



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

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

APRIL 30, 2021 AND 2020

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
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REPORT OF INDEPENDENT AUDITORS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (the Organization), which comprise the consolidated statements of financial position as of April 30, 2021 and 2020, 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 the Organization as of April 30, 2021 and 2020, 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.

Change in Accounting Principle

As discussed in Note 15 to the financial statements, effective May 1, 2020, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customer (Topic 606)*. Our opinion is not modified with respect to this matter.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of expenditures of federal awards, as required by 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 28, 2021, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
July 28, 2021

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
APRIL 30, 2021 AND 2020

ASSETS	2021	2020
Current assets:		
Cash and cash equivalents	\$ 10,112,483	\$ 6,140,905
Cash and cash equivalents, restricted	3,876,371	4,240,616
Loans receivable, current portion, net of allowance for bad debts of \$285,971 and \$500,340, respectively	1,210,551	1,610,242
Accounts and interest receivable	210,271	93,514
Grants receivable, current portion	424,923	1,710,283
Prepaid expenses and other assets	12,637	24,623
Total current assets	15,847,236	13,820,183
Property and equipment, net	362,654	387,361
Noncurrent assets:		
Grants receivable, less current portion	293,000	578,000
Other assets	49,500	30,000
Loans receivable, less current portion, net of allowance for bad debts of \$1,153,743 and \$1,322,828, respectively	15,221,810	18,075,338
Total other assets	15,564,310	18,683,338
Total assets	\$ 31,774,200	\$ 32,890,882
LIABILITIES AND NET ASSETS		
Current liabilities:		
Notes payable, current portion	\$ 381,342	\$ 982,630
Accounts payable and accrued expenses	428,383	271,354
Refundable advances received from grants	-	88,208
Total current liabilities	809,725	1,342,192
Long-term liabilities:		
Notes payable, less current portion	8,781,551	8,136,700
Subordinated loans payable	500,000	500,000
Total long-term liabilities	9,281,551	8,636,700
Total liabilities	10,091,276	9,978,892
Net assets:		
Without donor restrictions:		
Operating	17,030,175	16,098,316
With donor restrictions:		
Operations	1,621,155	4,091,120
Financing	2,942,976	2,665,998
Re-granting	88,618	56,556
Total with donor restrictions	4,652,749	6,813,674
Total net assets	21,682,924	22,911,990
Total liabilities and net assets	\$ 31,774,200	\$ 32,890,882

See accompanying notes to
consolidated financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	\$ 65,733	\$ 2,281,095	\$ 2,346,828
Government grants, operations	-0-	282,395	282,395
Government grant, forgivable loan		490,408	490,408
Project income	69,011	35,465	104,476
Miscellaneous income	623	52,564	53,187
Total non-financing revenues and support	<u>135,367</u>	<u>3,141,927</u>	<u>3,277,294</u>
Financing revenues			
Interest income on loans	596,881	466,940	1,063,821
Fee income on loans	71,756	5,268	77,024
Interest on idle funds	20,969	2,228	23,197
Total financing revenues	<u>689,606</u>	<u>474,436</u>	<u>1,164,042</u>
Satisfaction of program and time restrictions	<u>5,777,288</u>	<u>(5,777,288)</u>	<u>-0-</u>
Total revenues and other support	<u>6,602,261</u>	<u>(2,160,925)</u>	<u>4,441,336</u>
Expenses:			
Non-financing expenses			
Program	5,086,938		5,086,938
Fundraising	94,045		94,045
Management and general	667,000		667,000
Total non-financing expenses	<u>5,847,983</u>	<u>-0-</u>	<u>5,847,983</u>
Financing expenses			
Interest	213,926		213,926
Provision for loan losses	(391,507)		(391,507)
Total financing expenses	<u>(177,581)</u>	<u>-0-</u>	<u>(177,581)</u>
Total expenses	<u>5,670,402</u>	<u>-0-</u>	<u>5,670,402</u>
Change in net assets	931,859	(2,160,925)	(1,229,066)
Net assets, beginning of year	<u>16,098,316</u>	<u>6,813,674</u>	<u>22,911,990</u>
Net assets, end of year	<u>\$ 17,030,175</u>	<u>\$ 4,652,749</u>	<u>\$ 21,682,924</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, 2020

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	\$ 22,001	\$ 2,084,127	\$ 2,106,128
Government grants		741,536	741,536
Project income	45,811	28,789	74,600
Miscellaneous income	9,212	170,519	179,731
Loss on disposal of equipment	(10,349)		(10,349)
Total non-financing revenues and support	<u>66,675</u>	<u>3,024,971</u>	<u>3,091,646</u>
Financing revenues			
Interest income on loans	596,084	487,050	1,083,134
Fee income on loans	64,431	470	64,901
Interest on idle funds	22,390	1,671	24,061
Total financing revenues	<u>682,905</u>	<u>489,191</u>	<u>1,172,096</u>
Satisfaction of program and time restrictions	<u>5,151,984</u>	<u>(5,151,984)</u>	<u>-0-</u>
Total revenues and other support	<u>5,901,564</u>	<u>(1,637,822)</u>	<u>4,263,742</u>
Expenses:			
Non-financing expenses			
Program	3,876,395		3,876,395
Fundraising	80,238		80,238
Management and general	802,569		802,569
Total non-financing expenses	<u>4,759,202</u>	<u>-0-</u>	<u>4,759,202</u>
Financing expenses			
Interest	220,964		220,964
Provision for loan losses	677,448		677,448
Total financing expenses	<u>898,412</u>	<u>-0-</u>	<u>898,412</u>
Total expenses	<u>5,657,614</u>	<u>-0-</u>	<u>5,657,614</u>
Change in net assets	243,950	(1,637,822)	(1,393,872)
Net assets, beginning of year	<u>15,854,366</u>	<u>8,451,496</u>	<u>24,305,862</u>
Net assets, end of year	<u>\$ 16,098,316</u>	<u>\$ 6,813,674</u>	<u>\$ 22,911,990</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, 2021

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	\$ 1,906,567	\$ 78,159	\$ 531,012	\$ 2,515,738
Consultants and professional services				
Consultants	724,414	5,145	18,863	748,422
Professional services	11,038		42,461	53,499
IT services	14,893		26,851	41,744
Interns and contract labor	11,221		220	11,441
Travel and meetings				
Travel	5,870		247	6,117
Meetings, registration and training	11,458		1,781	13,239
Maintenance, lease and equipment purchase				
Equipment lease	5,979	183	1,220	7,382
Equipment and software expense	11,156	2,477	7,268	20,901
Repairs and maintenance	12,207			12,207
Office operations				
Rent and utilities	33,243	994	3,034	37,271
Insurance	11,918	33	13,786	25,737
Postage	587	36	1,217	1,840
Supplies	3,881	183	2,010	6,074
Telephone	11,987	628	6,149	18,764
Depreciation	26,738	134	903	27,775
Re-grants	2,182,510		200	2,182,710
Other				
Advertising and promotion	39,610		14	39,624
Publications, memberships, and subscriptions	24,182	1,706	1,949	27,837
Printing and duplication	954	14	5,373	6,341
Licenses and fees	26,689	4,353	2,442	33,484
Taxes	9,836			9,836
Total non-financing expenses	5,086,938	94,045	667,000	5,847,983
Financing expenses:				
Interest	213,926			213,926
Provision for loan losses	(391,507)			(391,507)
Total financing expenses	(177,581)	-0-	-0-	(177,581)
Total expenses	\$ 4,909,357	\$ 94,045	\$ 667,000	\$ 5,670,402

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, 2020

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Non-financing expenses:				
Personnel	\$ 1,969,903	\$ 59,388	\$ 581,599	\$ 2,610,890
Consultants and professional services				
Consultants	741,600	11,637	81,772	835,009
Professional services	10,164		38,343	48,507
IT services	13,014		26,547	39,561
Interns and contract labor	15,542		2,399	17,941
Travel and meetings				
Travel	137,451	1,859	11,849	151,159
Meetings, registration and training	142,899	32	21,220	164,151
Maintenance, lease and equipment purchase				
Equipment lease	3,507	108	1,057	4,672
Equipment and software expense	19,448		6,223	25,671
Repairs and maintenance	24,417	32	9,443	33,892
Office operations				
Rent and utilities	21,255	512	6,961	28,728
Insurance	6,595	22	286	6,903
Postage	1,330	21	345	1,696
Supplies	15,755	196	4,086	20,037
Telephone	14,148	844	5,245	20,237
Depreciation	28,395	104	1,055	29,554
Re-grants	636,980			636,980
Other				
Advertising and promotion	13,776	1,589	799	16,164
Publications, memberships, and subscriptions	8,975	81	1,789	10,845
Printing and duplication	10,667	2	288	10,957
Licenses and fees	33,442	3,811	1,263	38,516
Taxes	7,132			7,132
Total non-financing expenses	<u>3,876,395</u>	<u>80,238</u>	<u>802,569</u>	<u>4,759,202</u>
Financing expenses:				
Interest	220,964			220,964
Provision for loan losses	677,448			677,448
Total financing expenses	<u>898,412</u>	<u>-0-</u>	<u>-0-</u>	<u>898,412</u>
Total expenses	<u>\$ 4,774,807</u>	<u>\$ 80,238</u>	<u>\$ 802,569</u>	<u>\$ 5,657,614</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, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (1,229,066)	\$ (1,393,872)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	27,775	29,554
Provision for loan losses	(391,507)	677,448
Loss on disposal of equipment	-0-	10,349
Changes in operating assets and liabilities:		
Accounts and interest receivable	(116,757)	(49,599)
Grants receivable	1,570,360	2,054,672
Prepaid expenses and other assets	11,986	19,823
Accounts payable and accrued expenses	157,029	5,076
Refundable advances received from grants	(88,208)	88,208
Net cash flows from operating activities	(58,388)	1,441,659
Cash flows from investing activities:		
Acquisition of other assets	(19,500)	(10,000)
Purchases of property and equipment	(3,068)	(59,461)
Loans to other entities	(789,644)	(4,570,084)
Principal collections on loans receivable	4,434,370	2,421,921
Net cash flows from investing activities	3,622,158	(2,217,624)
Cash flows from financing activities:		
Proceeds from notes payable	1,025,000	1,000,000
Principal payments on notes payable	(981,437)	(1,080,845)
Net cash flows from financing activities	43,563	(80,845)
Net change in cash and cash equivalents	3,607,333	(856,810)
Cash and cash equivalents, beginning of year	10,381,521	11,238,331
Cash and cash equivalents, end of year	\$ 13,988,854	\$ 10,381,521
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 217,372	\$ 223,968

See accompanying notes to consolidated financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (the Organization) is presented to assist in understanding the Organization's consolidated financial statements. The consolidated financial statements and notes are representations of the Organization'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 the Organization 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. The Organization's major programs consist of enterprise development, energy efficiency, and public policy research and education. The Organization generates revenue primarily through assistance provided by government 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 (USDA), 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. appoints the board of directors for AIC, and provides staffing and grant match amounts for AIC as needed.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2021 AND 2020

Basis of Accounting

The consolidated financial statements of the Organization 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.

Financial Statement Presentation

The consolidated financial statements have been prepared on the accrual basis and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

- Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.
- Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

Use of Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Organization 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 5), the Organization 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, the Organization is required to maintain a separate bank account for activities pertaining to the Program Related Investment loan.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2021 AND 2020

Restricted cash includes amounts held in separate accounts for donor-specified purposes. Following is a reconciliation of cash amounts in the accompanying financial statements.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents, not restricted	\$ 10,112,483	\$ 6,140,905
Cash and cash equivalents, restricted	<u>3,876,371</u>	<u>4,240,616</u>
Total cash, per statement of cash flows	<u>\$ 13,988,854</u>	<u>\$ 10,381,521</u>

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, 2021 and 2020. The Organization 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 the Organization based on a recipient's financial need. Generally, real estate and personal property collateralize the loans. The Organization 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.

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2021 AND 2020

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are recorded as with or without restriction 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. Net assets with restrictions are reclassified to net assets without restriction upon satisfaction of the time or purpose restriction.

Revenue Recognition

On May 1, 2020, the Organization adopted “Revenue from Contracts with Customers” using the modified retrospective method applied to all contracts. The Organization recognizes project and fee income over the applicable period of service. The Organization had no costs that were capitalized to obtain or to fulfill a contract with a customer. Total of project and fee income for fiscal years 2021 and 2020 was approximately \$181,000 and \$140,000, respectively.

The Organization’s receivables (contract receivables) represent unconditional rights to consideration from its contracts with customers; accordingly, the revenue recognition process commences when services commence. Customers are invoiced upon completion of services and payment is due 30 days from the date of the invoice. The balances at April 30, 2021 and 2020 are reflected in the accompanying statements of financial position. The balance at May 1, 2019 was \$43,915.

The Organization identifies a performance obligation associated with the provision of its services and uses the output measure for recognition as the period of time over which the services are provided. The Organization does not have a refund policy and no material amounts have been refunded in recent years.

The Organization’s contract liabilities are reported as deferred revenue in the statements of financial position, as applicable. Deferred revenue in any period represents the excess of payments received as compared to amounts recognized as revenue. There were no deferred revenues at April 30, 2021 or 2020. The balance at May 1, 2019 was \$0.

A portion of the Organization’s revenue is derived from cost-reimbursable grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2021 AND 2020

Under the provisions of the Coronavirus Aid, Relief and Economic Security (CARES) Act, the Organization received a Payroll Protection Program (PPP) loan from the Small Business Administration (SBA) in May 2020. The loan, in the amount of \$490,408, had an interest rate of 1% per annum and was repayable on or before April 30, 2022. The loan program allows for up to 100% of the loan amount, plus interest, to be forgiven if the Organization meets certain criteria, primarily the protection of jobs and the continued employment and payment of full wages and benefits to employees. Additionally, forgiveness is allowed for other qualified, non-payroll expenses such as utilities and lease payments. The full amount of the loan was forgiven in February 2021 and is recognized as government grant revenue in the accompanying statement of activities.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended April 30, 2021 and 2020 amounted to approximately \$40,000 and \$16,000, respectively.

Expense Allocation

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Direct costs are allocated by project code. Certain expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include personnel expenses, which are allocated on the basis of estimates of time and effort, IT services, equipment lease and maintenance, office operations, depreciation, publications, printing, and taxes which are allocated on the basis of personnel. Although the methods used were appropriate, alternative methods may have provided different results.

Subsequent Events

The Organization 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 28, 2021, 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 were available to be issued.

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2. LOANS RECEIVABLE

At April 30, 2021 and 2020, loans receivable consist of current amounts, at gross, of approximately \$1,497,000 and \$2,111,000 and noncurrent amounts of \$16,376,000 and \$19,398,000, respectively.

the Organization's loans receivable are comprised of three segments:

- Enterprise development loans, further divided into two classes:
 - Microloans (originated at \$50,000 or less).
 - Other enterprise development loans.
- Paycheck Protection Plan loans to businesses through a partnership with the U.S. Small Business Administration.
- How\$martKY™ loans to utilities. These are lines of credit made available by the Organization to utilities to finance energy-efficiency retrofits on utility customers' residences.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal adjusted by any charge-offs, and the allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Loan origination fees are considered immaterial in amount and are recognized as income in the year collected.

Loans are considered past due if the required principal and interest payments have not been received 30 days after the date such payments were due.

Interest income is accrued on loan balances outstanding. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is secured and in the process of collection. Loans are placed on non-accrual status at an earlier date if collection of principal and interest is considered doubtful. When a loan is placed on non-accrual status, any uncollected interest in the current year is charged against current income. Subsequent interest on non-accrual loans is recognized as income only when collected, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts are current and future payments are reasonably assured.

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Loans receivable consist of the following at April 30:

	<u>2021</u>	<u>2020</u>
Loans receivable	\$ 17,872,075	\$ 21,508,748
Less allowance for loan losses	<u>1,439,714</u>	<u>1,823,168</u>
Loans receivable, net	<u>\$ 16,432,361</u>	<u>\$ 19,685,580</u>

Loans serving as collateral on notes payable amounted to approximately \$2,100,000 and \$2,428,000, respectively, at April 30, 2021 and 2020.

Accrued interest receivable amounted to approximately \$59,000 and \$81,000 at April 30, 2021 and 2020, respectively.

Non-accrual loans totaled approximately \$1,072,000 and \$1,397,000 at April 30, 2021 and 2020, respectively.

Aging

The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2021:

	<u>Current</u>	<u>30-59 days past due</u>	<u>60-89 days past due</u>	<u>90+ days past due</u>	<u>Total</u>
Enterprise development loans					
Microloans	\$ 1,241,230	\$ -0-	\$ -0-	\$ -0-	\$ 1,241,230
Other enterprise loans	<u>15,318,745</u>	<u>213,142</u>	<u>-0-</u>	<u>191,418</u>	<u>15,723,305</u>
Total enterprise development loans	16,559,975	213,142	-0-	191,418	16,964,535
Paycheck Protection Program loans	244,876	-0-	-0-	-0-	244,876
HowSmart loans to utilities	<u>662,664</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>662,664</u>
Total loans	<u>\$ 17,467,515</u>	<u>\$ 213,142</u>	<u>\$ -0-</u>	<u>\$ 191,418</u>	<u>\$ 17,872,075</u>

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The following is an age analysis of loans, segregated by segment and class of loans, as of April 30, 2020:

	Current	30-59 days past due	60-89 days past due	90+ days past due	Total
Enterprise development loans					
Microloans	\$ 1,284,168	\$ 32,733	\$ 30,435	\$ 21,218	\$ 1,368,554
Other enterprise loans	17,549,677	19,457	-0-	1,767,675	19,336,809
Total enterprise development loans	18,833,845	52,190	30,435	1,788,893	20,705,363
HowSmart loans to utilities	803,385	-0-	-0-	-0-	803,385
Total loans	\$ 19,637,230	\$ 52,190	\$ 30,435	\$ 1,788,893	\$ 21,508,748

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. The Organization uses a loan grading system that follows its loan policy:

1. **Excellent** - No credit or collateral exception. Loan adheres to the Organization's loan policy. Borrower has the ability to repay or convert liquid assets to cash; or is an established business with reasonable credit risk. A financial analysis displays a satisfactory financial condition and earnings ability along with sound asset quality and cash flow capacity to meet debt obligations in a timely manner.
2. **Good** - Loans in this category are considered to have satisfactory asset quality and are made to borrowers with proven earnings history, liquidity or other adequate margins of credit protection. Loans are considered collectible in full, but may require additional supervision. Loans in this category are evidenced by a level of slow outside reduction, along with extensions and/or renewals outside the original payment plan. The borrower is capable of absorbing normal setbacks without the advent of failure. The ability to repay is considered average through the conversion of liquid assets, cash flow or co-signer's ability to reduce the debt.
3. **Fair** - Loans in this category do not demonstrate immediate loss; however, weaknesses do exist which could cause future impairment of repayment. These loans require more than ordinary amount of supervision and may exhibit weakness due to questionable trends in financial position or questionable or unproven management capabilities. Loans may be made to new or expanding businesses or borrowers whose ability to repay is considered only average. Collateral affords marginal protection and may not be readily marketable. Loans in this category may be overdue or have extensions or overdrafts on demand accounts. Loans in this category may also exhibit weak origination and/or servicing policies and may contain documentation deficiencies. The risk-rating category may also be used for new or untested borrowers.

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4. Watch - Loans in this category are characterized by deterioration in quality exhibited by any number of weaknesses requiring corrective action. The weaknesses may include, but are not limited to, high debt-to-worth ratios, declining or negative earnings trends, declining or inadequate liquidity, questionable repayment sources, lack of well-defined secondary repayment sources and unfavorable competitive comparisons. Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status, extensions and/or renewals.
5. Sub-Standard - Loans in this category are inadequately protected by the current net worth of the business. The business may be led by management with inadequate knowledge of industry or leadership abilities are questionable. The loan collateral may be inadequate, secondary source of repayment will likely be required, or the business has seen a downturn due to changes in the national/regional or local demand/supply for the product/service. The business may not produce regular financial statements. Financially, the borrower has low debt-service coverage and may have trouble making loan payments on time and may require concessions in the future.
6. Doubtful - Loans in this category exhibit the same weaknesses found in the sub-standard category; however, the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as a loss because events may occur which would salvage the debt. Among these events are acquisition by or merger with a stronger entity, injection of capital, alternative financing, liquidation of assets or the pledging of additional collateral. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists.

Following is an analysis of the Organization's loan portfolio by credit quality, as of April 30, 2021:

	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	Total Loans
Enterprise development loans							
Microloans	\$ -0-	\$ 250,816	\$ 261,426	\$ 647,919	\$ 34,719	\$ 46,350	\$ 1,241,230
Other enterprise loans	2,124,217	5,250,375	2,535,550	4,262,855	524,217	1,026,091	15,723,305
Total enterprise development loans	2,124,217	5,501,191	2,796,976	4,910,774	558,936	1,072,441	16,964,535
Paycheck Protection Program loans	244,876	-0-	-0-	-0-	-0-	-0-	244,876
HowSmart loans to utilities	-0-	202,278	460,386	-0-	-0-	-0-	662,664
Total loans	<u>\$ 2,369,093</u>	<u>\$ 5,703,469</u>	<u>\$ 3,257,362</u>	<u>\$ 4,910,774</u>	<u>\$ 558,936</u>	<u>\$ 1,072,441</u>	<u>\$ 17,872,075</u>

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Following is an analysis of the Organization's loan portfolio by credit quality, as of April 30, 2020:

	<u>Excellent</u>	<u>Good</u>	<u>Fair</u>	<u>Watch</u>	<u>Sub-Standard</u>	<u>Doubtful</u>	<u>Total Loans</u>
Enterprise development loans							
Microloans	\$ -0-	\$ 216,110	\$ 451,913	\$ 561,664	\$ 77,580	\$ 61,287	\$ 1,368,554
Other enterprise loans	<u>524,514</u>	<u>9,659,798</u>	<u>2,648,955</u>	<u>4,256,791</u>	<u>859,582</u>	<u>1,387,169</u>	<u>19,336,809</u>
Total enterprise development loans	524,514	9,875,908	3,100,868	4,818,455	937,162	1,448,456	20,705,363
HowSmart loans to utilities	-0-	266,839	536,546	-0-	-0-	-0-	803,385
Total loans	<u>\$ 524,514</u>	<u>\$ 10,142,747</u>	<u>\$ 3,637,414</u>	<u>\$ 4,818,455</u>	<u>\$ 937,162</u>	<u>\$ 1,448,456</u>	<u>\$ 21,508,748</u>

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.

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

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 1,823,168	\$ 1,196,316
Provision charged to operations	(391,507)	677,448
Charge-offs	(21,515)	(58,136)
Recoveries	29,568	7,540
Ending balance	<u>\$ 1,439,714</u>	<u>\$ 1,823,168</u>

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The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2021:

	Beginning Balance	Provision Charged to Operations	Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	\$ 129,954	\$ (19,634)	\$ (21,515)	\$ 24,193	\$ 112,998
Other enterprise loans	1,661,050	(369,223)		5,375	1,297,202
Total enterprise development loans	1,791,004	(388,857)	(21,515)	29,568	1,410,200
Paycheck Protection Program loans	-0-	2,449	-0-	-0-	2,449
How\$mart loans to utilities	32,164	(5,099)	-0-	-0-	27,065
Total loans	<u>\$ 1,823,168</u>	<u>\$ (391,507)</u>	<u>\$ (21,515)</u>	<u>\$ 29,568</u>	<u>\$ 1,439,714</u>

The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2020:

	Beginning Balance	Provision Charged to Operations	Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	\$ 124,342	\$ 60,627	\$ (58,136)	\$ 3,121	\$ 129,954
Other enterprise loans	1,036,072	620,559		4,419	1,661,050
Total enterprise development loans	1,160,414	681,186	(58,136)	7,540	1,791,004
How\$mart loans to utilities	35,902	(3,738)	-0-	-0-	32,164
Total loans	<u>\$ 1,196,316</u>	<u>\$ 677,448</u>	<u>\$ (58,136)</u>	<u>\$ 7,540</u>	<u>\$ 1,823,168</u>

Impairment

A loan is considered to be impaired when, based on current information and events, it is probable that the Organization 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.

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The following is a summary of information pertaining to impaired loans at April 30:

	<u>2021</u>	<u>2020</u>
Impaired loans with a valuation allowance	\$ <u>1,072,441</u>	\$ <u>1,864,729</u>
Valuation allowance related to impaired loans	\$ <u>536,220</u>	\$ <u>807,483</u>
Average investment in impaired loans	\$ <u>63,085</u>	\$ <u>88,797</u>
Interest income recognized on impaired loans	\$ <u>61,046</u>	\$ <u>90,786</u>
Interest income recognized on a cash basis on impaired loans	\$ <u>61,112</u>	\$ <u>93,375</u>

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2021:

	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	\$ 46,350	\$ 23,175	\$ <u>6,621</u>	\$ 3,654	\$ 3,720
Other enterprise loans	<u>1,026,091</u>	<u>513,045</u>	<u>102,609</u>	<u>57,392</u>	<u>57,392</u>
Total enterprise development	1,072,441	536,220	<u>\$ 63,085</u>	61,046	61,112
Paycheck Protection Program loans	-0-	-0-		-0-	-0-
How\$mart loans to utilities	<u>-0-</u>	<u>-0-</u>		<u>-0-</u>	<u>-0-</u>
Total loans	<u>\$ 1,072,441</u>	<u>\$ 536,220</u>	<u>\$ 63,085</u>	<u>\$ 61,046</u>	<u>\$ 61,112</u>

The following is an analysis of information pertaining to impaired loans by portfolio segment and class as of April 30, 2020:

	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	\$ 61,287	\$ 30,644	\$ <u>8,755</u>	\$ 4,699	\$ 4,905
Other enterprise loans	<u>1,803,442</u>	<u>776,839</u>	<u>128,817</u>	<u>86,087</u>	<u>88,470</u>
Total enterprise development	1,864,729	807,483	<u>\$ 88,797</u>	90,786	93,375
How\$mart loans to utilities	-0-	-0-		-0-	-0-
Total loans	<u>\$ 1,864,729</u>	<u>\$ 807,483</u>	<u>\$ 88,797</u>	<u>\$ 90,786</u>	<u>\$ 93,375</u>

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Troubled Debt Restructurings

Troubled debt restructurings (TDRs) carry modified repayment terms that the Organization 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 the Organization 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 the Organization would have willingly offered originally are not TDRs. Loans with modified terms which the Organization considers reasonable based on reductions in the loan balance are not TDRs.

TDRs are assigned risk ratings and evaluated for non-accrual status and impairment in the same way as non-TDRs.

The following is an analysis of troubled debt restructurings as of April 30, 2021:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	\$ -0-	-0-	\$ 9,755	2	\$ 9,755	2
Other enterprise loans	208,307	4	1,026,091	10	1,234,398	14
Total enterprise development loans	208,307	4	1,035,846	12	1,244,153	16
Paycheck Protection Program loans	-0-	-0-	-0-	-0-	-0-	-0-
How\$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	\$ 208,307	\$ 4	\$ 1,035,846	12	\$ 1,244,153	\$ 16

The following is an analysis of troubled debt restructurings as of April 30, 2020:

	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	\$ 5,075	1	\$ 10,139	1	\$ 15,214	2
Other enterprise loans	202,009	4	1,387,169	10	1,589,178	14
Total enterprise development loans	207,084	5	1,397,308	11	1,604,392	16
How\$mart loans to utilities	-0-	-0-	-0-	-0-	-0-	-0-
Total loans	\$ 207,084	\$ 5	\$ 1,397,308	11	\$ 1,604,392	\$ 16

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3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 40,000	\$ 40,000
Buildings and improvements	810,633	810,634
Equipment	110,119	107,051
Automobiles	73,058	83,636
	<u>1,033,810</u>	<u>1,041,321</u>
Accumulated depreciation	(671,156)	(653,960)
Property and equipment, net	<u>\$ 362,654</u>	<u>\$ 387,361</u>

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30:

	<u>2021</u>	<u>2020</u>
Government grants receivable:		
Appalachian Regional Commission	\$ -0-	\$ 142,204
U.S. Small Business Administration	68,585	61,787
Other	26,338	6,292
	<u>94,923</u>	<u>210,283</u>
Other grants receivable:		
JPB Foundation	-0-	1,000,000
The Chorus Foundation	623,000	908,000
Marguerite Casey Foundation	-0-	150,000
Educational Foundation of America	-0-	15,000
Other	-0-	5,000
	<u>623,000</u>	<u>2,078,000</u>
Total grants receivable	<u>\$ 717,923</u>	<u>\$ 2,288,283</u>

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Amounts due for the years ended April 30:

2022	\$	424,923
2023		<u>330,000</u>
		754,923
Present value discount		<u>(37,000)</u>
Grants receivable	\$	<u><u>717,923</u></u>

In October 2013, the Organization 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. The Organization received \$330,000 each in October 2019 and 2020. The receivable at April 30, 2021 reflects a net present value discount of \$37,000 computed using a discount rate of 6.0%. Amounts for current and long-term receivables for this grant at April 30, 2021 and 2020 are \$330,000 and \$293,000, respectively.

Subsequent to April 30, 2021, the Organization was awarded several grants from private foundations and government entities. The amount of these grants totaled approximately \$2,370,000.

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5. NOTES PAYABLE

Notes payable consist of the following at April 30:

	<u>2021</u>	<u>2020</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.	\$ 205,808	\$ 256,307
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.	184,181	213,880
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.	301,403	329,941
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.	357,825	385,805
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.	468,486	495,371
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.	521,486	547,846

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<p>SBA (May 2020), collateralized by all assets derived from loans made with proceeds, and with funds on deposit at Community Trust Bank in the Organization's SBA Loan Loss Reserve Fund and Microloan Revolving Fund. Base interest rate of .75 percent. Monthly payments of \$7,731. Matures May 2030.</p>	525,000	-0-
<p>SBA (September 2015), collateralized by all accounts receivable outstanding or arising from the SBA Microloan Program, all funds held in the SBA Loan Loss Reserve Fund bank account, and collateral on loans made through the SBA Microloan Program. Interest at .38 percent. Monthly payments of \$4,718. Matures August 2025.</p>	386,919	473,595
<p>SBA (June 2017), collateralized by all accounts receivable outstanding or arising from the SBA Microloan Program, all funds held in the SBA Loan Loss Reserve Fund bank account, and collateral on loans made through the SBA Microloan Program. No interest for first twelve months. Subsequent interest at .625 percent. Monthly payments of \$3,241. Matures June 2027.</p>	242,619	280,752
<p>The Business Valued Advisor Fund, LLC (January 2018). Uncollateralized. Interest at 3.56 percent. Quarterly interest-only payments. Entire principal amount due January 2025.</p>	4,000,000	4,000,000
<p>The Business Valued Advisor Fund, LLC (January 2018). Uncollateralized. Interest at 3.56 percent. Quarterly interest-only payments. Entire principal amount due January 2025.</p>	469,166	469,166

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Impact Assets, Inc. (April 2020). Uncollateralized. Interest at 1 percent. Annual interest-only payments. Entire principal amount due April 2026.

1,000,000 1,000,000

Opportunity Finance Network Grow with Google, unsecured. Interest per annum at one percent through December 31, 2021. Two percent beginning January 1, 2022. Quarterly interest-only payments. Matures June 2026.

	500,000	666,667
Total	9,162,893	9,119,330
Less current maturities	381,342	982,630
Long-term portion	\$ 8,781,551	\$ 8,136,700

In May 2016, the Organization renewed a \$500,000 operating line of credit from Citizens Bank. As of April 30, 2021 and 2020, the Organization 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 line of credit has been renewed with a maturity date of June 2022.

For purposes of collateral, total SBA loans receivable were approximately \$684,000 and \$698,000, respectively, at April 30, 2021 and 2020. Total assets of AIC derived from USDA loans were approximately \$3,052,000 and \$3,125,000, respectively, at April 30, 2021 and 2020.

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

Year Ending April 30:	
2022	\$ 381,342
2023	413,520
2024	415,941
2025	4,885,772
2026	1,315,832
2027 - 2039	1,750,486
	\$ 9,162,893

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6. SUBORDINATED LOAN PAYABLE

Subordinated loan payable consists of the following at April 30:

	<u>2021</u>	<u>2020</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 (2.25% at April 30, 2021). Lender must extend term annually as long as the Organization 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>

There are no principal repayments required in the next five years. As noted above, no repayments are required unless the Organization loses its tax-exempt status.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction are available for the following uses at April 30:

	<u>2021</u>	<u>2020</u>
Community development	\$ 716,529	\$ 2,444,070
Research and policy	-0-	908,343
Appalachia Funders Network	220,880	263,584
Central Appalachian Network	105,524	165,385
Re-granting	88,618	56,556
Energy sector	213,683	34,738
Enterprise development:		
Operations only	364,539	275,000
Financing	2,942,976	2,665,998
	<u>\$ 4,652,749</u>	<u>\$ 6,813,674</u>

8. RETIREMENT PLAN

The Organization sponsors a defined contribution retirement plan (the Plan) covering all employees who work 20 hours or more per week. Employees are eligible for elective deferrals and employer contributions upon date of hire. The Organization contributes five percent of each employee's annual compensation to the Plan. For the years ended April 30, 2021 and 2020, employer contributions to the Plan were approximately \$98,000 and \$99,000, respectively.

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9. CONCENTRATIONS

Financial instruments which potentially subject the Organization to concentrations of credit risk include cash, accounts receivable, loans receivable and investments. The Organization 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, 2021 and 2020, the Organization had cash balances of approximately \$880,000 and \$343,000, respectively, in excess of federally insured limits and which were not collateralized. At April 30, 2021 and 2020, the Organization had cash balances of approximately \$12,408,000 and \$9,356,000, respectively, which were collateralized.

For the year ended April 30, 2021, approximately 54% of the Organization's grant revenues were from six grantors. For the year ended April 30, 2020, approximately 51% of the Organization's grant revenues were from three grantors. As of April 30, 2021, approximately 59% of loans receivable were due from 11 customers. As of April 30, 2020, approximately 64% of loans receivable were due from 15 customers.

10. 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 the Organization. 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 the Organization 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 the Organization, they need to be reinvested or would be subject to reclaim.

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Organization's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, collectability of loans receivable, additional costs for responding to COVID-19 and reductions in contributions and other funding. Management believes the Organization is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.

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11. INCOME TAXES

The Organization has been determined to qualify as a tax-exempt organization by the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code as a nonprofit organization other than a private foundation. AIC has been granted tax-exempt status by the Internal Revenue Service under section 501(c)(4) of the Internal Revenue Code. Ridgecrest is a for-profit company and recognizes federal and state income tax expense based on enacted rates currently applicable. Accordingly, the accompanying consolidated financial statements reflect income tax expense only to the extent that Ridgecrest has generated taxable income.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization 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 the Organization, and has concluded that as of April 30, 2021 and 2020, 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 2018 through 2020 are subject to review by taxing authorities. As of April 30, 2021, Ridgecrest had federal net operating loss carryforwards of approximately \$299,000, which expire at various intervals through fiscal year 2041. The effects of recording a deferred tax position are immaterial as income in future periods for Ridgecrest is uncertain.

12. RISK MANAGEMENT

The Organization 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. The Organization manages these risks through the purchase of commercial insurance.

13. AVAILABILITY OF FINANCIAL ASSETS

The Organization is sustained by contributions, grants, and interest income from loans and depends on each of these to meet its ongoing obligations. As part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of daily requirements in short-term investments.

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The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents, not restricted	\$ 10,112,483	\$ 6,140,905
Loans receivable, net	1,210,551	1,610,242
Accounts and interest receivable	210,271	93,514
Grants receivable, current portion	<u>424,923</u>	<u>1,710,283</u>
	11,958,228	9,554,944
Restricted for designated purpose, not included in standard operations	<u>(326,404)</u>	<u>(428,969)</u>
Financial assets available to meet cash needs for general expenditure within one year	\$ <u>11,631,824</u>	\$ <u>9,125,975</u>

14. PROGRAM SERVICES AND EXPENSES

Following are descriptions of the Organization’s program services:

Enterprise Development

The Organization’s Enterprise Development program helps entrepreneurs and small business owners develop the tools and skills they need to create quality jobs through strong businesses that provide important community services. The Organization provides access to investment capital combined with training and technical assistance to increase their capacity and likelihood of success.

Appalachian Transition Communications and Policy (ATCaP)

Appalachian Transition is both the overarching framework of our vision for Appalachia’s brighter future and a body of work aimed at moving us toward that future. ATCaP is focused on conducting communications campaigns, telling important stories through a broad range of avenues, and connecting with leaders and organizations across the country as part of shifting the conversations about the region.

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Kentucky Center for Economic Policy (KY Policy)

KY Policy produces timely analysis of key issues and policy options; promotes public conversation about solutions through media and communications; and advocates to decision makers on the need for policies that improve the quality of life for all Kentuckians. This program became a separate legal entity in fiscal year 2021. The expenses in the table on the subsequent page include a grant of approximately \$1,484,000 to the new entity.

Energy Programs

The Organization's clean energy programs fall under two primary programs, How\$martKY™ and Energy Efficient Enterprises. How\$martKY is a residential energy efficiency program that we run in partnership with distribution cooperatives from the East Kentucky Power Cooperative system, working to create more affordable, comfortable, durable and healthy housing through education, workshops, audits, and help accessing utility programs. Energy Efficient Enterprises helps businesses, nonprofits, and other enterprises identify how they are using energy and where opportunities for efficiency and cost savings may exist.

Appalachia Funders Network (AFN)

AFN consists of 60 member organizations who believe that their participation in the Network is helping to further their mission and deepen their impact. The purpose of AFN is to accelerate an equitable Appalachian transition by convening and connecting funders for learning, analysis and collaboration. AFN's seven groups aim to build community capacity, promote equity, revitalize downtowns, advance food and agriculture systems, lift up arts & culture as a community development strategy, promote clean energy and protect natural resources, and support a culture of health.

Central Appalachian Network (CAN)

CAN is composed of eight nonprofits that promote sustainable community development in Central Appalachia. CAN's goals include strengthening Central Appalachia's healthy food sector through value chain development, increasing the capacity of CAN members and CAN partners, and engaging in policy change that supports sustainable development. CAN members strengthened local food value chains primarily through educational conferences, technical assistance, and small grants.

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Following is a detail of program service expenses for the years ended April 30:

<u>Program service</u>	<u>2021</u>	<u>2020</u>
Enterprise Development	\$ 720,575	\$ 2,179,722
Kentucky Center for Economic Policy	1,973,909	783,443
Appalachian Transition	688,835	645,843
Energy Programs	460,544	519,578
Appalachia Funders Network	463,111	246,739
Central Appalachian Network	239,503	329,447
Other programs	<u>362,880</u>	<u>70,035</u>
Total program services	\$ <u>4,909,357</u>	\$ <u>4,774,807</u>

15. CHANGE IN ACCOUNTING PRINCIPLE

During 2021, the Organization adopted 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.” This new standard deals with the timing of reporting revenues from contracts with customers, and disclosures related thereto. The adoption of ASU 2014-09 did not have a material effect on the accompanying financial statements.

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16. UPCOMING PRONOUNCEMENTS

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This new standard, which the Organization is not required to adopt until its year ended April 30, 2024, removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current guidance, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance will remove all recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the Organization expects to collect over the instrument's contractual life.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Organization is not required to adopt until its year ending April 30, 2023, 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.

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

- SUPPLEMENTARY INFORMATION -

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2021

	ASSETS				
	<u>Mtn. Association</u>	<u>AIC</u>	<u>Ridgecrest</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ 10,077,223	\$	\$ 35,260	\$	\$ 10,112,483
Cash and cash equivalents, restricted	2,179,821	1,696,550			3,876,371
Loans receivable, current portion, net	1,014,249	219,344		(23,042)	1,210,551
Accounts and interest receivable	212,849	4,079		(6,657)	210,271
Grants receivable, current portion	424,923				424,923
Prepaid expenses and other assets	11,329		1,308		12,637
Total current assets	<u>13,920,394</u>	<u>1,919,973</u>	<u>36,568</u>	<u>(29,699)</u>	<u>15,847,236</u>
Property and equipment, net	<u>3,113</u>	<u>-0-</u>	<u>359,541</u>	<u>-0-</u>	<u>362,654</u>
Other assets:					
Other assets	372,461			(322,961)	49,500
Grants receivable, less current portion	293,000				293,000
Loans receivable, less current portion, net	14,127,320	1,131,777		(37,287)	15,221,810
Total other assets	<u>14,792,781</u>	<u>1,131,777</u>	<u>-0-</u>	<u>(360,248)</u>	<u>15,564,310</u>
Total assets	<u>\$ 28,716,288</u>	<u>\$ 3,051,750</u>	<u>\$ 396,109</u>	<u>\$ (389,947)</u>	<u>\$ 31,774,200</u>
	LIABILITIES AND NET ASSETS				
Current liabilities:					
Notes payable, current portion	\$ 191,380	\$ 189,962	\$ 23,042	\$ (23,042)	\$ 381,342
Accounts payable and accrued expenses	383,028	39,193	12,819	(6,657)	428,383
Total current liabilities	<u>574,408</u>	<u>229,155</u>	<u>35,861</u>	<u>(29,699)</u>	<u>809,725</u>
Long-term liabilities:					
Notes payable, less current portion	6,932,325	1,849,226	37,287	(37,287)	8,781,551
Subordinated loans payable	500,000				500,000
Total long-term liabilities	<u>7,432,325</u>	<u>1,849,226</u>	<u>37,287</u>	<u>(37,287)</u>	<u>9,281,551</u>
Total liabilities	<u>8,006,733</u>	<u>2,078,381</u>	<u>73,148</u>	<u>(66,986)</u>	<u>10,091,276</u>
Net assets:					
Without donor restrictions:					
Operating	16,056,806	973,369	322,961	(322,961)	17,030,175
With donor restrictions:					
Operations	1,621,155				1,621,155
Financing	2,942,976				2,942,976
Re-granting	88,618				88,618
Total with donor restrictions	<u>4,652,749</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>4,652,749</u>
Total net assets	<u>20,709,555</u>	<u>973,369</u>	<u>322,961</u>	<u>(322,961)</u>	<u>21,682,924</u>
Total liabilities and net assets	<u>\$ 28,716,288</u>	<u>\$ 3,051,750</u>	<u>\$ 396,109</u>	<u>\$ (389,947)</u>	<u>\$ 31,774,200</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2020

	ASSETS				
	<u>Mtn. Association</u>	<u>AIC</u>	<u>Ridgecrest</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ 6,128,876	\$	\$ 12,029	\$	\$ 6,140,905
Cash and cash equivalents, restricted	2,777,640	1,462,976			4,240,616
Loans receivable, current portion, net	1,413,940	219,344		(23,042)	1,610,242
Accounts and interest receivable	89,604	10,567		(6,657)	93,514
Grants receivable, current portion	1,710,283				1,710,283
Prepaid expenses and other assets	23,315		1,308		24,623
Total current assets	<u>12,143,658</u>	<u>1,692,887</u>	<u>13,337</u>	<u>(29,699)</u>	<u>13,820,183</u>
Property and equipment, net	<u>4,824</u>	<u>-0-</u>	<u>382,537</u>	<u>-0-</u>	<u>387,361</u>
Other assets:					
Other assets	339,166			(309,166)	30,000
Grants receivable, less current portion	578,000				578,000
Loans receivable, less current portion, net	16,701,866	1,432,481		(59,009)	18,075,338
Total other assets	<u>17,619,032</u>	<u>1,432,481</u>	<u>-0-</u>	<u>(368,175)</u>	<u>18,683,338</u>
Total assets	<u>\$ 29,767,514</u>	<u>\$ 3,125,368</u>	<u>\$ 395,874</u>	<u>\$ (397,874)</u>	<u>\$ 32,890,882</u>
	LIABILITIES AND NET ASSETS				
Current liabilities:					
Notes payable, current portion	\$ 792,668	\$ 189,962	\$ 21,725	\$ (21,725)	\$ 982,630
Accounts payable and accrued expenses	262,203	11,151	4,657	(6,657)	271,354
Refundable advances received from grants	88,208				88,208
Total current liabilities	<u>1,143,079</u>	<u>201,113</u>	<u>26,382</u>	<u>(28,382)</u>	<u>1,342,192</u>
Long-term liabilities:					
Notes payable, less current portion	6,097,512	2,039,188	60,326	(60,326)	8,136,700
Subordinated loans payable	500,000				500,000
Total long-term liabilities	<u>6,597,512</u>	<u>2,039,188</u>	<u>60,326</u>	<u>(60,326)</u>	<u>8,636,700</u>
Total liabilities	<u>7,740,591</u>	<u>2,240,301</u>	<u>86,708</u>	<u>(88,708)</u>	<u>9,978,892</u>
Net assets:					
Without donor restrictions:					
Operating	15,213,249	885,067	309,166	(309,166)	16,098,316
With donor restrictions:					
Operations	4,091,120				4,091,120
Financing	2,665,998				2,665,998
Re-granting	56,556				56,556
Total with donor restrictions	<u>6,813,674</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,813,674</u>
Total net assets	<u>22,026,923</u>	<u>885,067</u>	<u>309,166</u>	<u>(309,166)</u>	<u>22,911,990</u>
Total liabilities and net assets	<u>\$ 29,767,514</u>	<u>\$ 3,125,368</u>	<u>\$ 395,874</u>	<u>\$ (397,874)</u>	<u>\$ 32,890,882</u>

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CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2021

	Mountain Association		AIC	Ridgecrest	Eliminations	Total
	Without donor restrictions	With donor restrictions	Without donor restrictions	Without donor restrictions		
Revenues and other support:						
Non-financing revenues and support						
Private grants and contributions	\$ 65,733	\$ 2,281,095	\$	\$	\$	\$ 2,346,828
Government grants, operations		282,395				282,395
Government grant, forgivable loan		490,408				490,408
Project income	93,011	35,465			(24,000)	104,476
Miscellaneous income	623	52,564				53,187
Lease income				81,600	(81,600)	-0-
Total non-financing revenues and support	<u>159,367</u>	<u>3,141,927</u>	<u>-0-</u>	<u>81,600</u>	<u>(105,600)</u>	<u>3,277,294</u>
Financing revenues						
Interest income on loans	507,467	466,940	94,999		(5,585)	1,063,821
Fee income on loans	71,756	5,268				77,024
Interest on idle funds	17,408	2,228	3,561			23,197
Total financing revenues	<u>596,631</u>	<u>474,436</u>	<u>98,560</u>	<u>0</u>	<u>(5,585)</u>	<u>1,164,042</u>
Satisfaction of program and time restrictions	<u>5,777,288</u>	<u>(5,777,288)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total revenues and other support	<u>6,533,286</u>	<u>(2,160,925)</u>	<u>98,560</u>	<u>81,600</u>	<u>(111,185)</u>	<u>4,441,336</u>
Expenses:						
Non-financing expenses						
Program	5,092,508		24,015	63,491	(93,076)	5,086,938
Fundraising	94,045					94,045
Management and general	667,000					667,000
Total non-financing expenses	<u>5,853,553</u>	<u>-0-</u>	<u>24,015</u>	<u>63,491</u>	<u>(93,076)</u>	<u>5,847,983</u>
Financing expenses						
Interest	192,832		21,094	4,314	(4,314)	213,926
Provision for loan losses	(356,656)		(34,851)			(391,507)
Total financing expenses	<u>(163,824)</u>	<u>-0-</u>	<u>(13,757)</u>	<u>4,314</u>	<u>(4,314)</u>	<u>(177,581)</u>
Total expenses	<u>5,689,729</u>	<u>-0-</u>	<u>10,258</u>	<u>67,805</u>	<u>(97,390)</u>	<u>5,670,402</u>
Change in net assets	843,557	(2,160,925)	88,302	13,795	(13,795)	(1,229,066)
Net assets, beginning of year	<u>15,213,249</u>	<u>6,813,674</u>	<u>885,067</u>	<u>309,166</u>	<u>(309,166)</u>	<u>22,911,990</u>
Net assets, end of year	<u>\$ 16,056,806</u>	<u>\$ 4,652,749</u>	<u>\$ 973,369</u>	<u>\$ 322,961</u>	<u>\$ (322,961)</u>	<u>\$ 21,682,924</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
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CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2020

	Mountain Association		AIC	Ridgecrest	Eliminations	Total
	Without donor restrictions	With donor restrictions	Without donor restrictions	Without donor restrictions		
Revenues and other support:						
Non-financing revenues and support						
Private grants and contributions	\$ 22,001	\$ 2,084,127	\$	\$	\$	\$ 2,106,128
Government grants		741,536				741,536
Project income	69,811	28,789			(24,000)	74,600
Miscellaneous income	3,709	170,519		5,503		179,731
Lease income				81,600	(81,600)	
Loss on disposal of equipment	0	0		(10,349)		(10,349)
Total non-financing revenues and support	<u>95,521</u>	<u>3,024,971</u>	<u>-0-</u>	<u>76,754</u>	<u>(105,600)</u>	<u>3,091,646</u>
Financing revenues						
Interest income on loans	493,487	487,050	108,182		(5,585)	1,083,134
Fee income on loans	61,075	470	3,356			64,901
Interest on idle funds	13,465	1,671	8,906	19		24,061
Total financing revenues	<u>568,027</u>	<u>489,191</u>	<u>120,444</u>	<u>19</u>	<u>(5,585)</u>	<u>1,172,096</u>
Satisfaction of program and time restrictions	<u>5,151,984</u>	<u>(5,151,984)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total revenues and other support	<u>5,815,532</u>	<u>(1,637,822)</u>	<u>120,444</u>	<u>76,773</u>	<u>(111,185)</u>	<u>4,263,742</u>
Expenses:						
Non-financing expenses						
Program	3,886,715		24,092	83,523	(117,935)	3,876,395
Fundraising	80,238					80,238
Management and general	802,569					802,569
Total non-financing expenses	<u>4,769,522</u>	<u>-0-</u>	<u>24,092</u>	<u>83,523</u>	<u>(117,935)</u>	<u>4,759,202</u>
Financing expenses						
Interest	198,635		22,329	5,585	(5,585)	220,964
Provision for loan losses	610,142		67,306			677,448
Total financing expenses	<u>808,777</u>	<u>-0-</u>	<u>89,635</u>	<u>5,585</u>	<u>(5,585)</u>	<u>898,412</u>
Total expenses	<u>5,578,299</u>	<u>-0-</u>	<u>113,727</u>	<u>89,108</u>	<u>(123,520)</u>	<u>5,657,614</u>
Change in net assets	237,233	(1,637,822)	6,717	(12,335)	12,335	(1,393,872)
Net assets, beginning of year	<u>14,976,016</u>	<u>8,451,496</u>	<u>878,350</u>	<u>321,501</u>	<u>(321,501)</u>	<u>24,305,862</u>
Net assets, end of year	<u>\$ 15,213,249</u>	<u>\$ 6,813,674</u>	<u>\$ 885,067</u>	<u>\$ 309,166</u>	<u>\$ (309,166)</u>	<u>\$ 22,911,990</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2021

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	\$ 705,655	\$ -0-
<u>NONMAJOR PROGRAMS</u>				
<u>Small Business Administration (SBA)</u>				
SBA Microloan Program	59.046	SBAHQ-19-Y-0140	61,764	
SBA Microloan Program	59.046	SBAOCAML200068-01-00	118,319	
			<u>180,083</u>	<u>-0-</u>
<u>Appalachia Regional Commission</u>				
Economic Transition for Eastern Kentucky Initiative	23.002	PW-18622-IM-16	60,008	-0-
<u>Department of Energy</u>				
State Office of Energy Policy	81.041	PON2 141 2000003794	22,341	-0-
<u>Department of Housing & Urban Development</u>				
<u>Capacity Building Grant</u>				
Turning the Tide on Persistent Rural Poverty	14.252	PA#41942-0029	19,963	-0-
Total nonmajor programs			<u>282,395</u>	<u>-0-</u>
Total			\$ <u>988,050</u>	\$ <u>-0-</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, 2021

1. BASIS OF PRESENTATION

The accompanying consolidated schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Organization 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. The Organization obtains negotiated indirect cost rates for its federal grants and did not elect 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, 2021 consist of the following :

IRP #1 - U.S. Department of Agriculture (August 1994)	\$ 205,808
IRP #2 - U.S. Department of Agriculture (August 1996)	184,181
IRP #3 - U.S. Department of Agriculture (August 2000)	301,403
IRP #4 - U.S. Department of Agriculture (April 2003)	357,825
IRP #5 - U.S. Department of Agriculture (October 2006)	468,486
IRP #6 - U.S. Department of Agriculture (March 2009)	521,486
U.S. Small Business Administration (May 2020)	525,000
U.S. Small Business Administration (September 2015)	386,919
U.S. Small Business Administration (June 2017)	242,619
Total	\$ <u><u>3,193,727</u></u>

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

NOTES TO CONSOLIDATED SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2021

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 the Organization. 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 2021 financial statements:

Expenditures per SEFA	\$ 988,050
Total RLF funds received, reflected on SEFA per the Guidelines	(705,655)
Payroll Protection Plan loan forgiveness included in government grants	<u>490,408</u>
Government grants revenue per financial statements	\$ <u><u>772,803</u></u>



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

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

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (the Organization), which comprise the consolidated statement of financial position as of April 30, 2021, 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 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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.

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 the Organization'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 consolidated financial statements. 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
July 28, 2021



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

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

Report on Compliance for Each Major Federal Program

We have audited Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended April 30, 2021. The Organization'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2021.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization'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 the Organization'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.

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

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.

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 28, 2021

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2021

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 no

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes none reported

Noncompliance material to financial statements noted? _____ yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes 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 no

Identification of major programs:

<u>CFDA Number</u> 23.011	<u>Name of Federal Program</u> Appalachian Research, Technical Assistance and Demonstration Projects
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Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2021

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, 2021

No findings or questioned costs were reported for the year ended April 30, 2020.