise loans	8,663,014	220,007	-0-	70,852	8,953,873
Total enterprise development loans	9,521,511	261,038	-0-	79,683	9,862,232
How$mart loans to utilities	1,091,169	-0-	-0-	-0-	1,091,169
Total loans	$ 10,612,680	$ 261,038	$ -0-	79,683	$ 10,953,401

The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2015:

	Current	30-59 days past due	60-89 days past due	90+ days past due	Total
Enterprise development loans					
Microloans	$ 745,695	$ 10,781	$ -0-	53,254	$ 809,730
Other enterprise loans	9,303,641	-0-	-0-	-0-	9,303,641
Total enterprise development loans	10,049,336	10,781	-0-	53,254	10,113,371
How$mart loans to utilities	818,543	-0-	-0-	-0-	818,543
Total loans	$ 10,867,879	$ 10,781	$ -0-	53,254	$ 10,931,914

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, 2016:

	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	Total Loans
Enterprise development loans							
Microloans	$ -0-	$ 332,922	$ 225,377	$ 266,982	$ 63,335	$ 19,744	$ 908,360
Other enterprise loans	897,793	4,523,166	1,990,643	889,391	582,027	70,852	8,953,872
Total enterprise development loans	897,793	4,856,088	2,216,020	1,156,373	645,362	90,596	9,862,232
How$mart loans to utilities	-0-	481,677	609,492	-0-	-0-	-0-	1,091,169
Total loans	$ 897,793	$ 5,337,765	$ 2,825,512	$ 1,156,373	$ 645,362	$ 90,596	$ 10,953,401

Following is an analysis of MACED's loan portfolio by credit quality, as of April 30, 2015:

	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	Total Loans
Enterprise development loans							
Microloans	$ 552	$ 225,415	$ 284,015	$ 110,665	$ 114,812	$ 74,271	$ 809,730
Other enterprise loans	966,961	3,782,055	2,875,078	990,013	363,957	325,577	9,303,641
Total enterprise development loans	967,513	4,007,470	3,159,093	1,100,678	478,769	399,848	10,113,371
How$mart loans to utilities	-0-	329,564	488,979	-0-	-0-	-0-	818,543
Total loans	$ 967,513	$ 4,337,034	$ 3,648,072	$ 1,100,678	$ 478,769	$ 399,848	$ 10,931,914

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:

		2016		2015
Beginning balance	$	606,376	$	844,876
Provision charged to operations		144,324		(22,936)
Less charge-offs		298,021		245,027
Recoveries		94,337		29,463
Ending balance	$	547,016	$	606,376

The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2016:

	Beginning Balance	Provision Charged to Operations	Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	$ 93,085	$ 97,059	$ (137,915)	$ 14,935	$ 67,164
Other enterprise loans	482,251	38,197	(160,106)	79,402	439,744
Total enterprise development loans	575,336	135,256	(298,021)	94,337	506,908
How$mart loans to utilities	31,040	9,068	-0-	-0-	40,108
Total loans	$ 606,376	$ 144,324	$ (298,021)	$ 94,337	$ 547,016

The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2015:

	Beginning Balance	Provision Charged to Operations	Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	$ 273,740	$ (171,031)	$ (12,085)	$ 2,461	$ 93,085
Other enterprise loans	538,478	143,724	(226,953)	27,002	482,251
Total enterprise development loans	812,218	(27,307)	(239,038)	29,463	575,336
Forest inventory loans	5,989	-0-	(5,989)	-0-	-0-
How$mart loans to utilities	26,669	4,371	-0-	-0-	31,040
Total loans	$ 844,876	$ (22,936)	$ (245,027)	$ 29,463	$ 606,376

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:

	2016	2015
Impaired loans with a valuation allowance	$ 99,426	$ 409,029
Valuation allowance related to impaired loans	$ 47,064	$ 123,571
Average investment in impaired loans	$ 16,571	$ 45,448
Interest income recognized on impaired loans	$ 1,926	$ 8,481
Interest income recognized on a cash basis on impaired loans	$ 1,927	$ 8,855

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2016:

	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	$ 28,574	$ 11,638	$ 5,715	$ 1,926	$ 1,927
Other enterprise loans	70,852	35,426	$ 70,852	-0-	-0-
Total enterprise development	99,426	47,064	$ 16,571	1,926	1,927
How$mart loans to utilities	-0-	-0-		-0-	-0-
Total loans	$ 99,426	$ 47,064	$ 16,571	$ 1,926	$ 1,927

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2015:

	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	$ 83,452	$ 42,177	$ 11,922	$ 4,507	$ 4,881
Other enterprise loans	325,577	81,394	$ 162,789	3,974	3,974
Total enterprise development	409,029	123,571	$ 45,448	8,481	8,855
How$mart loans to utilities	-0-	-0-		-0-	-0-
Total loans	$ 409,029	$ 123,571	$ 45,448	$ 8,481	$ 8,855

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, 2016:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	$ 134,625	9	$ 23,245	2	$ 157,870	11
Other enterprise loans	373,594	4	-0-	-0-	373,594	4
Total enterprise development loans	508,219	13	23,245	2	531,464	15
How$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	$ 508,219	$ 13	$ 23,245	$ 2	$ 531,464	$ 15

The following is an analysis of troubled debt restructurings as of April 30, 2015:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	$ 158,904	9	$ 15,818	1	$ 174,722	10
Other enterprise loans	487,673	4	325,578	1	813,251	5
Total enterprise development loans	646,577	13	341,396	2	987,973	15
How$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	$ 646,577	$ 13	$ 341,396	$ 2	$ 987,973	$ 15

3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30:

	2016	2015
Land	$ 40,000	$ 40,000
Buildings and improvements	948,006	938,973
Equipment	126,805	124,843
Automobiles	83,636	83,636
	1,198,447	1,187,452
Accumulated depreciation	(680,037)	(631,705)
Property and equipment, net	$ 518,410	$ 555,747

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30:

		2016		2015
Government grants receivable:				
U.S. Small Business Administration	$	25,507	$	35,823
Tennessee Valley Authority		4,000		8,749
U.S. Department of Agriculture		3,895		-0-
Appalachian Regional Commission		-0-		14,261
Kentucky Housing Corporation		-0-		50,000
		33,402		108,833
Other grants receivable:				
The Chorus Foundation (see below)		1,948,000		2,111,000
Mary Reynolds Babcock Foundation		600,000		387,500
Stoneman Family Foundation		350,000		775,000
Charles M. & Mary D. Grant Foundation		45,000		-0-
Local Initiatives Support Corporation		1,676		-0-
JPB Foundation		-0-		940,000
Ford Foundation		-0-		150,000
Center on Budget and Policy Priorities		-0-		90,000
Kentucky Coalition		-0-		62,500
MERCK Family Fund		-0-		40,000
		2,944,676		4,556,000
Grants receivable	$	2,978,078	$	4,664,833

Total amounts due for the year ended April 30:		
2017	$	1,272,578
2018		467,500
2019		330,000
2020		330,000
2021		330,000
Thereafter		660,000
		3,390,078
Present value discount		(412,000)
Grants receivable	$	2,978,078

In October 2013, MACED received a grant from The Chorus Foundation (Chorus) for $3,300,000 to be paid in equal installments of $330,000 each October starting in 2013. MACED received $330,000 each in October 2014 and 2015. The receivable at April 30, 2016 reflects a net present value discount of $412,000 computed using a discount rate of 6.0%. Amounts for current and long-term receivables for this grant at April 30, 2016 are $330,000 and $1,568,000 respectively. MACED was owed an additional $50,000 at April 30, 2016 for a separate grant from Chorus which was received in fiscal year 2017.

In February 2015, MACED received a grant from The Stoneman Family Foundation (Stoneman) for $1,050,000 to be paid in equal installments of $350,000 each February starting in 2015. MACED received $350,000 each in fiscal years 2015 and 2016. $350,000 is due in fiscal year 2017. Due to the relatively short term of the agreement, and management's estimated risk associated with collection, a discount rate was not applied as the financial impact is estimated to be immaterial. MACED was owed an additional $75,000 at April 30, 2015 for a separate grant from Stoneman which was received in fiscal year 2016.

In March 2016, MACED received a grant from The Mary Reynolds Babcock Foundation (Babcock) for $550,000 to be paid in equal installments of $137,500 in April and September starting April 2016. MACED received $137,500 each in fiscal year 2016. $275,000 and $137,500 is due in fiscal years 2017 and 2018, respectively. Due to the relatively short term of the agreement, and management's estimated risk associated with collection, a discount rate was not applied as the financial impact is estimated to be immaterial. MACED is owed an additional $50,000 at April 30, 2016 for a separate grant from Babcock which is to be received in fiscal year 2017.

5. INVESTMENTS

Investments consist of the following as of April 30:

	2016	2015
Certificates of deposit	$ 468,513	$ 460,000
Equities, non-publicly traded stocks	56,250	56,250
Collateral held for resale, real property	95,000	100,000
Collateral held for resale, equipment	-0-	20,000
Total investments	$ 619,763	$ 636,250

During fiscal years 2016 and 2015, MACED acquired property valued at $95,000 and $20,000, respectively, to partially settle loans in default.

During fiscal year 2016, MACED sold property held for investment included in investments on the accompanying consolidated statements of financial position for approximately $113,000. The investments were recorded at approximately $120,000, with a loss of approximately $7,000.

During fiscal year 2015, MACED sold property held for investment included in investments on the accompanying consolidated statements of financial position for approximately $230,000. The investments were recorded at approximately $187,000, with a gain of approximately $43,000.

All equities are non-publicly traded stocks. They are reported using the cost method and were evaluated for impairment at April 30, 2016 and 2015. There were no amounts for accumulated impairment at April 30, 2016 and 2015.

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:

	2016	2015
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.	$ 453,356	$ 501,405
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.	329,765	358,023
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.	441,298	468,451
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.	494,982	521,604
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.	600,272	625,852
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.	650,700	675,780

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 2016.	-0-	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
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.	-0-	28,034
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.	378,540	468,713

SBA (September 2015), collateralized by all accounts receivable outstanding or arising from MACED SBA Mircoloan Program, all funds held in MACED SBL Loan Loss Reserve Fund bank account, and collateral on loans made through MACED SBA Microloan Program. Interest at 0.38 percent. Monthly payments of $2,265. Matures August 2025.	250,000	-0-
Southeast Energy Efficiency Alliance (October 2014), unsecured. No interest. Amount payable in full on or before October 2017.	-0-	75,000
Bon Secours Health System, Inc. (September 2010), unsecured. Interest per annum at 2.5 percent. Quarterly interest-only payments. Matured October 2015.	-0-	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	6,457,246	7,181,195
Less current maturities	291,483	899,187
Long-term portion	$ 6,165,763	$ 6,282,008

In April 2016, MACED renewed a $500,000 operating line of credit from Citizens Bank. As of April 30, 2016, 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 in May 2017.

In August 2014, MACED renewed a $250,000 operating line of credit from Cumberland Security Bank. As of April 30, 2016, MACED had not borrowed under the line of credit. The unsecured line of credit bears a variable interest rate, which is payable quarterly. The outstanding principal together with any unpaid interest accrued thereon is due in August 2017.

For purposes of collateral, total SBA loans receivable were approximately $620,000 and $569,000, respectively, at April 30, 2016 and 2015. Total assets of AIC derived from USDA loans were approximately $3,721,000 and $3,923,000, respectively, at April 30, 2016 and 2015.

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

Year Ending April 30:	
2017	$ 291,483
2018	536,512
2019	1,597,836
2020	975,856
2021	889,830
2022 - 2039	2,165,729
	$ 6,457,246

7. SUBORDINATED LOANS PAYABLE

Subordinated loans payable consist of the following at April 30:

	2016	2015
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 (2.50% at April 30, 2016). 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:	
2017	$ -0-
2018	-0-
2019	-0-
2020	-0-
2021	-0-
Thereafter	500,000
	$ 500,000

8. RESTRICTED NET ASSETS

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

		2016		2015
Community development	$	3,331,693	$	4,088,475
Research and policy		1,036,123		1,553,571
Energy sector		263,997		75,000
Central Appalachian Network		186,299		238,848
Appalachia Funders Network		9,680		-0-
Natural resources		7,188		51,520
Enterprise development:				
Operations only		111,726		33,353
Financing		2,242,620		2,562,641
	$	7,189,326	$	8,603,408

There were no permanently restricted net assets at April 30, 2016 and 2015.

9. RETIREMENT PLAN

MACED sponsors a defined contribution retirement plan (Plan) covering all employees who work 20 hours or more per week. Employees are eligible for elective deferrals upon date of hire and are eligible for employer contributions after three months of service. MACED contributes five percent of each employee's annual compensation to the Plan. For the years ended April 30, 2016 and 2015, employer contributions to the Plan were approximately $85,000 and $88,000, 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, 2016 and 2015, MACED had cash balances of approximately $37,000 and $48,000, respectively, in excess of federally insured limits and which were not collateralized. At April 30, 2016 and 2015, MACED had cash balances of approximately $12,609,000 and $13,112,000, respectively, which were collateralized.

For the year ended April 30, 2016, approximately 50% of MACED's grant revenues were from three grantors. For the year ended April 30, 2015, approximately 57% of MACED's grant revenues were from two grantors.

As of April 30, 2016, approximately 41% of loans receivable were due from 14 customers. As of April 30, 2015, approximately 51% of loans receivable were due from 13 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 two grants that have been previously expended by MACED for equity investments and/or lending. The original total of the grants was approximately $400,000. 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 2016 and 2015.

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:

	2016	2015
Beginning balance	$ 120,000	$ 170,000
Amounts obtained in lieu of loans receivable	95,000	20,000
Proceeds from sales	(112,507)	(54,861)
Losses on sales	(7,493)	(15,139)
Ending balance	$ 95,000	$ 120,000

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 2016 or 2015, and there were no transfers between classes reported.

14. 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, 2016 and 2015, 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 2013 through 2015 are subject to review by taxing authorities. As of April 30, 2016, Ridgecrest had federal net operating loss carryforwards of approximately $161,000 which expire at various intervals through fiscal year 2035. The effects of recording a deferred tax position are immaterial as income in future periods for Ridgecrest is uncertain.

15. 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.

16. IDLE PROPERTY

A building in use in operations in prior years was idle as of April 30, 2016 and 2015. The property is being held for potential future use. At April 30, 2016 and 2015, the net book value of the building and associated real estate was approximately $58,000 and $61,000, respectively.

17. SUBSEQUENT EVENTS

Subsequent to April 30, 2016, MACED was awarded several grants from private foundations and government entities. The total amount of these grants totaled approximately $350,000. Also, subsequent to April 30, 2016, MACED borrowed an additional $250,000 on its most recent SBA loan.

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

APRIL 30, 2016

ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 10,419,548	$	$ 92,251	$	$ 10,511,799
Cash and cash equivalents, restricted	997,517	2,655,107			3,652,624
Loans receivable, current portion, net	1,141,684	196,642		(17,100)	1,321,226
Accounts receivable	150,846			(5,461)	145,385
Grants receivable, current portion	1,272,578				1,272,578
Prepaid expenses and other assets	26,279		1,307		27,586
Total current assets	14,008,452	2,851,749	93,558	(22,561)	16,931,198
Property and equipment, net	20,946	-0-	497,464	-0-	518,410
Other assets:					
Investments	581,786			(430,536)	151,250
Investments, restricted	468,513				468,513
Grants receivable, less current portion	1,705,500				1,705,500
Loans receivable, less current portion, net	8,355,426	869,589		(139,854)	9,085,161
Total other assets	11,111,225	869,589	-0-	(570,390)	11,410,424
Total assets	$ 25,140,623	$ 3,721,338	$ 591,022	$ (592,951)	$ 28,860,032

LIABILITIES AND NET ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current liabilities:					
Notes payable, current portion	$ 96,107	$ 195,376	$ 17,100	$ (17,100)	$ 291,483
Accounts payable and accrued expenses	246,801	2,400	3,532	(5,461)	247,272
Deferred revenue	41,133				41,133
Total current liabilities	384,041	197,776	20,632	(22,561)	579,888
Long-term liabilities:					
Notes payable, less current portion	3,377,938	2,787,825	139,854	(139,854)	6,165,763
Subordinated loans payable	500,000				500,000
Total long-term liabilities	3,877,938	2,787,825	139,854	(139,854)	6,665,763
Total liabilities	4,261,979	2,985,601	160,486	(162,415)	7,245,651
Net assets:					
Unrestricted:					
Operating	13,689,318	735,737	430,536	(430,536)	14,425,055
Temporarily restricted:					
Operations	4,867,191				4,867,191
Financing	2,242,620				2,242,620
Re-granting	79,515				79,515
Total temporarily restricted net assets	7,189,326	-0-	-0-	-0-	7,189,326
Total net assets	20,878,644	735,737	430,536	(430,536)	21,614,381
Total liabilities and net assets	$ 25,140,623	$ 3,721,338	$ 591,022	$ (592,951)	$ 28,860,032

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

APRIL 30, 2015

ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 10,921,833	$	$ 87,847	$	$ 11,009,680
Cash and cash equivalents, restricted	845,816	2,459,861			3,305,677
Loans receivable, current portion, net	1,180,620	208,090		(16,073)	1,372,637
Accounts receivable	53,653	5,181		(1,466)	57,368
Grants receivable, current portion	2,533,833				2,533,833
Prepaid expenses and other assets	34,253		1,833		36,086
Total current assets	15,570,008	2,673,132	89,680	(17,539)	18,315,281
Property and equipment, net	34,137	-0-	521,610	-0-	555,747
Other assets:					
Investments	613,464			(437,214)	176,250
Investments, restricted	460,000				460,000
Grants receivable, less current portion	2,131,000				2,131,000
Loans receivable, less current portion, net	7,859,069	1,250,784		(156,952)	8,952,901
Total other assets	11,063,533	1,250,784	-0-	(594,166)	11,720,151
Total assets	$ 26,667,678	$ 3,923,916	$ 611,290	$ (611,705)	$ 30,591,179

LIABILITIES AND NET ASSETS

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current liabilities:					
Notes payable, current portion	$ 718,446	$ 180,741	$ 16,073	$ (16,073)	$ 899,187
Accounts payable and accrued expenses	207,774	13,892	1,051	(1,466)	221,251
Deferred revenue	91,733				91,733
Total current liabilities	1,017,953	194,633	17,124	(17,539)	1,212,171
Long-term liabilities:					
Notes payable, less current portion	3,311,634	2,970,374	156,952	(156,952)	6,282,008
Subordinated loans payable	500,000				500,000
Total long-term liabilities	3,811,634	2,970,374	156,952	(156,952)	6,782,008
Total liabilities	4,829,587	3,165,007	174,076	(174,491)	7,994,179
Net assets:					
Unrestricted:					
Operating	13,234,683	758,909	437,214	(437,214)	13,993,592
Temporarily restricted:					
Operations	6,040,767				6,040,767
Financing	2,562,641				2,562,641
Total temporarily restricted net assets	8,603,408	-0-	-0-	-0-	8,603,408
Total net assets	21,838,091	758,909	437,214	(437,214)	22,597,000
Total liabilities and net assets	$ 26,667,678	$ 3,923,916	$ 611,290	$ (611,705)	$ 30,591,179

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2016

	MACED		AIC	Ridgecrest		
	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted	Eliminations	Total
Revenues and other support:						
Non-financing revenues and support						
Private grants and contributions	$ 84,243	$ 1,482,361	$	$	$	$ 1,566,604
Government grants		545,625				545,625
Project income	154,223	68,360			(28,800)	193,783
Rent and lease income	6,550			79,200	(70,950)	14,800
Miscellaneous income	5,362	87,997				93,359
Total non-financing revenues and support	250,378	2,184,343	-0-	79,200	(99,750)	2,414,171
Financing revenues						
Interest income on loans	482,611	71,160	80,383		(9,967)	624,187
Fee income on loans	48,810	33				48,843
Interest on idle funds	28,072	743	6,766	106		35,687
Realized loss on program investments	(7,493)	0				(7,493)
Total financing revenues	552,000	71,936	87,149	106	(9,967)	701,224
Satisfaction of program and time restrictions	3,670,361	(3,670,361)	-0-	-0-	-0-	-0-
Total revenues and other support	4,472,739	(1,414,082)	87,149	79,306	(109,717)	3,115,395
Expenses:						
Non-financing expenses						
Program	3,225,267		28,861	76,017	(106,428)	3,223,717
Fundraising	87,652					87,652
Management and general	551,619					551,619
Total non-financing expenses	3,864,538	-0-	28,861	76,017	(106,428)	3,862,988
Financing expenses						
Interest	59,840		30,862	9,967	(9,967)	90,702
Provision for loan losses	93,726		50,598			144,324
Total financing expenses	153,566	-0-	81,460	9,967	(9,967)	235,026
Total expenses	4,018,104	-0-	110,321	85,984	(116,395)	4,098,014
Change in net assets	454,635	(1,414,082)	(23,172)	(6,678)	6,678	(982,619)
Net assets, beginning of year	13,234,683	8,603,408	758,909	437,214	(437,214)	22,597,000
Net assets, end of year	$ 13,689,318	$ 7,189,326	$ 735,737	$ 430,536	$ (430,536)	$ 21,614,381

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2015

	MACED		AIC	Ridgecrest		
	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted	Eliminations	Total
Revenues and other support:						
Non-financing revenues and support						
Private grants and contributions	$ 195,550	$ 5,020,332	$	$	$	$ 5,215,882
Government grants	1,500,000	376,794				1,876,794
Project income	79,601				(4,800)	74,801
Rent and lease income				79,200	(79,200)	-0-
Realized gain on disposition of property	1,650					1,650
Miscellaneous income	22,579					22,579
Total non-financing revenues and support	1,799,380	5,397,126	-0-	79,200	(84,000)	7,191,706
Financing revenues						
Interest income on loans	503,057	80,599	106,542		(10,851)	679,347
Fee income on loans	28,382	73	2,309			30,764
Dividend income	146					146
Interest on idle funds	15,696	816	6,347	92		22,951
Realized gain on program investments	42,561					42,561
Total financing revenues	589,842	81,488	115,198	92	(10,851)	775,769
Satisfaction of program and time restrictions	3,184,706	(3,184,706)	-0-	-0-	-0-	-0-
Total revenues and other support	5,573,928	2,293,908	115,198	79,292	(94,851)	7,967,475
Expenses:						
Non-financing expenses						
Program	2,856,259		5,052	71,431	(86,990)	2,845,752
Fundraising	170,153					170,153
Management and general	676,565					676,565
Total non-financing expenses	3,702,977	-0-	5,052	71,431	(86,990)	3,692,470
Financing expenses						
Interest	69,065		32,413	10,851	(10,851)	101,478
Provision for loan losses	(12,462)		(10,474)			(22,936)
Total financing expenses	56,603	-0-	21,939	10,851	(10,851)	78,542
Total expenses	3,759,580	-0-	26,991	82,282	(97,841)	3,771,012
Change in net assets	1,814,348	2,293,908	88,207	(2,990)	2,990	4,196,463
Net assets, beginning of year	11,420,335	6,309,500	670,702	440,204	(440,204)	18,400,537
Net assets, end of year	$ 13,234,683	$ 8,603,408	$ 758,909	$ 437,214	$ (437,214)	$ 22,597,000

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED APRIL 30, 2016

Federal Grantor/Program	CFDA Number	Grantor Number	Expenditures	Passthrough
MAJOR PROGRAMS				
U.S. Department of Treasury				
Community Development Financial Institutions Fund	21.020	141FA012771	$ 552,474	$ -0-
NONMAJOR PROGRAMS				
Appalachia Regional Commission				
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	775,399	
Supporting Local Food Entrepreneurs in Central Appalachia	23.011	CO-17718-14	24,390	12,000
Appalachian Philanthropic Engagement	23.002	CO-17953-14	35,980	
			835,769	12,000
Small Business Administration (SBA)				
SBA Microloan Program	59.046	SBAHQ-14-Y-0070	14,253	
SBA Microloan Program	59.046	SBAHQ-15-Y-0109	80,077	
			94,330	-0-
Department of Housing & Urban Development				
Arts & Cultural Initiative (Local Initiatives Support Corporation)	14.252	PA#41942-0020	16,500	
Place Based Program (Local Initiative Support Corporation)	14.252	PA#41942-0022	22,974	
Capacity Building Grant (Local Initiative Support Corporation)	14.252	PA#41942-0023	6,840	
			46,314	-0-
USDA Rural Development				
Regional Approaches to Forest-Based Community Economic Development	10.351	RBS 14.40	11,232	2,000
United States Department of Agriculture Rural Housing Service				
Rural Community Development Initiative	10.446	20-076-310900246	128,487	116,275
Department of Energy (passed through Southeast Energy Efficiency Alliance)				
Energy Efficiency and Conservation Block Grant Program (American Reinvestment and Recovery Act)	81.128	EE0003575	49,385	-0-
Total nonmajor programs			1,165,517	130,275
Total			$ 1,717,991	$ 130,275

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 Title 2 U.S. *Code of Federal Regulations (*CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance (UG). Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the basic financial statements. MACED elected to use the 10% de minimis indirect cost rate for its SBA Microloan Program grants.

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, 2016 consist of the following:

IRP #1 - USDA (August 1994)	$	453,356
IRP #2 - USDA (August 1996)		329,765
IRP #3 - USDA (August 2000)		441,298
IRP #4 - USDA (April 2003)		494,982
IRP #5 - USDA (October 2006)		600,272
IRP #6 - USDA (March 2009)		650,700
U.S. Small Business Administration (May 2010)		378,540
U.S. Small Business Administration (September 2015)		250,000
Total	$	3,598,913

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 2016 financial statements:

Expenditures per SEFA	$	1,717,991
Non-federal grants		216,125
RLF funds received in prior years, reflected on current year SEFA per the Guidelines		(775,399)
Revenues received in prior years, expended in current year		(613,092)
Government grants revenue per financial statements	$	545,625

CPAS / ADVISORS

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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, 2016, 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 20, 2016.

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 20, 2016

CPAS / ADVISORS

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

<u>Report on Compliance for Each Major Federal Program</u>

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 Compliance Supplement* that could have a direct and material effect on each of MACED's major federal programs for the year ended April 30, 2016. MACED's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

<u>Management's Responsibility</u>

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

<u>Auditor's Responsibility</u>

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
July 20, 2016

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2016

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 the Uniform Guidance ?	______ yes ___X___ no

Identification of major programs:

CFDA Number	Name of Federal Program
21.020	U.S Department of Treasury Community Development Financial Institutions Fund

Dollar threshold used to distinguish between type A and B programs:	$750,000
Auditee qualified as low-risk auditee?	___X___ yes ____no

MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2016

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, 2015

No findings or questioned costs were reported for the year ended April 30, 2015.