

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

**CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

April 30, 2009 and 2008

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

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of Mountain Association for Community Economic Development, Inc. and Affiliates as of April 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain Association for Community Economic Development, Inc. and Affiliates as of April 30, 2009 and 2008 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2009 on our consideration of Mountain Association for Community Economic Development, Inc. and Affiliates' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mountain Association for Community Economic Development, Inc. and Affiliates taken as a whole. The accompanying Consolidated Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Potter & Company, LLP*

POTTER & COMPANY, LLP  
July 28, 2009



**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
April 30, 2009 and 2008

<u>ASSETS</u>		
	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 4,864,605	\$ 4,335,173
Current portion of loans receivable, net of allowance for bad debts of \$175,171 and \$111,463	1,266,698	1,427,683
Accounts receivable	57,464	75,477
Grants receivable	1,805,467	1,154,641
Prepaid expenses	4,256	6,809
Total current assets	<u>7,998,490</u>	<u>6,999,783</u>
Property and equipment, net	<u>628,241</u>	<u>684,545</u>
Other assets:		
Investments	322,550	202,550
Loans receivable, net of allowance for bad debts of \$650,292 and \$381,075	<u>6,249,022</u>	<u>5,545,377</u>
Total other assets	<u>6,571,572</u>	<u>5,747,927</u>
Total assets	<u>\$ 15,198,303</u>	<u>\$ 13,432,255</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion notes payable	\$ 462,923	\$ 619,704
Accounts payable and accrued expenses	220,219	186,798
Deferred revenue	<u>1,186,194</u>	<u>126,153</u>
Total current liabilities	<u>1,869,336</u>	<u>932,655</u>
Long-term liabilities:		
Notes payable, less current portion	5,446,334	5,384,860
Subordinated loans payable	<u>700,000</u>	<u>700,000</u>
Total long-term liabilities	<u>6,146,334</u>	<u>6,084,860</u>
Total liabilities	<u>8,015,670</u>	<u>7,017,515</u>
Net assets:		
Unrestricted:		
Operating	2,182,292	1,789,636
Board designated	<u>20,000</u>	<u>20,000</u>
Total unrestricted net assets	2,202,292	1,809,636
Temporarily restricted	<u>4,980,341</u>	<u>4,605,104</u>
Total net assets	<u>7,182,633</u>	<u>6,414,740</u>
Total liabilities and net assets	<u>\$ 15,198,303</u>	<u>\$ 13,432,255</u>

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

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2009

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Revenues and other support:			
Grants	\$ 251,000	\$ 2,881,803	\$ 3,132,803
Project and fee income	50,765	44,072	94,837
Interest and dividend income	447,440	161,644	609,084
Rental income	14,400		14,400
Other	8,858		8,858
Realized loss on investments	(10,595)		(10,595)
Realized loss on property and equipment	(1,779)		(1,779)
Net assets released from restriction:			
Satisfaction of program restrictions	<u>2,712,282</u>	<u>(2,712,282)</u>	<u>0</u>
Total revenues and other support	<u>3,472,371</u>	<u>375,237</u>	<u>3,847,608</u>
Expenses:			
Salaries and wages	1,113,898		1,113,898
Payroll taxes and fringe benefits	284,379		284,379
Professional services	318,017		318,017
Contract labor	10,538		10,538
Office and computer supplies	32,504		32,504
Travel	62,130		62,130
Rent and utilities	16,746		16,746
Insurance	7,484		7,484
Postage	5,447		5,447
Duplication and printing	9,409		9,409
Telephone	27,429		27,429
Advertising and promotion	7,466		7,466
Data services	24,264		24,264
Maintenance and equipment	46,036		46,036
Miscellaneous	7,576		7,576
Meetings, registration and training	49,080		49,080
Publications and subscriptions	22,439		22,439
Depreciation	54,554		54,554
Grants	306,496		306,496
Taxes	10,655		10,655
Interest	86,341		86,341
Bad debt expense	<u>576,827</u>		<u>576,827</u>
Total expenses	<u>3,079,715</u>	<u>0</u>	<u>3,079,715</u>
Change in net assets	392,656	375,237	767,893
Net assets at beginning of year	<u>1,809,636</u>	<u>4,605,104</u>	<u>6,414,740</u>
Net assets at end of year	<u>\$ 2,202,292</u>	<u>\$ 4,980,341</u>	<u>\$ 7,182,633</u>

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

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2008

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Revenues and other support:			
Grants	\$ 180,000	\$ 3,207,602	\$ 3,387,602
Project and fee income	41,066	4,622	45,688
Interest and dividend income	413,166	186,642	599,808
Rental income	15,563		15,563
Other	22,694	2,800	25,494
Realized gain on investments	22,858		22,858
Net assets released from restriction:			
Satisfaction of program restrictions	<u>1,833,322</u>	<u>(1,833,322)</u>	<u>0</u>
Total revenues and other support	<u>2,528,669</u>	<u>1,568,344</u>	<u>4,097,013</u>
Expenses:			
Salaries and wages	852,054		852,054
Payroll taxes and fringe benefits	237,260		237,260
Professional services	277,923		277,923
Contract labor	8,787		8,787
Office and computer supplies	33,286		33,286
Travel	54,113		54,113
Rent and utilities	16,963		16,963
Insurance	9,737		9,737
Postage	6,214		6,214
Duplication and printing	25,226		25,226
Telephone	21,121		21,121
Advertising and promotion	13,721		13,721
Data services	41,593		41,593
Maintenance and equipment	32,177		32,177
Miscellaneous	5,312		5,312
Meetings, registration and training	22,174		22,174
Publications and subscriptions	10,993		10,993
Depreciation	52,945		52,945
Grants	205,710		205,710
Taxes	8,098		8,098
Interest	78,091		78,091
Bad debt expense	<u>276,002</u>		<u>276,002</u>
Total expenses	<u>2,289,500</u>	<u>0</u>	<u>2,289,500</u>
Change in net assets	239,169	1,568,344	1,807,513
Net assets at beginning of year	<u>1,570,467</u>	<u>3,036,760</u>	<u>4,607,227</u>
Net assets at end of year	<u>\$ 1,809,636</u>	<u>\$ 4,605,104</u>	<u>\$ 6,414,740</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended April 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 767,893	\$ 1,807,513
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	54,554	52,945
Bad debt expense	576,827	276,002
Realized (gain) loss on investments	10,595	(22,858)
Realized loss on property and equipment	1,779	0
Capitalized interest	(1,601)	0
Changes in operating assets and liabilities:		
Accounts receivable	18,013	(1,978)
Grants receivable	(650,826)	(524,455)
Prepaid expenses	2,553	(18)
Accounts payable and accrued expenses	33,421	20,495
Deferred revenue	1,060,041	126,153
Net cash provided by operating activities	<u>1,873,249</u>	<u>1,733,799</u>
Cash flows from investing activities:		
Proceeds from sales of investments	4,405	52,858
Purchase of investments	(50,000)	0
Proceeds from sales of property and equipment	65,351	0
Purchase of property and equipment	(65,380)	(231,497)
Loans to other entities	(2,505,911)	(2,760,866)
Principal collections on loans receivable	1,303,025	1,972,435
Net cash used in investing activities	<u>(1,248,510)</u>	<u>(967,070)</u>
Cash flows from financing activities:		
Proceeds from notes payable	150,000	1,269,898
Principal payments on notes payable	<u>(245,307)</u>	<u>(218,640)</u>
Net cash provided by (used in) financing activities	<u>(95,307)</u>	<u>1,051,258</u>
Net increase in cash and cash equivalents	529,432	1,817,987
Cash and cash equivalents at beginning of year	<u>4,335,173</u>	<u>2,517,186</u>
Cash and cash equivalents at end of year	<u>\$ 4,864,605</u>	<u>\$ 4,335,173</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 84,644</u>	<u>\$ 75,185</u>
Property received in lieu of cash for loan receivable	<u>\$ 85,000</u>	<u>\$ 0</u>



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2009 and 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Mountain Association for Community Economic Development, Inc. and Affiliates (MACED) is presented to assist in understanding MACED's consolidated financial statements. The consolidated financial statements and notes are representations of MACED's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

**Consolidation and Nature of Activities:**

The consolidated financial statements of MACED include the accounts of Mountain Association for Community Economic Development, Inc., its wholly owned subsidiary, Ridgecrest Enterprises, Inc. (Ridgecrest) and its affiliate under common control, Appalachian Investment Corporation (AIC). Mountain Association for Community Economic Development, Inc. was founded in 1976 as a private, nonprofit corporation organized to provide comprehensive community development support to Appalachian communities by enhancing employment and living conditions in the area. MACED's major programs consist of business development, sustainable forestry, 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 they administer 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, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting:

The consolidated financial statements of MACED have been prepared on the accrual method of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Governmental grant awards are deemed to be earned and reported as grant revenues when MACED has incurred expenses in compliance with the specific restrictions of the applicable grants. Expenses incurred for which grant funds have not been received are reported as grants receivable, while grant funds received but not yet earned are reported as deferred grant revenue.

Non-governmental grant awards are deemed to be earned and reported as grant revenues once all conditions for an award have been met. If grant funds have not been received once conditions are met, MACED reports the present value of the grant award as a receivable.

Financial Statement Presentation:

The consolidated financial statements are presented in accordance with Statement of Financial Accounting Standard No. 117, "*Financial Statements of Not-For-Profit Organizations*". 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. At April 30, 2009 and 2008, MACED had no assets that were permanently restricted.

Use of Estimates:

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the determination of the valuation allowance for loan losses.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
April 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents:

For the purposes of the Consolidated Statements of Cash Flows, MACED considers cash and certificates of deposits with no prepayment penalty or with original maturities of one year or less to be cash equivalents.

Pursuant to its agreement with U.S. Small Business Administration (SBA, see discussion at Note 7), MACED is required to maintain separate bank accounts, Loan Loss Reserve Fund and Microloan Revolving Fund, for activities pertaining to SBA loans. Pursuant to its agreement with the Ford Foundation, MACED is required to maintain a separate bank account, Payday Lending Loan Fund, for activities pertaining to the grant.

Loans Receivable:

Loans receivable are executed by MACED based on a recipient's financial need. Generally real estate and various types of personal property collateralize the loans. Losses are provided for in the financial statements based upon management's evaluation of the recipient's ability to pay relative to current economic conditions. MACED has loans receivable with both for profit and non-profit enterprises, all in Central Appalachia. The loans bear interest at various rates ranging up to 13 percent.

Investments:

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. MACED's investments are carried at lower of cost or market value. Dividends are recognized in the statement of activities during the period they are earned.

Property and Equipment:

Property and equipment acquired is stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 31 years. Acquisitions of property and equipment in excess of \$2,000 are capitalized. The cost of repairs and maintenance is expensed as incurred.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions:

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction.

Deferred Revenue:

Deferred revenue as of April 30, 2009 and 2008 consists of unexpended grant funds held as of the end of the fiscal year.

Advertising Costs:

Advertising costs are expensed when incurred. Advertising expense for the years ended April 30, 2009 and 2008 amounted to \$7,466 and \$13,721, respectively.

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.

Carbon Offsets:

During the year ended April 30, 2008, MACED created a program to quantify and sell carbon offsets. Program participants engage in a project that either reduces greenhouse gas emissions or increases the amount of greenhouse gasses being sequestered. MACED's role in this program is to identify and contract with project owners, quantify the net number of offsets generated by each owner, verify the pool of projects by an independent, third party organization and register the offsets with an appropriate entity. Once registered, MACED sells the offsets to individuals and businesses interested in offsetting their carbon footprint.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Carbon Offsets (Continued):

While MACED has credits available for sale as of April 30, 2009, it is too early in the life cycle of the carbon credit program to arrive at a reasonable estimate of value and accordingly, an asset for available credits has not been recorded in the financial statements. Program costs are expensed as incurred and revenue will be recorded as credits are sold.

NOTE 2 - FUNCTIONAL EXPENSES

Expenses by functional classification for the years ended April 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Program expenses	\$ 2,534,794	\$ 1,791,790
Fundraising	49,466	44,135
Support expenses	495,455	453,575
Total expenses	\$ <u>3,079,715</u>	\$ <u>2,289,500</u>

NOTE 3 - LOANS RECEIVABLE

At April 30, 2009 and 2008, loans receivable consist of current amounts of \$1,441,869 and \$1,539,146 and noncurrent amounts of \$6,899,314 and \$5,926,452, respectively.

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.

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 3 - LOANS RECEIVABLE (CONTINUED)**

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 at April 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Loans receivable	\$ 8,341,183	\$ 7,465,598
Less: Allowance for loan losses	<u>825,463</u>	<u>492,538</u>
Loans receivable, net	\$ <u>7,515,720</u>	\$ <u>6,973,060</u>

Loans serving as collateral on notes payable amounted to approximately \$3,500,000 and \$2,700,000 at April 30, 2009 and 2008, respectively.

Included in loans receivable are \$168,304 and \$0 due from related parties at April 30, 2009 and 2008, respectively.

Accrued interest receivable amounted to approximately \$33,560 and \$18,253 at April 30, 2009 and 2008, respectively.

Non-accrual loans totaled \$520,761 and \$529,129, respectively, at April 30, 2009 and 2008.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. It is reasonably possible that a change in the estimates will occur in the near term.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 3 - LOANS RECEIVABLE (CONTINUED)**

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. 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 the 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.

The following is an analysis of the allowance for loan losses for the years ended April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 492,538	\$ 539,857
Provision charged to operations	576,827	276,002
Less: Charge-offs	245,603	325,557
Recoveries	1,701	2,238
Ending balance	<u>\$ 825,463</u>	<u>\$ 492,538</u>

The following is a summary of information pertaining to impaired loans at April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Impaired loans with a valuation allowance	\$ <u>724,797</u>	\$ <u>309,059</u>
Valuation allowance related to impaired loans	\$ <u>211,145</u>	\$ <u>100,603</u>
Average investment in impaired loans	\$ <u>90,600</u>	\$ <u>22,076</u>
Interest income recognized on impaired loans	\$ <u>32,161</u>	\$ <u>2,299</u>
Interest income recognized on a cash basis on impaired loans	\$ <u>31,938</u>	\$ <u>4,679</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 40,000	\$ 40,000
Buildings and improvements	787,905	785,783
Equipment	158,052	147,493
Automobiles	57,402	53,590
Construction in progress	0	76,080
	<u>1,043,359</u>	<u>1,102,946</u>
Less accumulated depreciation	415,118	418,401
Property and equipment, net	<u>\$ 628,241</u>	<u>\$ 684,545</u>

**NOTE 5 - GRANTS RECEIVABLE**

Grants receivable consist of the following at April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Federal grants receivable:		
Small Business Administration	\$ 37,597	\$ 21,195
USDA Rural Development (RBEG)	77,315	75,321
Local Initiative Support Corp.	270	1,055
Governor's Office on Energy Policy	0	21,219
Appalachian Regional Commission	55,535	0
Total federal grants receivable	<u>170,717</u>	<u>118,790</u>
Other grants receivable:		
Civil Society Institute	0	40,000
CAN Network	0	2,265
Ford Foundation	640,000	418,586
F. B. Heron Foundation	100,000	0
Mary Reynolds Babcock Foundation	775,000	500,000
Annie Casey	25,000	0
U.S. Endowment for Forestry and Communities	94,750	0
Cedar Tree	0	75,000
Total other grants receivable	<u>1,634,750</u>	<u>1,035,851</u>
Total grants receivable	<u>\$ 1,805,467</u>	<u>\$ 1,154,641</u>



**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 6 - INVESTMENTS**

The total amount of all cost method investments for MACED was \$237,500 and \$202,550 at April 30, 2009 and 2008. During the year ended April 30, 2009, MACED obtained as collateral property held by a borrower in the amount of \$85,000 due to a borrower failing to pay back a loan. During the year ended April 30, 2009 MACED sold \$2,500 of its investments and recognized a gain of \$1,905.

All cost method investments were evaluated for impairment at April 30, 2009 and 2008. During fiscal year 2009, MACED wrote off one equity investment valued at \$12,500.

**NOTE 7 - NOTES PAYABLE**

Notes payable consist of the following at April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Due to Farmers Home Association, semi-annual installments of \$10,000 plus interest at one percent until maturity in September, 2010, unsecured.	\$ 19,850	\$ 39,850
IRP #1 - USDA (August, 1994), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$53,063 due in August. The note matures in August, 2024.	779,872	824,688
IRP #2 - USDA (August, 1996), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$31,838 due in August. The note matures in August, 2026.	521,790	548,147
IRP #3 - USDA (August, 2000), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$31,838 due in August. The note matures in August, 2030.	625,819	651,146

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 7 - NOTES PAYABLE (CONTINUED)**

	<u>2009</u>	<u>2008</u>
IRP #4 - USDA (April, 2003), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$31,834 due in April. The note matures in April, 2033.	675,891	700,721
IRP #5 - USDA (October, 2006), collateralized by all assets of AIC derived from the loans and essentially all assets of the respective ultimate recipients. Interest per annum at one percent. Annual payments of \$23,836 due in November. The note matures in November 2036.	711,565	561,565
Appalachian Development Alliance, quarterly interest-only payments at two percent until maturity in June 2014, collateralized by a \$50,000 certificate of deposit.	125,000	125,000
Appalachian Development Alliance, quarterly interest-only payments at two percent until maturity in June 2012, collateralized by a \$56,250 certificate of deposit.	158,333	158,333
Community Trust Bank (November 2004), annual interest-only payments at one percent until maturity in November 2011, unsecured.	350,000	350,000
U.S. Small Business Administration (September 2004), collateralized by all assets derived from loans made with proceeds, and with funds on deposit at Peoples Bank in MACED's SBA Loan Loss Reserve Fund and Microloan Revolving Fund. Interest at 2.5 percent. Monthly payments of \$2,544. Amortization schedule for years two through ten based on 1.75 percent interest plus payments for first year interest. Balance due at maturity in September 2014.	154,047	181,595

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 7 - NOTES PAYABLE (CONTINUED)**

	<u>2009</u>	<u>2008</u>
U.S. Small Business Administration (August 2005), collateralized by all assets derived from loans made with proceeds, and with funds on deposit at Peoples Bank in MACED's SBA Loan Loss Reserve Fund. Interest at 2.5 percent. Monthly payments of \$7,632. Amortization schedule for years two through twelve based on 1.75 percent interest plus payments for first year interest. Balance due at maturity in September 2015. Receipt of remaining \$250,000 during January 2008.	587,090	663,519
Ford Foundation recoverable grant (January 2006). No interest. Repayable 2011 only to the extent that funds are available from interest earned on and repayments of funds lent from grant funds.	250,000	250,000
Mary Reynolds Babcock Foundation (January 2007), unsecured, interest only at two percent per annum. The note matures in January 2014.	500,000	500,000
Monarch Community Loan Fund (June 2006), unsecured, interest only at three percent per annum. The note matures in June 2009.	200,000	200,000
Peoples Bank (June 2006), unsecured, interest only at four percent per annum. The note matures in June 2011.	<u>250,000</u>	<u>250,000</u>
Total	<u>5,909,257</u>	<u>6,004,564</u>
Less current maturities	<u>462,923</u>	<u>619,704</u>
Long-term portion	<u>\$ 5,446,334</u>	<u>\$ 5,384,860</u>

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

<u>Year ending April 30:</u>	
2010	\$ 462,923
2011	519,725
2011	873,585
2013	435,839
2014	906,489
Thereafter	<u>2,710,697</u>
	<u>\$ 5,909,257</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009 and 2008

**NOTE 7 - NOTES PAYABLE (CONTINUED)**

In fiscal year 2008, MACED obtained a \$250,000 operating line of credit from Cumberland Bank and a \$500,000 operating line of credit from Citizens Bank. As of April 30, 2009, MACED had not borrowed under the lines of credit. The unsecured lines of credit bear interest at the interbank lending rate. Interest is payable monthly. The outstanding principal together with any unpaid interest accrued thereon is due for the Cumberland Bank and Citizens Bank on April 18, 2011 and January 7, 2010, respectively.

**NOTE 8 - SUBORDINATED LOANS PAYABLE**

Subordinated loans payable consist of the following at April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</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. Lender must extend term annually as long as MACED maintains 501(c)(3) tax-exempt status, unsecured.	\$ 500,000	\$ 500,000
CNC Development Foundation, Inc. (April 2005), equity-equivalent loan, annual interest-only payments at one percent. Lender must extend term annually as long as MACED maintains 501(c)(3) tax-exempt status, unsecured.	<u>200,000</u>	<u>200,000</u>
Total	<u>700,000</u>	<u>700,000</u>
Current maturities	0	0
Long-term portion	\$ <u>700,000</u>	\$ <u>700,000</u>

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

<u>Year ending April 30:</u>		
2010	\$	0
2011		0
2012		0
2013		0
2014		0
Thereafter		<u>700,000</u>
	\$	<u><u>700,000</u></u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 9 - RESTRICTED NET ASSETS**

Temporarily restricted net assets at April 30, 2009 and 2008 are available for the following uses:

	<u>2009</u>	<u>2008</u>
Business development	\$ 2,968,936	\$ 2,717,483
Community development	637,755	1,405,448
Natural resources	153,488	155,686
Alternative to payday lending	204,347	232,012
Research on public policy	60,428	94,475
Central Appalachian Network	<u>955,387</u>	<u>0</u>
Total temporarily restricted net assets	<u>\$ 4,980,341</u>	<u>\$ 4,605,104</u>

**NOTE 10 - RETIREMENT PLAN**

MACED sponsors a defined contribution retirement plan (Plan) covering all eligible employees, including employees of certain affiliates that participate in the Plan. MACED contributes five percent of each employee's annual compensation to the Plan. For the years ended April 30, 2009 and 2008, contributions to the Plan were \$60,232 and \$47,404.

**NOTE 11 - MAJOR GRANTORS**

For the years ended April 30, 2009 and 2008 approximately 70% and 76%, respectively, of MACED's grant revenues consist of major grants received from federal agencies and private foundations.

**NOTE 12 - CONCENTRATION OF CREDIT RISK**

Financial instruments which potentially subject MACED to concentrations of credit risk include cash, accounts receivable, loans receivable and investments. MACED maintains its cash accounts with federally insured banks primarily in Berea, Kentucky and Mount Vernon, Kentucky. Four of these accounts are collateralized by investments in governmental securities for amounts in excess of \$20,000. The balances in the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. At April 30, 2009 and 2008, MACED had cash balances of \$1,254,046 and \$2,337,227, respectively, in excess of insured limits.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2009 and 2008

**NOTE 12 - CONCENTRATION OF CREDIT RISK (CONTINUED)**

At April 30, 2009 and 2008, MACED's investments consisted of stock in three privately owned companies in the Appalachian region, an equity investment in a consortium of not-for-profit economic development organizations in the region, and property held for resale. For the years ended April 30, 2009 and 2008, MACED had equity investments which totaled \$237,500 and \$202,550, respectively. For the year ended April 30, 2009, MACED held property for resale totaling \$85,000.

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, MACED makes commitments and incurs certain contingent liabilities that are not reflected in the accompanying financial statements. MACED does not anticipate any material losses as a result of these commitments and contingent liabilities.

The federal government retains a reversionary interest in two grants totaling \$275,000 that have been previously expended by MACED. The funds have been invested in equities of qualifying entities. If the funds are subsequently paid back to MACED, they would need to be reinvested or would be subject to reclaim.

**NOTE 14 - CONTRIBUTED SERVICES RECEIVED**

During the years ended April 30, 2009 and 2008, MACED had in-kind contribution of rent for a field office valued at \$4,200 which was used in the business development program.

**NOTE 15 - RELATED PARTY TRANSACTIONS**

Ridgecrest received rent for office space from Kentucky Coalition, a partner with MACED on the High Road Initiative, in the amount of \$7,200. MACED re-granted funds raised for the High Road Initiative to Kentucky Coalition during 2009 in the amount of \$100,000.

**NOTE 16 - SUBSEQUENT EVENTS**

Subsequent to April 30, 2009 MACED was awarded several grants from federal and private foundations. The total amount of these grants is \$2,203,500. As of July 1, 2009, MACED's note payable to the Monarch Community Fund was increased to \$300,000 and extended to June 30, 2012.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 2009 and 2008

**NOTE 17 - FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board Statement No. 157, Fair Value Measurements (FASB Statement No. 157), 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 Statement No. 157 are described below:

Level 1            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2            Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities are reflected as level 2.

The summary of inputs used to value MACED's assets consisting of investments that are carried at fair value as of April 30, 2009 is as follows:

Level 2	<u>Investments</u> \$322,550
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**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended April 30, 2009

Federal Grantor/Program	CFDA Number	Grantor Number	Federal Expenditures
<u>MAJOR PROGRAMS</u>			
<u>Appalachian Regional Commission</u>			
Business Development Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	\$ 383,403
Business Development Renewable Energy	23.011	CO-15794-07	75,000
<u>USDA Rural Development</u>			
Intermediary Relending Program	10.767	20-076-0611254830	<u>150,000</u>
Total major programs			<u>608,403</u>
<u>NONMAJOR PROGRAMS</u>			
<u>U.S Department of Treasury</u>			
Community Development Financial Institutions Fund	21.020	061FA006625	5,000
Community Development Financial Institutions Fund	21.020	071TA007075	33,657
<u>Department of Health and Human Services</u>			
Office of Community Services	93.570	90EE0850/01	58,962
<u>USDA Rural Development</u>			
Rural Business Enterprise Grant	10.769	200-76-0310900246	844
Rural Business Enterprise Grant	10.769	200-76-0310900246	185,104
Rural Business Enterprise Grant	10.769	200-76-0310900246	77,315
Rural Business Enterprise Grant	10.769	200-76-0310900246	9,200
<u>Small Business Administration</u>			
SBA Microloan Program	59.046	SBAHQ-05-Y-0006	72,924
SBA Microloan Program	59.046	SBAHQ-05-Y-0007	37,597
Pass-Through Awards:			
<u>Local Initiatives Support Corporation</u>			
U.S. Department of Housing and Urban Development	14.218	41942-0014	10,213
U.S. Department of Housing and Urban Development	14.218	41942-0015	<u>270</u>
Total nonmajor programs			<u>491,086</u>
Total			<u>\$ 1,099,489</u>



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

**NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS**

Year ended April 30, 2009

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Consolidated Schedule of Expenditures of Federal Awards includes the federal grant activity of MACED and is presented on the accrual basis of accounting with the following exception.

Appalachian Regional Commission Business Development Revolving Loan Fund:

The amount of expenditures for the Appalachian Regional Commission Business Development Revolving Loan Fund (RLF) is computed as defined in Appalachian Regional Commission Business Development Revolving Loan Fund Guidelines, October 1999 revision (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.

**NOTE 2 - LOANS OUTSTANDING**

Federal loans outstanding at April 30, 2009 consist of the following:

IRP #1 - USDA (August, 1994)	\$	779,872
IRP #2 - USDA (August, 1996)		521,790
IRP #3 - USDA (August, 2000)		625,819
IRP #4 - USDA (April, 2003)		675,891
IRP #5 - USDA (October, 2006)		711,565
U.S. Small Business Administration (September 2004)		154,047
U.S. Small Business Administration (August 2005)		587,091
Total	\$	<u>4,056,075</u>

**NOTE 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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

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

We have audited the consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED) as of and for the year ended April 30, 2009, and have issued our report thereon dated July 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MACED's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MACED's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MACED's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects MACED's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the entity's basis of accounting or generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by MACED's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by MACED's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MACED's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters involving compliance and other matters that we reported to management of MACED in a separate letter dated July 28, 2009.

This report is intended solely for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Potter & Company, LLP

POTTER & COMPANY, LLP  
July 28, 2009



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended April 30, 2009. MACED's major federal program is identified in the Summary of Auditor's Results section of the accompanying Consolidated Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of MACED's management. Our responsibility is to express an opinion on MACED's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MACED's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MACED's compliance with those requirements.

In our opinion, MACED complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended April 30, 2009.

Internal Control Over Compliance

The management of MACED is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MACED's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for

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

Page Two

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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Potter & Company, LLP*

POTTER & COMPANY, LLP  
July 28, 2009



**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended April 30, 2009

Summary of Auditor's Results

The independent auditor's report dated July 28, 2009, expresses an unqualified opinion on the consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (MACED) as of and for the year ended April 30, 2009.

Our audit disclosed no material weaknesses or significant deficiencies that are considered to be material weaknesses in relation to internal control over financial reporting or internal control.

No instances of noncompliance material to MACED's consolidated financial statements were disclosed during the audit.

No significant deficiencies to the audit of major federal awards programs are reported in MACED's consolidated financial statements.

The auditor's report dated July 28, 2009 on compliance for the major federal award programs for MACED expresses an unqualified opinion on all major federal programs.

Our audit disclosed no findings required to be reported under the provisions of the OMB Circular A-133.

MACED's major federal programs for the year ended April 30, 2009 were the Appalachian Regional Commission (CFDA No. 23.011) and Intermediary Relending Program (CFDA No. 10.767).

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000. All loan and loan guarantee programs were considered Type A programs.

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

Findings - Financial Statement Audit

No matters were reported.

Federal Award Findings and Questioned Costs

No matters were reported.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, INC.  
AND AFFILIATES**  
CONSOLIDATED SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND THEIR  
RESOLUTIONS  
Year ended April 30, 2009

No findings or questioned costs were reported for the year ended April 30, 2008.