



**MOUNTAIN ASSOCIATION FOR COMMUNITY
ECONOMIC DEVELOPMENT, INC.
AND AFFILIATES
BEREA, KENTUCKY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS**

APRIL 30, 2017 AND 2016

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
TABLE OF CONTENTS
APRIL 30, 2017 AND 2016

	<u>Page</u>
Report of Independent Auditors	1
Financial Statements:	
Consolidated Statements of Financial Position.....	4
Consolidated Statements of Activities.....	5
Consolidated Statements of Functional Expenses.....	7
Consolidated Statements of Cash Flows.....	9
Notes to Consolidated Financial Statements.....	10
Supplementary Information:	
Consolidating Statements of Financial Position.....	36
Consolidating Statements of Activities.....	38
Consolidated Schedule of Expenditures of Federal Awards.....	40
Notes to Consolidated Schedule of Expenditures of Federal Awards.....	41
Additional Reports and Information Required Under the Single Audit Act:	
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 <i>Government Auditing Standards</i>	43
Report of Independent Auditors on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	45
Consolidated Schedule of Findings and Questioned Costs.....	48
Consolidated Schedule of Prior Year Audit Findings and their Resolutions.....	50



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

REPORT OF INDEPENDENT AUDITORS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED), which comprise the consolidated statements of financial position as of April 30, 2017 and 2016, 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, 2017 and 2016, 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 25, 2017, 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 25, 2017

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
APRIL 30, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 10,470,265	\$ 10,511,799
Cash and cash equivalents, restricted	3,417,323	3,652,624
Loans receivable, current portion, net of allowance for bad debts of \$83,127 and \$69,245, respectively	1,474,036	1,321,226
Accounts and interest receivable	59,642	145,385
Grants receivable, current portion	2,173,427	1,272,578
Prepaid expenses and other assets	29,895	27,586
Total current assets	<u>17,624,588</u>	<u>16,931,198</u>
Property and equipment, net	<u>477,236</u>	<u>518,410</u>
Other assets:		
Investments	158,750	151,250
Investments, restricted	482,233	468,513
Grants receivable, less current portion	1,341,000	1,705,500
Loans receivable, less current portion, net of allowance for bad debts of \$486,888 and \$477,771, respectively	10,047,182	9,085,161
Total other assets	<u>12,029,165</u>	<u>11,410,424</u>
Total assets	<u>\$ 30,130,989</u>	<u>\$ 28,860,032</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Notes payable, current portion	\$ 361,258	\$ 291,483
Accounts payable and accrued expenses	231,623	247,272
Deferred revenue	37,884	41,133
Total current liabilities	<u>630,765</u>	<u>579,888</u>
Long-term liabilities:		
Notes payable, less current portion	6,290,667	6,165,763
Subordinated loans payable	500,000	500,000
Total long-term liabilities	<u>6,790,667</u>	<u>6,665,763</u>
Total liabilities	<u>7,421,432</u>	<u>7,245,651</u>
Net assets:		
Unrestricted:		
Operating	<u>15,319,464</u>	<u>14,425,055</u>
Temporarily restricted:		
Operations	4,966,895	4,867,191
Financing	2,300,377	2,242,620
Re-granting	122,821	79,515
Total temporarily restricted net assets	<u>7,390,093</u>	<u>7,189,326</u>
Total net assets	<u>22,709,557</u>	<u>21,614,381</u>
Total liabilities and net assets	<u>\$ 30,130,989</u>	<u>\$ 28,860,032</u>

See accompanying notes to
consolidated financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	\$ 74,700	\$ 3,732,528	\$ 3,807,228
Government grants	500,000	592,536	1,092,536
Project income	92,536	54,240	146,776
Rent and lease income	8,425		8,425
Miscellaneous income	5,712	105,317	111,029
Total non-financing revenues and support	<u>681,373</u>	<u>4,484,621</u>	<u>5,165,994</u>
Financing revenues			
Interest income on loans	585,989	94,072	680,061
Fee income on loans	50,402	22	50,424
Interest on idle funds	37,384	852	38,236
Realized loss on program investments	0		0
Total financing revenues	<u>673,775</u>	<u>94,946</u>	<u>768,721</u>
Satisfaction of program and time restrictions	<u>4,378,800</u>	<u>(4,378,800)</u>	<u>-0-</u>
Total revenues and other support	<u>5,733,948</u>	<u>200,767</u>	<u>5,934,715</u>
Expenses:			
Non-financing expenses			
Program	4,030,861		4,030,861
Fundraising	49,909		49,909
Management and general	620,088		620,088
Total non-financing expenses	<u>4,700,858</u>	<u>-0-</u>	<u>4,700,858</u>
Financing expenses			
Interest	84,891		84,891
Provision for loan losses	53,790		53,790
Total financing expenses	<u>138,681</u>	<u>-0-</u>	<u>138,681</u>
Total expenses	<u>4,839,539</u>	<u>-0-</u>	<u>4,839,539</u>
Change in net assets	894,409	200,767	1,095,176
Net assets, beginning of year	<u>14,425,055</u>	<u>7,189,326</u>	<u>21,614,381</u>
Net assets, end of year	<u>\$ 15,319,464</u>	<u>\$ 7,390,093</u>	<u>\$ 22,709,557</u>

See accompanying notes to
consolidated financial statements.

**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	<u>229,828</u>	<u>2,184,343</u>	<u>2,414,171</u>
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 gain on program investments	(7,493)		(7,493)
Total financing revenues	<u>629,288</u>	<u>71,936</u>	<u>701,224</u>
Satisfaction of program and time restrictions	<u>3,670,361</u>	<u>(3,670,361)</u>	<u>-0-</u>
Total revenues and other support	<u>4,529,477</u>	<u>(1,414,082)</u>	<u>3,115,395</u>
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	<u>3,862,988</u>	<u>-0-</u>	<u>3,862,988</u>
Financing expenses			
Interest	90,702		90,702
Provision for loan losses	144,324		144,324
Total financing expenses	<u>235,026</u>	<u>-0-</u>	<u>235,026</u>
Total expenses	<u>4,098,014</u>	<u>-0-</u>	<u>4,098,014</u>
Change in net assets	431,463	(1,414,082)	(982,619)
Net assets, beginning of year	<u>13,993,592</u>	<u>8,603,408</u>	<u>22,597,000</u>
Net assets, end of year	<u>\$ 14,425,055</u>	<u>\$ 7,189,326</u>	<u>\$ 21,614,381</u>

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, 2017

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	\$ 1,904,965	\$ 45,032	\$ 480,312	\$ 2,430,309
Consultants and professional services				
Consultants	601,022	900	7,199	609,121
Professional services	6,933		38,505	45,438
IT services	111,164	30	25,450	136,644
Interns and contract labor	1,646		1,414	3,060
Travel and meetings				
Travel	139,635	195	4,096	143,926
Meetings, registration and training	88,969	748	21,733	111,450
Maintenance, lease and equipment purchase				
Equipment lease	4,032	86	954	5,072
Equipment and software expense	26,993	1,426	9,495	37,914
Repairs and maintenance	29,203	18	10,288	39,509
Office operations				
Rent and utilities	24,921	411	4,349	29,681
Insurance	19,670	38	4,082	23,790
Postage	1,843	24	336	2,203
Supplies	29,001	224	4,659	33,884
Telephone	15,580	451	3,011	19,042
Depreciation	42,997	65	696	43,758
Re-grants	880,407			880,407
Other				
Advertising and promotion	40,142		21	40,163
Publications, memberships, and subscriptions	11,753	113	1,223	13,089
Printing and duplication	7,648	112	908	8,668
Carbon offsets expense	2,790			2,790
Licenses and fees	31,787	33	1,323	33,143
Taxes	7,760	3	34	7,797
Total non-financing expenses	<u>4,030,861</u>	<u>49,909</u>	<u>620,088</u>	<u>4,700,858</u>
Financing expenses:				
Interest	84,891			84,891
Provision for loan losses	53,790			53,790
Total financing expenses	<u>138,681</u>	<u>-0-</u>	<u>-0-</u>	<u>138,681</u>
Total expenses	<u>\$ 4,169,542</u>	<u>\$ 49,909</u>	<u>\$ 620,088</u>	<u>\$ 4,839,539</u>

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, 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
	<u>3,223,717</u>	<u>87,652</u>	<u>551,619</u>	<u>3,862,988</u>
Financing expenses:				
Interest	90,702			90,702
Provision for loan losses	144,324			144,324
	<u>235,026</u>	<u>-0-</u>	<u>-0-</u>	<u>235,026</u>
Total financing expenses	<u>235,026</u>	<u>-0-</u>	<u>-0-</u>	<u>235,026</u>
Total expenses	<u>\$ 3,458,743</u>	<u>\$ 87,652</u>	<u>\$ 551,619</u>	<u>\$ 4,098,014</u>

See accompanying notes to consolidated financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,095,176	\$ (982,619)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	43,758	48,333
Provision for loan losses	53,790	144,324
Realized loss (gain) on program investments		7,493
Changes in operating assets and liabilities:		
Accounts and interest receivable	85,743	(88,017)
Grants receivable	(536,349)	1,686,755
Prepaid expenses and other assets	(2,309)	8,500
Accounts payable and accrued expenses	(15,649)	26,021
Deferred revenue	(3,249)	(50,600)
Net cash flows from operating activities	720,911	800,190
Cash flows from investing activities:		
Proceeds from sales of investments	0	112,507
Purchases of investments and reinvested interest	(13,720)	(1,020)
Purchase of property and equipment	(2,584)	(18,489)
Loans to other entities	(3,704,842)	(2,924,488)
Principal collections on loans receivable	2,528,721	2,604,315
Net cash flows from investing activities	(1,192,425)	(227,175)
Cash flows from financing activities:		
Proceeds from notes payable	500,000	250,000
Principal payments on notes payable	(305,321)	(973,949)
Net cash flows from financing activities	194,679	(723,949)
Net change in cash and cash equivalents	(276,835)	(150,934)
Cash and cash equivalents, beginning of year	14,164,423	14,315,357
Cash and cash equivalents, end of year	\$ 13,887,588	\$ 14,164,423

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 85,230	\$ 92,715
Property received in lieu of payment for loans receivable	\$ 7,500	\$ 95,000

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, MACED considers cash and certificates of deposits with no pre-payment 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, 2017 and 2016. 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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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, 2017 and 2016 amounted to approximately \$40,000 and \$17,000, 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 25, 2017, which is the date the financial statements were available to be issued.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period one year from the date the financial statements are available to be issued.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

Carbon Offsets

During fiscal year 2008, MACED created a program to quantify and market carbon offsets. MACED's role in this program was 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 marketed the offsets to individuals and businesses interested in offsetting their carbon footprint via a tax-deductible donation. The program was discontinued December 31, 2016.

During fiscal years 2017 and 2016, MACED received payments of approximately \$3,000 and \$4,000 for the purpose of retiring carbon offsets and made payments to landowners totaling approximately \$6,700 and \$0.

2. LOANS RECEIVABLE

At April 30, 2017 and 2016, loans receivable consist of current amounts, at gross, of approximately \$1,557,000 and \$1,390,000 and noncurrent amounts of \$10,534,000 and \$9,563,000, respectively.

MACED's loans receivable are comprised of two segments:

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

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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:

	<u>2017</u>	<u>2016</u>
Loans receivable	\$ 12,091,233	\$ 10,953,403
Less allowance for loan losses	<u>570,015</u>	<u>547,016</u>
Loans receivable, net	<u>\$ 11,521,218</u>	<u>\$ 10,406,387</u>

Loans serving as collateral on notes payable amounted to approximately \$2,422,000 and \$1,612,000, respectively, at April 30, 2017 and 2016.

Accrued interest receivable amounted to approximately \$39,200 and \$39,300 at April 30, 2017 and 2016, respectively.

Non-accrual loans totaled approximately \$52,000 and \$99,000 at April 30, 2017 and 2016, respectively.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

Aging

The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2017:

	Current	30-59 days past due	60-89 days past due	90+ days past due	Total
Enterprise development loans					
Microloans	\$ 1,524,672	\$ 42,014	\$ 28,690	\$ -0-	\$ 1,595,376
Other enterprise loans	9,228,993	-0-	148,222	45,075	9,422,290
Total enterprise development loans	10,753,665	42,014	176,912	45,075	11,017,666
HowSmart loans to utilities	1,073,567	-0-	-0-	-0-	1,073,567
Total loans	<u>\$ 11,827,232</u>	<u>\$ 42,014</u>	<u>\$ 176,912</u>	<u>\$ 45,075</u>	<u>\$ 12,091,233</u>

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	8,663,016	220,007	-0-	70,852	8,953,875
Total enterprise development loans	9,521,513	261,038	-0-	79,683	9,862,234
HowSmart loans to utilities	1,091,169	-0-	-0-	-0-	1,091,169
Total loans	<u>\$ 10,612,682</u>	<u>\$ 261,038</u>	<u>\$ -0-</u>	<u>79,683</u>	<u>\$ 10,953,403</u>

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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, 2017:

	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	Total Loans
Enterprise development loans							
Microloans	\$ -0-	\$ 542,861	\$ 453,932	\$ 499,286	\$ 93,147	\$ 6,150	\$ 1,595,376
Other enterprise loans	824,125	4,536,816	2,490,625	1,205,869	364,855	-0-	9,422,290
Total enterprise development loans	824,125	5,079,677	2,944,557	1,705,155	458,002	6,150	11,017,666
HowSmart loans to utilities	-0-	448,117	625,450	-0-	-0-	-0-	1,073,567
Total loans	\$ 824,125	\$ 5,527,794	\$ 3,570,007	\$ 1,705,155	\$ 458,002	\$ 6,150	\$ 12,091,233

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-	\$ 332,921	\$ 225,377	\$ 266,982	\$ 63,335	\$ 19,744	\$ 908,359
Other enterprise loans	897,793	4,523,169	1,990,643	889,391	582,027	70,852	8,953,875
Total enterprise development loans	897,793	4,856,090	2,216,020	1,156,373	645,362	90,596	9,862,234
HowSmart loans to utilities	-0-	481,677	609,492	-0-	-0-	-0-	1,091,169
Total loans	\$ 897,793	\$ 5,337,767	\$ 2,825,512	\$ 1,156,373	\$ 645,362	\$ 90,596	\$ 10,953,403

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 547,016	\$ 606,376
Provision charged to operations	53,790	144,324
Less charge-offs	65,224	298,021
Recoveries	34,433	94,337
Ending balance	<u>\$ 570,015</u>	<u>\$ 547,016</u>

The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2017:

	<u>Beginning Balance</u>	<u>Provision Charged to Operations</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Ending Balance</u>
Enterprise development loans					
Microloans	\$ 67,164	\$ 53,668	\$ (44,188)	\$ 28,543	\$ 105,187
Other enterprise loans	439,744	(5)	(21,036)	5,890	424,593
Total enterprise development loans	506,908	53,663	(65,224)	34,433	529,780
How\$mart loans to utilities	40,108	127	-0-	-0-	40,235
Total loans	<u>\$ 547,016</u>	<u>\$ 53,790</u>	<u>\$ (65,224)</u>	<u>\$ 34,433</u>	<u>\$ 570,015</u>

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

	<u>Beginning Balance</u>	<u>Provision Charged to Operations</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Ending Balance</u>
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	<u>\$ 606,376</u>	<u>\$ 144,324</u>	<u>\$ (298,021)</u>	<u>\$ 94,337</u>	<u>\$ 547,016</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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:

	<u>2017</u>	<u>2016</u>
Impaired loans with a valuation allowance	\$ <u>79,915</u>	\$ <u>99,426</u>
Valuation allowance related to impaired loans	\$ <u>17,828</u>	\$ <u>47,064</u>
Average investment in impaired loans	\$ <u>13,319</u>	\$ <u>16,571</u>
Interest income recognized on impaired loans	\$ <u>2,983</u>	\$ <u>1,926</u>
Interest income recognized on a cash basis on impaired loans	\$ <u>3,217</u>	\$ <u>1,927</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2017:

	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	\$ 77,897	\$ 16,819	\$ <u>15,579</u>	\$ 2,779	\$ 3,010
Other enterprise loans	<u>2,018</u>	<u>1,009</u>	<u>\$ 2,018</u>	<u>204</u>	<u>207</u>
Total enterprise development	79,915	17,828	<u>\$ 13,319</u>	2,983	3,217
HowSmart loans to utilities	-0-	-0-		-0-	-0-
Total loans	<u>\$ 79,915</u>	<u>\$ 17,828</u>	<u>\$ 13,319</u>	<u>\$ 2,983</u>	<u>\$ 3,217</u>

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	\$ <u>5,715</u>	\$ 1,926	\$ 1,927
Other enterprise loans	<u>70,852</u>	<u>35,426</u>	<u>\$ 70,852</u>	<u>-0-</u>	<u>-0-</u>
Total enterprise development	99,426	47,064	<u>\$ 16,571</u>	1,926	1,927
HowSmart loans to utilities	-0-	-0-		-0-	-0-
Total loans	<u>\$ 99,426</u>	<u>\$ 47,064</u>	<u>\$ 16,571</u>	<u>\$ 1,926</u>	<u>\$ 1,927</u>

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

The following is an analysis of troubled debt restructurings as of April 30, 2017:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	\$ 100,266	8	\$ -0-	-0-	\$ 100,266	8
Other enterprise loans	342,171	3	-0-	-0-	342,171	3
Total enterprise development loans	442,437	11	-0-	-0-	442,437	11
How\$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	\$ 442,437	\$ 11	\$ -0-	-0-	\$ 442,437	\$ 11

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

3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30:

	2017	2016
Land	\$ 40,000	\$ 40,000
Buildings and improvements	946,973	948,006
Equipment	113,553	126,805
Automobiles	83,636	83,636
	<u>1,184,162</u>	<u>1,198,447</u>
Accumulated depreciation	(706,926)	(680,037)
Property and equipment, net	<u>\$ 477,236</u>	<u>\$ 518,410</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30:

	<u>2017</u>	<u>2016</u>
Government grants receivable:		
Appalachian Regional Commission	\$ 138,177	\$ 0
U.S. Small Business Administration	42,026	25,507
U.S. Department of Agriculture	16,507	3,895
Local Initiatives Support Corporation	4,217	1,676
Tennessee Valley Authority	0	4,000
	<u>200,927</u>	<u>35,078</u>
Other grants receivable:		
The Chorus Foundation (see below)	1,721,000	1,948,000
JPB Foundation	1,000,000	-0-
Mary Reynolds Babcock Foundation	157,500	600,000
Ford Foundation	150,000	-0-
Marguerite Casey Foundation	150,000	-0-
The Limestone Foundation	75,000	-0-
New Venture Fund	60,000	-0-
Stoneman Family Foundation	-0-	350,000
Charles M. & Mary D. Grant Foundation	-0-	45,000
	<u>3,313,500</u>	<u>2,943,000</u>
Grants receivable	\$ <u>3,514,427</u>	\$ <u>2,978,078</u>
Total amounts due for the year ended April 30:		
2018	\$ 2,173,427	
2019	330,000	
2020	330,000	
2021	330,000	
2022	330,000	
2023	330,000	
	<u>3,823,427</u>	
Present value discount	<u>(309,000)</u>	
Grants receivable	\$ <u>3,514,427</u>	

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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 2015 and 2016. The receivable at April 30, 2017 reflects a net present value discount of \$309,000 computed using a discount rate of 6.0%. Amounts for current and long-term receivables for this grant at April 30, 2017 are \$330,000 and \$1,341,000 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 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 in fiscal year 2016 and \$275,000 in fiscal year 2017. \$137,500 is due in fiscal year 2018. 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 \$50,000 and \$20,000, respectively, at April 30, 2017 and 2016 for separate grants from Babcock.

In October 2016, MACED received a grant from The JPB Foundation for \$2,000,000 to be paid in equal installments of \$1,000,000 in November 2016 and 2017. MACED received \$1,000,000 in fiscal year 2016. The remainder of \$1,000,000 is due as of April 30, 2017.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

5. INVESTMENTS

Investments consist of the following as of April 30:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 482,233	\$ 468,513
Equities, non-publicly traded stocks	56,250	56,250
Collateral held for resale, real property	95,000	95,000
Collateral held for resale, equipment	7,500	-0-
Total investments	<u>\$ 640,983</u>	<u>\$ 619,763</u>

During fiscal years 2017 and 2016, MACED acquired property valued at \$7,500 and \$95,000, 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. There were no sales in fiscal year 2017.

Equities are reported using the cost method and were evaluated for impairment at April 30, 2017 and 2016. There were no amounts for accumulated impairment at April 30, 2017 and 2016.

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

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

6. NOTES PAYABLE

Notes payable consist of the following at April 30:

	<u>2017</u>	<u>2016</u>
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.	\$ 404,827	\$ 453,356
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.	301,225	329,765
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.	413,873	441,298
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.	468,093	494,982
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.	574,437	600,272
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.	625,369	650,700

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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 2022.	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 2022.	75,000	75,000
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 (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.	287,334	378,540
SBA (September 2015), collateralized by all accounts receivable outstanding or arising from MACED SBA Microloan Program, all funds held in MACED SBA Loan Loss Reserve Fund bank account, and collateral on loans made through MACED SBA Microloan Program. Interest at 0.38 percent. Monthly payments of \$4,718. Matures August 2025.	718,434	250,000

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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	6,651,925	6,457,246
Less current maturities	361,258	291,483
Long-term portion	\$ 6,290,667	\$ 6,165,763

In May 2016, MACED renewed a \$500,000 operating line of credit from Citizens Bank. As of April 30, 2017, 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 2018.

In August 2014, MACED renewed a \$250,000 operating line of credit from Cumberland Security Bank. As of April 30, 2017, 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 \$955,000 and \$620,000, respectively, at April 30, 2017 and 2016. Total assets of AIC derived from USDA loans were approximately \$3,567,000 and \$3,721,000, respectively, at April 30, 2017 and 2016.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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

Year Ending April 30:			
2018	\$	361,258	
2019		1,656,135	
2020		1,041,166	
2021		942,013	
2022		277,570	
2023 - 2039		2,373,783	
	\$	<u>6,651,925</u>	

7. SUBORDINATED LOANS PAYABLE

Subordinated loans payable consist of the following at April 30:

	<u>2017</u>	<u>2016</u>
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 (3.00% 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	<u>\$ 500,000</u>	<u>\$ 500,000</u>

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	
	\$	<u>500,000</u>	

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

8. RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Community development	\$ 3,824,966	\$ 3,331,693
Research and policy	891,377	1,036,123
Energy sector	215,072	263,997
Central Appalachian Network	48,678	186,299
Appalachia Funders Network	19,145	9,680
Natural resources	-0-	7,188
Enterprise development:		
Operations only	90,478	111,726
Financing	2,300,377	2,242,620
	<u>\$ 7,390,093</u>	<u>\$ 7,189,326</u>

There were no permanently restricted net assets at April 30, 2017 and 2016.

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, 2017 and 2016, employer contributions to the Plan were approximately \$93,000 and \$85,000, 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, 2017 and 2016, MACED had cash balances of approximately \$222,000 and \$37,000, respectively, in excess of federally insured limits and which were not collateralized. At April 30, 2017 and 2016, MACED had cash balances of approximately \$12,615,000 and \$12,609,000, respectively, which were collateralized.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

For the year ended April 30, 2017, approximately 51% of MACED's grant revenues were from two grantors. For the year ended April 30, 2016, approximately 50% of MACED's grant revenues were from three grantors.

As of April 30, 2017, approximately 57% of loans receivable were due from 16 customers. As of April 30, 2016, approximately 55% of loans receivable were due from 15 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 2017 and 2016. In fiscal year 2017, MACED loaned \$500,000 to an entity for which one of MACED's board members is an employee. The board member does not serve on MACED's loan committee or the loan recipient's board or executive committee.

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.
---------	--

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 95,000	\$ 120,000
Amounts obtained in lieu of loans receivable	7,500	95,000
Proceeds from sales	0	(112,507)
Losses on sales	0	(7,493)
Ending balance	<u>\$ 102,500</u>	<u>\$ 95,000</u>

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 2017 or 2016, 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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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, 2017 and 2016, 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, 2017, Ridgecrest had federal net operating loss carryforwards of approximately \$175,000, 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, 2017 and 2016. The property is being held for potential future use. At April 30, 2017 and 2016, the net book value of the building and associated real estate was approximately \$52,000 and \$58,000, respectively.

17. SUBSEQUENT EVENTS

Subsequent to April 30, 2017, MACED was awarded several grants from private foundations and government entities. The total amount of these grants totaled approximately \$420,000. Also, subsequent to April 30, 2017, MACED obtained a loan from SBA for \$350,000.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

18. ADOPTION OF NEW PRONOUNCEMENT

In fiscal year 2017, MACED adopted Accounting Standards Update (ASU) No 2014-15, *Presentation of Financial Statements - Going Concern (Topic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued. When conditions or events that raise substantial doubt exist, additional disclosures will be required to enable financial statement users to understand those conditions or events, management's evaluation of them and management's plan that either alleviated substantial doubt, or are intended to mitigate the conditions or events that raise substantial doubt. The adoption of ASU No. 2014-15 did not have a material effect on the accompanying financial statements.

19. UPCOMING PRONOUNCEMENTS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which MACED is not required to adopt until its year ending April 30, 2020, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new standard, which MACED is not required to adopt until its year ending April 30, 2020, is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The primary impact on MACED will be that changes in the fair value of equity investments will be recognized in net income, rather than in other comprehensive income as currently required.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which MACED is not required to adopt until its year ending April 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which MACED is not required to adopt until its year ending April 30, 2020, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

MACED is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2017

	MACED	AIC	Ridgecrest	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ 10,370,033	\$	\$ 100,232	\$	\$ 10,470,265
Cash and cash equivalents, restricted	1,369,759	2,047,564			3,417,323
Loans receivable, current portion, net	1,169,730	322,443		(18,137)	1,474,036
Accounts and interest receivable	60,349	5,662		(6,369)	59,642
Grants receivable, current portion	2,173,427				2,173,427
Prepaid expenses and other assets	28,588		1,307		29,895
Total current assets	<u>15,171,886</u>	<u>2,375,669</u>	<u>101,539</u>	<u>(24,506)</u>	<u>17,624,588</u>
Property and equipment, net	<u>12,516</u>	<u>-0-</u>	<u>464,720</u>	<u>-0-</u>	<u>477,236</u>
Other assets:					
Investments	581,109			(422,359)	158,750
Investments, restricted	482,233				482,233
Grants receivable, less current portion	1,341,000				1,341,000
Loans receivable, less current portion, net	8,977,197	1,191,704		(121,719)	10,047,182
Total other assets	<u>11,381,539</u>	<u>1,191,704</u>	<u>-0-</u>	<u>(544,078)</u>	<u>12,029,165</u>
Total assets	<u>\$ 26,565,941</u>	<u>\$ 3,567,373</u>	<u>\$ 566,259</u>	<u>\$ (568,584)</u>	<u>\$ 30,130,989</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Notes payable, current portion	\$ 176,883	\$ 184,375	\$ 18,137	\$ (18,137)	\$ 361,258
Accounts payable and accrued expenses	219,546	14,402	4,044	(6,369)	231,623
Deferred revenue	37,884				37,884
Total current liabilities	<u>434,313</u>	<u>198,777</u>	<u>22,181</u>	<u>(24,506)</u>	<u>630,765</u>
Long-term liabilities:					
Notes payable, less current portion	3,687,218	2,603,449	121,719	(121,719)	6,290,667
Subordinated loans payable	500,000				500,000
Total long-term liabilities	<u>4,187,218</u>	<u>2,603,449</u>	<u>121,719</u>	<u>(121,719)</u>	<u>6,790,667</u>
Total liabilities	<u>4,621,531</u>	<u>2,802,226</u>	<u>143,900</u>	<u>(146,225)</u>	<u>7,421,432</u>
Net assets:					
Unrestricted:					
Operating	14,554,317	765,147	422,359	(422,359)	15,319,464
Temporarily restricted:					
Operations	4,966,895				4,966,895
Financing	2,300,377				2,300,377
Re-granting	122,821				122,821
Total temporarily restricted net assets	<u>7,390,093</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>7,390,093</u>
Total net assets	<u>21,944,410</u>	<u>765,147</u>	<u>422,359</u>	<u>(422,359)</u>	<u>22,709,557</u>
Total liabilities and net assets	<u>\$ 26,565,941</u>	<u>\$ 3,567,373</u>	<u>\$ 566,259</u>	<u>\$ (568,584)</u>	<u>\$ 30,130,989</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2016

	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	1,145,363	192,963		(17,100)	1,321,226
Accounts and interest receivable	147,167	3,679		(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	<u>14,008,452</u>	<u>2,851,749</u>	<u>93,558</u>	<u>(22,561)</u>	<u>16,931,198</u>
Property and equipment, net	<u>20,946</u>	<u>-0-</u>	<u>497,464</u>	<u>-0-</u>	<u>518,410</u>
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	<u>11,111,225</u>	<u>869,589</u>	<u>-0-</u>	<u>(570,390)</u>	<u>11,410,424</u>
Total assets	<u>\$ 25,140,623</u>	<u>\$ 3,721,338</u>	<u>\$ 591,022</u>	<u>\$ (592,951)</u>	<u>\$ 28,860,032</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Notes payable, current portion	\$ 108,935	\$ 182,548	\$ 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	<u>396,869</u>	<u>184,948</u>	<u>20,632</u>	<u>(22,561)</u>	<u>579,888</u>
Long-term liabilities:					
Notes payable, less current portion	3,365,110	2,800,653	139,854	(139,854)	6,165,763
Subordinated loans payable	500,000				500,000
Total long-term liabilities	<u>3,865,110</u>	<u>2,800,653</u>	<u>139,854</u>	<u>(139,854)</u>	<u>6,665,763</u>
Total liabilities	<u>4,261,979</u>	<u>2,985,601</u>	<u>160,486</u>	<u>(162,415)</u>	<u>7,245,651</u>
Net assets:					
Unrestricted:					
Operating	<u>13,689,318</u>	<u>735,737</u>	<u>430,536</u>	<u>(430,536)</u>	<u>14,425,055</u>
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	<u>7,189,326</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>7,189,326</u>
Total net assets	<u>20,878,644</u>	<u>735,737</u>	<u>430,536</u>	<u>(430,536)</u>	<u>21,614,381</u>
Total liabilities and net assets	<u>\$ 25,140,623</u>	<u>\$ 3,721,338</u>	<u>\$ 591,022</u>	<u>\$ (592,951)</u>	<u>\$ 28,860,032</u>

See report of independent auditors.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2017

	MACED		AIC	Ridgecrest	Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted		
Revenues and other support:						
Non-financing revenues and support						
Private grants and contributions	\$ 74,700	\$ 3,732,528	\$	\$	\$	\$ 3,807,228
Government grants	500,000	592,536				1,092,536
Project income	121,336	54,240			(28,800)	146,776
Rent and lease income	6,675			79,300	(77,550)	8,425
Miscellaneous income	637	105,317		5,075		111,029
Total non-financing revenues and support	<u>703,348</u>	<u>4,484,621</u>	<u>-0-</u>	<u>84,375</u>	<u>(106,350)</u>	<u>5,165,994</u>
Financing revenues						
Interest income on loans	507,864	94,072	87,064		(8,939)	680,061
Fee income on loans	50,197	22	205			50,424
Interest on idle funds	30,896	852	6,382	106		38,236
Total financing revenues	<u>588,957</u>	<u>94,946</u>	<u>93,651</u>	<u>106</u>	<u>(8,939)</u>	<u>768,721</u>
Satisfaction of program and time restrictions	<u>4,378,800</u>	<u>(4,378,800)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total revenues and other support	<u>5,671,105</u>	<u>200,767</u>	<u>93,651</u>	<u>84,481</u>	<u>(115,289)</u>	<u>5,934,715</u>
Expenses:						
Non-financing expenses						
Program	4,032,824		28,845	83,719	(114,527)	4,030,861
Fundraising	49,909					49,909
Management and general	620,088					620,088
Total non-financing expenses	<u>4,702,821</u>	<u>-0-</u>	<u>28,845</u>	<u>83,719</u>	<u>(114,527)</u>	<u>4,700,858</u>
Financing expenses						
Interest	56,013		28,878	8,939	(8,939)	84,891
Provision for loan losses	47,272		6,518			53,790
Total financing expenses	<u>103,285</u>	<u>-0-</u>	<u>35,396</u>	<u>8,939</u>	<u>(8,939)</u>	<u>138,681</u>
Total expenses	<u>4,806,106</u>	<u>-0-</u>	<u>64,241</u>	<u>92,658</u>	<u>(123,466)</u>	<u>4,839,539</u>
Change in net assets	864,999	200,767	29,410	(8,177)	8,177	1,095,176
Net assets, beginning of year	<u>13,689,318</u>	<u>7,189,326</u>	<u>735,737</u>	<u>430,536</u>	<u>(430,536)</u>	<u>21,614,381</u>
Net assets, end of year	<u>\$ 14,554,317</u>	<u>\$ 7,390,093</u>	<u>\$ 765,147</u>	<u>\$ 422,359</u>	<u>\$ (422,359)</u>	<u>\$ 22,709,557</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2016

	MACED		AIC	Ridgecrest	Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted		
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	<u>250,378</u>	<u>2,184,343</u>	<u>-0-</u>	<u>79,200</u>	<u>(99,750)</u>	<u>2,414,171</u>
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)					(7,493)
Total financing revenues	<u>552,000</u>	<u>71,936</u>	<u>87,149</u>	<u>106</u>	<u>(9,967)</u>	<u>701,224</u>
Satisfaction of program and time restrictions	<u>3,670,361</u>	<u>(3,670,361)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total revenues and other support	<u>4,472,739</u>	<u>(1,414,082)</u>	<u>87,149</u>	<u>79,306</u>	<u>(109,717)</u>	<u>3,115,395</u>
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	<u>3,864,538</u>	<u>-0-</u>	<u>28,861</u>	<u>76,017</u>	<u>(106,428)</u>	<u>3,862,988</u>
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	<u>153,566</u>	<u>-0-</u>	<u>81,460</u>	<u>9,967</u>	<u>(9,967)</u>	<u>235,026</u>
Total expenses	<u>4,018,104</u>	<u>-0-</u>	<u>110,321</u>	<u>85,984</u>	<u>(116,395)</u>	<u>4,098,014</u>
Change in net assets	454,635	(1,414,082)	(23,172)	(6,678)	6,678	(982,619)
Net assets, beginning of year	<u>13,234,683</u>	<u>8,603,408</u>	<u>758,909</u>	<u>437,214</u>	<u>(437,214)</u>	<u>22,597,000</u>
Net assets, end of year	<u>\$ 13,689,318</u>	<u>\$ 7,189,326</u>	<u>\$ 735,737</u>	<u>\$ 430,536</u>	<u>\$ (430,536)</u>	<u>\$ 21,614,381</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2017

Federal Grantor/Program	CFDA Number	Grantor Number	Expenditures	Passthrough
<u>MAJOR PROGRAMS</u>				
<u>Appalachia Regional Commission</u>				
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	\$ 649,843	\$
Appalachian Philanthropic Engagement	23.002	CO-17953-14	68,775	
Appalachian Philanthropic Engagement	23.002	CO-17953-C1-17	32,116	
Economic Transition for Eastern Kentucky Initiative	23.002	CO-17953-14	246,698	
			<u>997,432</u>	<u>0</u>
<u>NONMAJOR PROGRAMS</u>				
<u>U.S. Department of Treasury</u>				
Community Development Financial Institutions Fund	21.020	141FA012771	123,962	-0-
<u>Small Business Administration (SBA)</u>				
SBA Microloan Program	59.046	SBAHQ-15-Y-0109	24,395	
SBA Microloan Program	59.046	SBAHQ-16-Y-0053	88,395	
			<u>112,790</u>	<u>-0-</u>
<u>Department of Housing & Urban Development</u>				
Capacity Building Grant (Local Initiative Support Corporation)	14.252	PA#41942-0023	23,091	
Culture/Creative Placemaking (LISC)	14.252	PA#41942-0024	537	
Turning the Tide on Persistent Rural Poverty (LISC)	14.252	PA#41942-0025	2,000	
			<u>25,628</u>	<u>-0-</u>
<u>USDA Rural Development</u>				
Regional Approaches to Forest-Based Community Economic Development	10.351	RBS 14.40	3,336	
<u>United States Department of Agriculture Rural Housing Service</u>				
Rural Community Development Initiative	10.446	20-076-310900246	90,097	52,309
Total nonmajor programs			<u>355,813</u>	<u>52,309</u>
Total			<u>\$ 1,353,245</u>	<u>\$ 52,309</u>

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

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**

NOTES TO CONSOLIDATED SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2017

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. For certain grants, MACED has obtained a negotiated indirect cost rate. For other grants, MACED elected to use the 10% de minimis indirect cost rate.

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, 2017 consist of the following:

IRP #1 - USDA (August 1994)	\$ 404,827
IRP #2 - USDA (August 1996)	301,225
IRP #3 - USDA (August 2000)	413,873
IRP #4 - USDA (April 2003)	468,093
IRP #5 - USDA (October 2006)	574,437
IRP #6 - USDA (March 2009)	625,369
U.S. Small Business Administration (May 2010)	287,334
U.S. Small Business Administration (September 2015)	718,434
Total	<u>\$ 3,793,592</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**

NOTES TO CONSOLIDATED SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2017

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 2017 financial statements:

Expenditures per SEFA	\$ 1,353,245
Non-federal grants	16,432
RLF funds received in prior years, reflected on current year SEFA per the Guidelines	(649,843)
Revenues received in current year, restricted	500,000
Revenues received in prior years, expended in current year	<u>(127,298)</u>
Government grants revenue per financial statements	<u>\$ 1,092,536</u>



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

**REPORT OF INDEPENDENT AUDITORS 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, 2017, 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 25, 2017.

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 25, 2017



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

REPORT OF INDEPENDENT AUDITORS 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

Report on Compliance for Each Major 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 Compliance Supplement* that could have a direct and material effect on each of MACED's major federal programs for the year ended April 30, 2017. 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 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, 2017.

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 25, 2017

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2017

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:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
23.002	Appalachian Area Development
23.011	Appalachian Research, Technical Assistance and Demonstration Projects

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, 2017

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, 2016

No findings or questioned costs were reported for the year ended April 30, 2016.