



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

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

APRIL 30, 2023 AND 2022

**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

Opinion

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, 2023 and 2022, 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.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

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

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 consolidated 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 26, 2023, 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 26, 2023

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
APRIL 30, 2023 AND 2022

ASSETS		
	2023	2022
Current assets:		
Cash and cash equivalents	\$ 17,314,598	\$ 13,521,914
Cash and cash equivalents, restricted	3,225,936	3,712,849
Loans receivable, net of allowance for bad debts of \$87,425 and \$172,973, respectively	998,829	1,086,717
Accounts and interest receivable	142,656	135,871
Grants receivable	963,897	1,991,898
Prepaid expenses and other assets	33,359	15,917
Total current assets	22,679,275	20,465,166
Property and equipment, net	803,373	340,065
Noncurrent assets:		
Other assets	49,500	49,500
Loans receivable, net of allowance for bad debts of \$787,955 and \$868,643, respectively	14,878,388	15,213,295
Total noncurrent assets	14,927,888	15,262,795
Total assets	\$ 38,410,536	\$ 36,068,026
LIABILITIES AND NET ASSETS		
Current liabilities:		
Notes payable	\$ 420,397	\$ 378,873
Accounts payable and accrued expenses	376,566	394,434
Total current liabilities	796,963	773,307
Long-term liabilities:		
Notes payable	9,433,971	8,723,108
Subordinated loans payable	500,000	500,000
Total long-term liabilities	9,933,971	9,223,108
Total liabilities	10,730,934	9,996,415
Net assets:		
Without donor restrictions:		
Operating	19,695,486	18,827,764
With donor restrictions:		
Operations	2,456,111	2,367,426
Financing	5,424,091	4,793,918
Re-granting	103,914	82,503
Total with donor restrictions	7,984,116	7,243,847
Total net assets	27,679,602	26,071,611
Total liabilities and net assets	\$ 38,410,536	\$ 36,068,026

See accompanying notes to
consolidated financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	\$ 54,638	\$ 3,489,618	\$ 3,544,256
Government grants, operations	0	1,469,584	1,469,584
Project income	132,222	1,000	133,222
Miscellaneous income	100	0	100
Total non-financing revenues and support	<u>186,960</u>	<u>4,960,202</u>	<u>5,147,162</u>
Financing revenues			
Interest income on loans	203,586	685,438	889,024
Fee income on loans	42,854	5,550	48,404
Interest on idle funds	58,680	6,037	64,717
Total financing revenues	<u>305,120</u>	<u>697,025</u>	<u>1,002,145</u>
Satisfaction of program and time restrictions	4,916,958	(4,916,958)	0
Total revenues and other support	<u>5,409,038</u>	<u>740,269</u>	<u>6,149,307</u>
Expenses:			
Non-financing expenses			
Program	3,221,757	0	3,221,757
Fundraising	177,846	0	177,846
Management and general	1,022,163	0	1,022,163
Total non-financing expenses	<u>4,421,766</u>	<u>0</u>	<u>4,421,766</u>
Financing expenses			
Interest	220,661	0	220,661
Provision for loan losses	(101,111)	0	(101,111)
Total financing expenses	<u>119,550</u>	<u>0</u>	<u>119,550</u>
Total expenses	<u>4,541,316</u>	<u>0</u>	<u>4,541,316</u>
Change in net assets	867,722	740,269	1,607,991
Net assets, beginning of year	<u>18,827,764</u>	<u>7,243,847</u>	<u>26,071,611</u>
Net assets, end of year	<u>\$ 19,695,486</u>	<u>\$ 7,984,116</u>	<u>\$ 27,679,602</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, 2022

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Non-financing revenues and support			
Private grants and contributions	\$ 17,968	\$ 3,689,893	\$ 3,707,861
Government grants	0	2,944,683	2,944,683
Project income	106,976	35,625	142,601
Miscellaneous income	1,432	0	1,432
Loss on disposal of equipment	0	0	0
Total non-financing revenues and support	<u>126,376</u>	<u>6,670,201</u>	<u>6,796,577</u>
Financing revenues			
Interest income on loans	353,180	632,233	985,413
Fee income on loans	819,636	74,228	893,864
Interest on idle funds	22,394	4,011	26,405
Total financing revenues	<u>1,195,210</u>	<u>710,472</u>	<u>1,905,682</u>
Satisfaction of program and time restrictions	<u>4,789,575</u>	<u>(4,789,575)</u>	<u>0</u>
Total revenues and other support	<u>6,111,161</u>	<u>2,591,098</u>	<u>8,702,259</u>
Expenses:			
Non-financing expenses			
Program	3,473,862	0	3,473,862
Fundraising	140,836	0	140,836
Management and general	895,193	0	895,193
Total non-financing expenses	<u>4,509,891</u>	<u>0</u>	<u>4,509,891</u>
Financing expenses			
Interest	210,256	0	210,256
Provision for loan losses	<u>(406,575)</u>	<u>0</u>	<u>(406,575)</u>
Total financing expenses	<u>(196,319)</u>	<u>0</u>	<u>(196,319)</u>
Total expenses	<u>4,313,572</u>	<u>0</u>	<u>4,313,572</u>
Change in net assets	1,797,589	2,591,098	4,388,687
Net assets, beginning of year	<u>17,030,175</u>	<u>4,652,749</u>	<u>21,682,924</u>
Net assets, end of year	<u>\$ 18,827,764</u>	<u>\$ 7,243,847</u>	<u>\$ 26,071,611</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, 2023

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	\$ 1,449,931	\$ 160,175	\$ 784,937	\$ 2,395,043
Consultants and professional services				
Consultants	717,641	396	73,391	791,428
Professional services	18,622	0	42,104	60,726
IT services	37,076	159	28,232	65,467
Travel and meetings				
Travel	65,108	1,719	6,701	73,528
Meetings, registration and training	45,396	2,041	12,564	60,001
Maintenance, lease and equipment purchase				
Equipment lease, short-term	4,421	487	2,400	7,308
Equipment and software expense	7,913	0	4,918	12,831
Repairs and maintenance	10,357	64	10,046	20,467
Office operations				
Occupancy	14,785	2,531	9,483	26,799
Insurance	21,939	143	6,483	28,565
Postage	1,067	40	605	1,712
Supplies	12,019	335	3,884	16,238
Telephone	15,847	1,028	6,553	23,428
Depreciation	30,134	1,302	6,178	37,614
Re-grants	721,752	0	0	721,752
Other				
Advertising and promotion	15,512	0	936	16,448
Publications, memberships, and subscriptions	11,088	1,540	1,490	14,118
Printing and duplication	2,337	40	3,022	5,399
Licenses and fees	8,201	5,846	18,236	32,283
Taxes	10,611	0	0	10,611
	<u>3,221,757</u>	<u>177,846</u>	<u>1,022,163</u>	<u>4,421,766</u>
Financing expenses:				
Interest	220,661	0	0	220,661
Provision for loan losses	<u>(101,111)</u>	<u>0</u>	<u>0</u>	<u>(101,111)</u>
	<u>119,550</u>	<u>0</u>	<u>0</u>	<u>119,550</u>
Total financing expenses	<u>119,550</u>	<u>0</u>	<u>0</u>	<u>119,550</u>
Total expenses	<u>\$ 3,341,307</u>	<u>\$ 177,846</u>	<u>\$ 1,022,163</u>	<u>\$ 4,541,316</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, 2022

	Program Services	Fundraising	Management and General	Total
Non-financing expenses:				
Personnel	\$ 1,336,356	\$ 126,228	\$ 726,928	\$ 2,189,512
Consultants and professional services				
Consultants	776,160	1,499	10,599	788,258
Professional services	9,147	0	58,110	67,257
IT services	33,596	156	27,457	61,209
Interns and contract labor	0	0	0	0
Travel and meetings				
Travel	22,325	148	1,503	23,976
Meetings, registration and training	78,324	388	3,471	82,183
Maintenance, lease and equipment purchase				
Equipment lease, short-term	4,571	366	2,349	7,286
Equipment and software expense	15,542	1,898	6,747	24,187
Repairs and maintenance	28,215	10	7,659	35,884
Office operations				
Occupancy	7,147	2,473	11,996	21,616
Insurance	17,415	225	8,116	25,756
Postage	924	65	828	1,817
Supplies	3,677	179	1,510	5,366
Telephone	10,631	810	6,158	17,599
Depreciation	21,732	129	728	22,589
Re-grants	1,074,769	0	0	1,074,769
Other				
Advertising and promotion	10,962	671	1,422	13,055
Publications, memberships, and subscriptions	7,341	594	3,041	10,976
Printing and duplication	1,072	0	2,820	3,892
Licenses and fees	3,302	4,997	13,751	22,050
Taxes	10,654	0	0	10,654
 Total non-financing expenses	 <u>3,473,862</u>	 <u>140,836</u>	 <u>895,193</u>	 <u>4,509,891</u>
Financing expenses:				
Interest	210,256	0	0	210,256
Provision for loan losses	<u>(406,575)</u>	<u>0</u>	<u>0</u>	<u>(406,575)</u>
 Total financing expenses	 <u>(196,319)</u>	 <u>0</u>	 <u>0</u>	 <u>(196,319)</u>
 Total expenses	 <u>\$ 3,277,543</u>	 <u>\$ 140,836</u>	 <u>\$ 895,193</u>	 <u>\$ 4,313,572</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, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 1,607,991	\$ 4,388,687
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	37,614	22,589
Provision for loan losses	(101,111)	(406,575)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(6,785)	74,400
Grants receivable	1,028,001	(1,273,975)
Prepaid expenses and other assets	(17,442)	(3,280)
Accounts payable and accrued expenses	(17,868)	(33,949)
Net cash flows from operating activities	2,530,400	2,767,897
Cash flows from investing activities:		
Purchases of property and equipment	(500,922)	0
Loans to other entities	(2,511,461)	(8,296,497)
Principal collections on loans receivable	3,035,367	8,835,421
Net cash flows from investing activities	22,984	538,924
Cash flows from financing activities:		
Proceeds from notes payable	1,160,000	310,000
Principal payments on notes payable	(407,613)	(370,912)
Net cash flows from financing activities	752,387	(60,912)
Net change in cash and cash equivalents	3,305,771	3,245,909
Cash and cash equivalents, beginning of year	17,234,763	13,988,854
Cash and cash equivalents, end of year	\$ 20,540,534	\$ 17,234,763
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 214,577	\$ 210,635

See accompanying notes to
consolidated financial statements.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022

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 strategic initiatives. 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, 2023 AND 2022

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022

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>2023</u>	<u>2022</u>
Cash and cash equivalents, not restricted	\$ 17,314,598	\$ 13,521,914
Cash and cash equivalents, restricted	<u>3,225,936</u>	<u>3,712,849</u>
Total cash and cash equivalents	<u>\$ 20,540,534</u>	<u>\$ 17,234,763</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, 2023 and 2022. 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 judgement, 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.

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.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022

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 2023 and 2022 was approximately \$182,000 and \$1,036,000, 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, 2023 and 2022 are reflected in the accompanying statements of financial position. The balance at May 1, 2021 was approximately \$210,000.

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, 2023 or 2022. The balance at May 1, 2021 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.

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Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended April 30, 2023 and 2022 amounted to approximately \$16,000 and \$13,000, 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, 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.

Accounting Standard Adoption - Leases

On May 1, 2022, the Organization adopted the new lease accounting standard issued by the Financial Accounting Standards Board and codified in the Accounting Standards Codification as Topic 842 (ASC 842). ASC 842 is intended to improve financial reporting for leasing transactions by requiring entities to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures. Leases with terms, as defined in ASC 842, of twelve months or less are not required to be reflected on the statement of financial position. The adoption of ASC 842 did not have a material impact to the accompanying consolidated financial statements, and material leases have been eliminated during consolidation.

Subsequent Events

The Organization evaluates events occurring subsequent to the date of the consolidated 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 26, 2023, 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, 2023 and 2022, loans receivable consist of current amounts, at gross, of approximately \$1,086,000 and \$1,260,000 and noncurrent amounts of \$15,666,000 and \$16,082,000, 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>2023</u>	<u>2022</u>
Loans receivable	\$ 16,752,597	\$ 17,341,628
Less allowance for loan losses	<u>875,380</u>	<u>1,041,616</u>
Loans receivable, net	<u>\$ 15,877,217</u>	<u>\$ 16,300,012</u>

Loans serving as collateral on notes payable amounted to approximately \$2,791,000 and \$3,052,000, respectively, at April 30, 2023 and 2022. Accrued interest receivable amounted to approximately \$60,000 and \$59,000 at April 30, 2023 and 2022, respectively. Non-accrual loans totaled approximately \$199,000 and \$541,000 at April 30, 2023 and 2022, respectively.

Aging

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

	<u>2023</u>				<u>Total</u>
	<u>Current</u>	<u>30-59 days past due</u>	<u>60-89 days past due</u>	<u>90+ days past due</u>	
Enterprise development loans					
Microloans	\$ 1,115,184	\$ 7,924	\$ 39,845	\$ 1,094	\$ 1,164,047
Other enterprise loans	<u>14,981,828</u>	<u>0</u>	<u>0</u>	<u>165,385</u>	<u>15,147,213</u>
Total enterprise development loans	16,097,012	7,924	39,845	166,479	16,311,260
Paycheck Protection Program loans	20,284	0	0	0	20,284
HowSmart loans to utilities	<u>421,053</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>421,053</u>
Total loans	<u>\$ 16,538,349</u>	<u>\$ 7,924</u>	<u>\$ 39,845</u>	<u>\$ 166,479</u>	<u>\$ 16,752,597</u>
	<u>2022</u>				
	<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	\$ 1,066,215	\$ 0	\$ 0	\$ 958	\$ 1,067,173
Other enterprise loans	<u>14,936,472</u>	<u>177,210</u>	<u>0</u>	<u>311,245</u>	<u>15,424,927</u>
Total enterprise development loans	16,002,687	177,210	0	312,203	16,492,100
Paycheck Protection Program loans	310,022	0	0	0	310,022
HowSmart loans to utilities	<u>539,506</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>539,506</u>
Total loans	<u>\$ 16,852,215</u>	<u>\$ 177,210</u>	<u>\$ 0</u>	<u>\$ 312,203</u>	<u>\$ 17,341,628</u>

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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 - These loans do not demonstrate immediate loss; however, weaknesses do exist which could cause future impairment. 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. These loans may be overdue or have extensions or overdrafts on demand accounts. Loans in this category may also exhibit weak origination and/or servicing policies and may contain documentation deficiencies. The risk-rating category may also be used for new or untested borrowers.
4. Watch - Loans in this category are characterized by deterioration in quality exhibited by any number of weaknesses requiring corrective action. The weaknesses may include, but are not limited to, high debt-to-worth ratios, declining or negative earnings trends, declining or inadequate liquidity, questionable repayment sources, lack of well-defined secondary repayment sources and unfavorable competitive comparisons. Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status, extensions and/or renewals.

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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 portfolio by credit quality, as of April 30:

	2023						Total Loans
	Excellent	Good	Fair	Watch	Sub-Standard	Doubtful	
Enterprise development loans							
Microloans	\$ 0	\$ 186,178	\$ 484,077	\$ 418,819	\$ 56,510	\$ 18,463	\$ 1,164,047
Other enterprise loans	2,047,848	5,226,401	4,938,241	2,462,203	291,676	180,844	15,147,213
Total enterprise development loans	2,047,848	5,412,579	5,422,318	2,881,022	348,186	199,307	16,311,260
Paycheck Protection Program	18,547	1,737	0	0	0	0	20,284
How\$mart loans to utilities	0	104,389	316,664	0	0	0	421,053
Total loans	<u>\$ 2,066,395</u>	<u>\$ 5,518,705</u>	<u>\$ 5,738,982</u>	<u>\$ 2,881,022</u>	<u>\$ 348,186</u>	<u>\$ 199,307</u>	<u>\$ 16,752,597</u>
	2022						Total Loans
Enterprise development loans							
Microloans	\$ 0	\$ 245,123	\$ 162,762	\$ 597,093	\$ 27,993	\$ 34,202	\$ 1,067,173
Other enterprise loans	2,080,989	5,563,780	4,564,365	2,326,201	378,545	511,047	15,424,927
Total enterprise development loans	2,080,989	5,808,903	4,727,127	2,923,294	406,538	545,249	16,492,100
Paycheck Protection Program	310,022	0	0	0	0	0	310,022
How\$mart loans to utilities	0	147,600	391,906	0	0	0	539,506
Total loans	<u>\$ 2,391,011</u>	<u>\$ 5,956,503</u>	<u>\$ 5,119,033</u>	<u>\$ 2,923,294</u>	<u>\$ 406,538</u>	<u>\$ 545,249</u>	<u>\$ 17,341,628</u>

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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>2023</u>	<u>2022</u>
Beginning balance	\$ 1,041,616	\$ 1,439,714
Provision charged to operations	(101,111)	(406,575)
Charge-offs	(74,688)	(2,093)
Recoveries	9,563	10,570
Ending balance	<u>\$ 875,380</u>	<u>\$ 1,041,616</u>

The following is an analysis of the allowance for loan losses by portfolio segment and class as of April 30, 2023:

	<u>Beginning Balance</u>	<u>Provision Charged to Operations</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Ending Balance</u>
Enterprise development loans					
Microloans	\$ 91,812	\$ 69,456	\$ (74,688)	\$ 3,763	\$ 90,343
Other enterprise loans	924,157	(163,061)	0	5,800	766,896
Total enterprise development loans	1,015,969	(93,605)	(74,688)	9,563	857,239
Paycheck Protection Program	3,100	(2,880)	0	0	220
How\$mart loans to utilities	22,547	(4,626)	0	0	17,921
Total loans	<u>\$ 1,041,616</u>	<u>\$ (101,111)</u>	<u>\$ (74,688)</u>	<u>\$ 9,563</u>	<u>\$ 875,380</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, 2022:

	Beginning Balance	Provision Charged to Operations	Charge-offs	Recoveries	Ending Balance
Enterprise development loans					
Microloans	\$ 112,998	\$ (24,238)	\$ (2,093)	\$ 5,145	\$ 91,812
Other enterprise loans	1,297,202	(378,470)	0	5,425	924,157
Total enterprise development loans	1,410,200	(402,708)	(2,093)	10,570	1,015,969
Paycheck Protection Program	2,449	651	0	0	3,100
HowSmart loans to utilities	27,065	(4,518)	0	0	22,547
Total loans	<u>\$ 1,439,714</u>	<u>\$ (406,575)</u>	<u>\$ (2,093)</u>	<u>\$ 10,570</u>	<u>\$ 1,041,616</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 timely collection. 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>2023</u>	<u>2022</u>
Impaired loans with a valuation allowance	\$ <u>199,307</u>	\$ <u>540,612</u>
Valuation allowance related to impaired loans	\$ <u>99,653</u>	\$ <u>270,306</u>
Average investment in impaired loans	\$ <u>39,861</u>	\$ <u>63,085</u>
Interest income recognized on impaired loans	\$ <u>7,238</u>	\$ <u>26,637</u>
Interest income recognized on a cash basis on impaired loans	\$ <u>7,238</u>	\$ <u>26,637</u>

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

	<u>2023</u>				
	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	\$ 18,463	\$ 9,231	\$ <u>6,154</u>	\$ 1,474	\$ 1,474
Other enterprise loans	<u>180,844</u>	<u>90,422</u>	<u>90,422</u>	<u>5,764</u>	<u>5,764</u>
Total enterprise development	199,307	99,653	<u>39,861</u>	7,238	7,238
Paycheck Protection Program	0	0		0	0
HowSmart loans to utilities	<u>0</u>	<u>0</u>		<u>0</u>	<u>0</u>
Total loans	<u>\$ 199,307</u>	<u>\$ 99,653</u>	<u>\$ 39,861</u>	<u>\$ 7,238</u>	<u>\$ 7,238</u>
	<u>2022</u>				
	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	\$ 29,565	\$ 14,782	\$ <u>7,391</u>	\$ 2,194	\$ 2,194
Other enterprise loans	<u>511,047</u>	<u>255,524</u>	<u>127,762</u>	<u>24,443</u>	<u>24,443</u>
Total enterprise development	540,612	270,306	<u>63,085</u>	26,637	26,637
Paycheck Protection Program	0	0		0	0
HowSmart loans to utilities	<u>0</u>	<u>0</u>		<u>0</u>	<u>0</u>
Total loans	<u>\$ 540,612</u>	<u>\$ 270,306</u>	<u>\$ 63,085</u>	<u>\$ 26,637</u>	<u>\$ 26,637</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:

	2023					
	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	\$ 0	0	\$ 2,800	1	\$ 2,800	1
Other enterprise loans	80,542	2	180,844	2	261,386	4
Total enterprise development loans	80,542	2	183,644	3	264,186	5
Paycheck Protection Program	0	0	0	0	0	0
How\$mart loans to utilities	0	0	0	0	0	0
Total loans	<u>\$ 80,542</u>	<u>\$ 2</u>	<u>\$ 183,644</u>	<u>\$ 3</u>	<u>\$ 264,186</u>	<u>\$ 5</u>
	2022					
	TDRs in Compliance & Accruing Interest		TDRs Not Accruing Interest		Total	
	Balance	Count	Balance	Count	Balance	Count
Enterprise development loans						
Microloans	\$ 0	0	\$ 3,580	1	\$ 3,580	1
Other enterprise loans	88,727	2	511,047	4	599,774	6
Total enterprise development loans	88,727	2	514,627	5	603,354	7
Paycheck Protection Program	0	0	0	0	0	0
How\$mart loans to utilities	0	0	0	0	0	0
Total loans	<u>\$ 88,727</u>	<u>\$ 2</u>	<u>\$ 514,627</u>	<u>\$ 5</u>	<u>\$ 603,354</u>	<u>\$ 7</u>

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3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at April 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 40,000	\$ 40,000
Buildings and improvements	908,280	810,633
Equipment and autos	117,520	112,230
Computer software	253,804	58,376
Construction in process	202,557	0
	<u>1,522,161</u>	<u>1,021,239</u>
Accumulated depreciation	(718,788)	(681,174)
Property and equipment, net	<u>\$ 803,373</u>	<u>\$ 340,065</u>

4. GRANTS RECEIVABLE

Grants receivable consist of the following at April 30:

	<u>2023</u>	<u>2022</u>
Government grants receivable:		
Community Development Financial Institutions Fund	\$ 0	\$ 1,126,265
U.S. Economic Development Administration	295,317	284,217
Appalachian Regional Commission	229,836	168,674
U.S. Small Business Administration	73,725	56,429
Other	10,019	36,313
	<u>608,897</u>	<u>1,671,898</u>
Other grants receivable:		
The Chorus Foundation	355,000	320,000
Total grants receivable	<u>\$ 963,897</u>	<u>\$ 1,991,898</u>

As of April 30, 2023 and 2022, all amounts were due within one year.

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5. NOTES PAYABLE

Notes payable consist of the following at April 30:

	<u>2023</u>	<u>2022</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.	\$ 103,288	\$ 154,803
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.	123,888	154,185
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.	243,467	272,579
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.	301,023	329,565
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.	413,909	441,333
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.	467,974	494,863

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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 \$8,194. Matures May 2030.	696,527	781,528
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 \$7,369. Matures August 2025.	212,477	299,801
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.	165,551	204,158
The Business Valued Advisor Fund, LLC (January 2018). Unsecured. Interest at 3.56 percent. Quarterly interest-only payments. Entire principal amount due January 2025.	4,000,000	4,000,000
The Business Valued Advisor Fund, LLC (January 2018). Unsecured. Interest at 3.56 percent. Quarterly interest-only payments. Entire principal amount due January 2025.	469,166	469,166

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Impact Assets, Inc. (April 2020). Unsecured. Interest at 1 percent. Annual interest-only payments. Entire principal amount due April 2026.	1,000,000	1,000,000
Opportunity Finance Network Finance Justice Fund (April 2023), unsecured. Interest per annum at three percent. Quarterly interest-only payments. Matures April 2033.	1,000,000	0
Opportunity Finance Network Grow with Google (April 2021), 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	500,000
Invest Appalachia (November 2022), Credit Enhancement for New Flood Recovery Loan, unsecured. No interest. Matures December 2027. Proceeds to be used to support long-term flood recovery for affected businesses.	<u>157,098</u>	<u>0</u>
Total	9,854,368	9,101,981
Less current maturities	<u>420,397</u>	<u>378,873</u>
Long-term portion	<u>\$ 9,433,971</u>	<u>\$ 8,723,108</u>

The Organization maintains a \$500,000 operating line of credit which matures June 2024. As of April 30, 2023 and 2022, 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.

For purposes of collateral, total SBA loans receivable were approximately \$596,000 and \$619,000, respectively, at April 30, 2023 and 2022. Total assets of AIC derived from USDA loans were approximately \$2,754,000 and \$2,835,000, respectively, at April 30, 2023 and 2022.

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

Year Ending April 30:	
2024	\$ 420,397
2025	4,889,927
2026	1,321,405
2027	784,821
2028	383,445
2029 - 2039	<u>2,054,373</u>
	<u>\$ 9,854,368</u>

6. SUBORDINATED LOAN PAYABLE

Subordinated loan payable consists of the following at April 30:

	<u>2023</u>	<u>2022</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 (7.00% at April 30, 2023). 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	<u>0</u>	<u>0</u>
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.

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7. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Community development	\$ 1,158,687	\$ 994,364
Strategic Initiatives	213,021	439,486
Central Appalachian Network	203,686	437,135
Energy sector	660,751	303,092
Re-granting	103,914	82,503
General	12,259	0
Enterprise development:		
Operations only	207,707	193,349
Financing	5,424,091	4,793,918
	<u>\$ 7,984,116</u>	<u>\$ 7,243,847</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, 2023 and 2022, employer contributions to the Plan were approximately \$95,000 and \$84,000, respectively.

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, 2023 and 2022, the Organization had cash balances of approximately \$1,369,000 and \$1,431,000, respectively, in excess of federally insured limits and which were not collateralized. At April 30, 2023 and 2022, the Organization had cash balances of approximately \$18,427,000 and \$14,969,000, respectively, which were collateralized.

For the years ended April 30, 2023 and 2022, approximately 75% and 68%, respectively, of the Organization's grant revenues were from five grantors. As of April 30, 2023 and 2022, approximately 69% and 66%, respectively, of loans receivable were due from 12 customers.

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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.

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, 2023 and 2022, 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 2020 through 2022 are subject to review by taxing authorities. As of April 30, 2023, Ridgecrest had federal net operating loss carryforwards of approximately \$290,000 which expire at various intervals through fiscal year 2042. The effects of recording a deferred tax position are immaterial as income in future periods for Ridgecrest is uncertain.

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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.

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>2023</u>	<u>2022</u>
Cash and cash equivalents, not restricted	\$ 17,314,598	\$ 13,521,914
Loans receivable, net	998,829	1,086,717
Accounts and interest receivable	142,656	135,871
Grants receivable	<u>963,897</u>	<u>1,991,898</u>
	19,419,980	16,736,400
Restricted for designated purpose, not included in standard operations	<u>(215,945)</u>	<u>(437,135)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 19,204,035</u>	<u>\$ 16,299,265</u>

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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. This team 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, our economic transition and our bright future.

Energy Programs

The Organization's clean energy team helps businesses, nonprofits, local governments, and other enterprises identify how they are using energy and where opportunities for efficiency and cost savings may exist. The team also administers How\$martKY™, a residential energy efficiency program that we run in partnership with distribution cooperatives from the East Kentucky Power Cooperative system. Through this program, we create more affordable, comfortable, durable and healthy housing through education, workshops, audits, and help accessing utility programs.

Central Appalachian Network (CAN)

CAN's mission is to develop and deploy economic strategies that build wealth in local communities, conserve natural and cultural resources, and empower marginalized communities. CAN works in collaboration across sectors, partnering with other nonprofits, community groups, funders, educational institutions, local government, and private business. CAN actively pursues economic transition in Central Appalachian communities through a variety of economic sectors and market-based strategies.

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Strategic Initiatives

Strategic Initiatives work focuses on our commitment to demonstration projects and targeted strategies that benefit communities and increase their capacity. The Organization does this through partnering with community-based organizations to undertake downtown revitalization and tourism projects, and to offer unique training programs, like our How to Airbnb class and our immersive business course. This team also leads the equity outreach work and supports the What's Next EKY?! network, which aims to bring together communities of Eastern Kentucky to learn from each other about what is working in their towns.

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

<u>Program service</u>	<u>2023</u>	<u>2022</u>
Enterprise Development	\$ 1,329,435	\$ 729,341
Appalachia Funders Network	0	765,128
Appalachian Transition	708,122	567,212
Energy Programs	482,557	463,747
Central Appalachian Network	275,069	329,498
Strategic Initiatives	371,164	333,239
Other programs	174,960	89,378
Total program services	<u>\$ 3,341,307</u>	<u>\$ 3,277,543</u>

15. UPCOMING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Organization is presently evaluating the effects that this ASU will have on its future financial statements, including related disclosures.

- SUPPLEMENTARY INFORMATION -

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2023

ASSETS					
	<u>Mtn. Association</u>	<u>AIC</u>	<u>Ridgecrest</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ 17,288,907	\$ 0	\$ 25,691	\$ 0	\$ 17,314,598
Cash and cash equivalents, restricted	2,557,326	668,610	0	0	3,225,936
Loans receivable, net	865,206	161,588	0	(27,965)	998,829
Accounts and interest receivable	145,141	4,172	0	(6,657)	142,656
Grants receivable	963,897	0	0	0	963,897
Prepaid expenses and other assets	31,656	0	1,703	0	33,359
Total current assets	<u>21,852,133</u>	<u>834,370</u>	<u>27,394</u>	<u>(34,622)</u>	<u>22,679,275</u>
Property and equipment, net	<u>204,604</u>	<u>0</u>	<u>598,769</u>	<u>0</u>	<u>803,373</u>
Noncurrent assets:					
Other assets	382,990	0	0	(333,490)	49,500
Loans receivable, less current portion, net	13,221,999	1,919,546	0	(263,157)	14,878,388
Total noncurrent assets	<u>13,604,989</u>	<u>1,919,546</u>	<u>0</u>	<u>(596,647)</u>	<u>14,927,888</u>
Total assets	<u>\$ 35,661,726</u>	<u>\$ 2,753,916</u>	<u>\$ 626,163</u>	<u>\$ (631,269)</u>	<u>\$ 38,410,536</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Notes payable	\$ 224,680	\$ 195,717	\$ 27,965	\$ (27,965)	\$ 420,397
Accounts payable and accrued expenses	373,881	7,791	1,551	(6,657)	376,566
Total current liabilities	<u>598,561</u>	<u>203,508</u>	<u>29,516</u>	<u>(34,622)</u>	<u>796,963</u>
Long-term liabilities:					
Notes payable	7,976,140	1,457,831	263,157	(263,157)	9,433,971
Subordinated loans payable	500,000	0	0	0	500,000
Total long-term liabilities	<u>8,476,140</u>	<u>1,457,831</u>	<u>263,157</u>	<u>(263,157)</u>	<u>9,933,971</u>
Total liabilities	<u>9,074,701</u>	<u>1,661,339</u>	<u>292,673</u>	<u>(297,779)</u>	<u>10,730,934</u>
Net assets:					
Without donor restrictions:					
Operating	<u>18,602,909</u>	<u>1,092,577</u>	<u>333,490</u>	<u>(333,490)</u>	<u>19,695,486</u>
With donor restrictions:					
Operations	2,456,111	0	0	0	2,456,111
Financing	5,424,091	0	0	0	5,424,091
Re-granting	103,914	0	0	0	103,914
Total with donor restrictions	<u>7,984,116</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,984,116</u>
Total net assets	<u>26,587,025</u>	<u>1,092,577</u>	<u>333,490</u>	<u>(333,490)</u>	<u>27,679,602</u>
Total liabilities and net assets	<u>\$ 35,661,726</u>	<u>\$ 2,753,916</u>	<u>\$ 626,163</u>	<u>\$ (631,269)</u>	<u>\$ 38,410,536</u>

See report of independent auditors.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
APRIL 30, 2022

ASSETS					
	<u>Mtn. Association</u>	<u>AIC</u>	<u>Ridgecrest</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ 13,485,369	\$ 0	\$ 36,545	\$ 0	\$ 13,521,914
Cash and cash equivalents, restricted	3,087,527	625,322	0	0	3,712,849
Loans receivable, net	949,592	161,588	0	(24,463)	1,086,717
Accounts and interest receivable	137,527	5,001	0	(6,657)	135,871
Grants receivable	1,991,898	0	0	0	1,991,898
Prepaid expenses and other assets	14,610	0	1,307	0	15,917
Total current assets	<u>19,666,523</u>	<u>791,911</u>	<u>37,852</u>	<u>(31,120)</u>	<u>20,465,166</u>
Property and equipment, net	<u>1,023</u>	<u>0</u>	<u>339,042</u>	<u>0</u>	<u>340,065</u>
Noncurrent assets:					
Other assets	376,890	0	0	(327,390)	49,500
Loans receivable, less current portion, net	13,183,300	2,042,821	0	(12,826)	15,213,295
Total noncurrent assets	<u>13,560,190</u>	<u>2,042,821</u>	<u>0</u>	<u>(340,216)</u>	<u>15,262,795</u>
Total assets	<u>\$ 33,227,736</u>	<u>\$ 2,834,732</u>	<u>\$ 376,894</u>	<u>\$ (371,336)</u>	<u>\$ 36,068,026</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Notes payable	\$ 171,353	\$ 207,520	\$ 24,463	\$ (24,463)	\$ 378,873
Accounts payable and accrued expenses	380,139	8,737	12,215	(6,657)	394,434
Total current liabilities	<u>551,492</u>	<u>216,257</u>	<u>36,678</u>	<u>(31,120)</u>	<u>773,307</u>
Long-term liabilities:					
Notes payable	7,083,301	1,639,807	12,826	(12,826)	8,723,108
Subordinated loans payable	500,000	0	0	0	500,000
Total long-term liabilities	<u>7,583,301</u>	<u>1,639,807</u>	<u>12,826</u>	<u>(12,826)</u>	<u>9,223,108</u>
Total liabilities	<u>8,134,793</u>	<u>1,856,064</u>	<u>49,504</u>	<u>(43,946)</u>	<u>9,996,415</u>
Net assets:					
Without donor restrictions:					
Operating	<u>17,849,096</u>	<u>978,668</u>	<u>327,390</u>	<u>(327,390)</u>	<u>18,827,764</u>
With donor restrictions:					
Operations	2,367,426	0	0	0	2,367,426
Financing	4,793,918	0	0	0	4,793,918
Re-granting	82,503	0	0	0	82,503
Total with donor restrictions	<u>7,243,847</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,243,847</u>
Total net assets	<u>25,092,943</u>	<u>978,668</u>	<u>327,390</u>	<u>(327,390)</u>	<u>26,071,611</u>
Total liabilities and net assets	<u>\$ 33,227,736</u>	<u>\$ 2,834,732</u>	<u>\$ 376,894</u>	<u>\$ (371,336)</u>	<u>\$ 36,068,026</u>

See report of independent auditors.

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2023

	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	\$ 54,638	\$ 3,489,618	\$ 0	\$ 0	\$ 0	\$ 3,544,256
Government grants, operations		1,469,584	0	0	0	1,469,584
Project income	156,222	1,000	0	0	(24,000)	133,222
Miscellaneous income	100	0	0	0	0	100
Lease income	0	0	0	85,200	(85,200)	0
Total non-financing revenues and support	<u>210,960</u>	<u>4,960,202</u>	<u>0</u>	<u>85,200</u>	<u>(109,200)</u>	<u>5,147,162</u>
Financing revenues						
Interest income on loans	81,456	685,438	125,127	0	(2,997)	889,024
Fee income on loans	36,755	5,550	6,099	0	0	48,404
Interest on idle funds	57,255	6,037	1,425	0	0	64,717
Total financing revenues	<u>175,466</u>	<u>697,025</u>	<u>132,651</u>	<u>0</u>	<u>(2,997)</u>	<u>1,002,145</u>
Satisfaction of program and time restrictions	<u>4,916,958</u>	<u>(4,916,958)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenues and other support	<u>5,303,384</u>	<u>740,269</u>	<u>132,651</u>	<u>85,200</u>	<u>(112,197)</u>	<u>6,149,307</u>
Expenses:						
Non-financing expenses						
Program	3,224,729	0	24,025	71,349	(98,346)	3,221,757
Fundraising	177,846	0	0	0	0	177,846
Management and general	1,022,163	0	0	0	0	1,022,163
Total non-financing expenses	<u>4,424,738</u>	<u>0</u>	<u>24,025</u>	<u>71,349</u>	<u>(98,346)</u>	<u>4,421,766</u>
Financing expenses						
Interest	203,133	0	17,528	7,751	(7,751)	220,661
Provision for loan losses	(78,300)	0	(22,811)	0	0	(101,111)
Total financing expenses	<u>124,833</u>	<u>0</u>	<u>(5,283)</u>	<u>7,751</u>	<u>(7,751)</u>	<u>119,550</u>
Total expenses	<u>4,549,571</u>	<u>0</u>	<u>18,742</u>	<u>79,100</u>	<u>(106,097)</u>	<u>4,541,316</u>
Change in net assets	753,813	740,269	113,909	6,100	(6,100)	1,607,991
Net assets, beginning of year	<u>17,849,096</u>	<u>7,243,847</u>	<u>978,668</u>	<u>327,390</u>	<u>(327,390)</u>	<u>26,071,611</u>
Net assets, end of year	<u>\$ 18,602,909</u>	<u>\$ 7,984,116</u>	<u>\$ 1,092,577</u>	<u>\$ 333,490</u>	<u>\$ (333,490)</u>	<u>\$ 27,679,602</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
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CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2022

	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	\$ 17,968	\$ 3,689,893	\$ 0	\$ 0	\$ 0	\$ 3,707,861
Government grants	0	2,944,683	0	0	0	2,944,683
Project income	106,976	35,625	0	0	0	142,601
Miscellaneous income	25,432	0	0	0	(24,000)	1,432
Lease income	0	0	0	83,400	(83,400)	0
Total non-financing revenues and support	<u>150,376</u>	<u>6,670,201</u>	<u>0</u>	<u>83,400</u>	<u>(107,400)</u>	<u>6,796,577</u>
Financing revenues						
Interest income on loans	226,846	632,233	129,331	0	(2,997)	985,413
Fee income on loans	798,135	74,228	21,501	0	0	893,864
Interest on idle funds	20,679	4,011	1,715	0	0	26,405
Total financing revenues	<u>1,045,660</u>	<u>710,472</u>	<u>152,547</u>	<u>0</u>	<u>(2,997)</u>	<u>1,905,682</u>
Satisfaction of program and time restrictions	<u>4,789,575</u>	<u>(4,789,575)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenues and other support	<u>5,985,611</u>	<u>2,591,098</u>	<u>152,547</u>	<u>83,400</u>	<u>(110,397)</u>	<u>8,702,259</u>
Expenses:						
Non-financing expenses						
Program	3,475,986	0	24,873	75,974	(102,971)	3,473,862
Fundraising	140,836	0	0	0	0	140,836
Management and general	895,193	0	0	0	0	895,193
Total non-financing expenses	<u>4,512,015</u>	<u>0</u>	<u>24,873</u>	<u>75,974</u>	<u>(102,971)</u>	<u>4,509,891</u>
Financing expenses						
Interest	191,082	0	19,174	2,997	(2,997)	210,256
Provision for loan losses	(509,776)	0	103,201	0	0	(406,575)
Total financing expenses	<u>(318,694)</u>	<u>0</u>	<u>122,375</u>	<u>2,997</u>	<u>(2,997)</u>	<u>(196,319)</u>
Total expenses	<u>4,193,321</u>	<u>0</u>	<u>147,248</u>	<u>78,971</u>	<u>(105,968)</u>	<u>4,313,572</u>
Change in net assets	1,792,290	2,591,098	5,299	4,429	(4,429)	4,388,687
Net assets, beginning 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>
Net assets, end of year	<u>\$ 17,849,096</u>	<u>\$ 7,243,847</u>	<u>\$ 978,668</u>	<u>\$ 327,390</u>	<u>\$ (327,390)</u>	<u>\$ 26,071,611</u>

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2023

Federal Grantor/Program	Federal Assistance Listing (AL) Number	Grantor Number	Expenditures	Subrecipient expenditures
<u>MAJOR PROGRAMS</u>				
<u>Appalachian Regional Commission</u>				
Economic Recovery and Resilience in Eastern Kentucky,				
Appalachian Area Development	23.002	PW-20448-IM-21	\$ 597,079	\$ 0
The Eastern Kentucky Community Accelerator Project,				
Appalachian Area Development	23.002	PW-20856-TA-22	28,452	0
Total Appalachian Regional Commission			<u>625,531</u>	<u>0</u>
<u>U.S. Small Business Administration</u>				
SBA Microloan Program	59.046	SBAOCAML210227	16,978	0
SBA Microloan Program	59.046	SBAOCAML220296-01-00	175,314	0
Total U.S. Small Business Administration			<u>192,292</u>	<u>0</u>
Total major programs			<u>817,823</u>	<u>0</u>
<u>NONMAJOR PROGRAMS</u>				
<u>Appalachian Regional Commission</u>				
Business Development				
Revolving Loan Fund	23.011	KY-11801-94-I-302-0830	302,221	0
<u>U.S. Department of Agriculture</u>				
Rural Business Development Grant Program	10.351	20-076-151541774	19,205	0
<u>U.S. Department of Commerce</u>				
Economic Adjustment Assistance	11.307	04-79-07610	572,758	0
<u>U.S. Department of Energy</u>				
State Office of Energy Policy	81.041	PON2 141 2100002747	2,872	0
State Office of Energy Policy	81.041	PON2 141 2100004410	31,883	0
Total U.S. Department of Energy			<u>34,755</u>	<u>0</u>
<u>U.S Department of Housing and Urban Development (HUD)</u>				
Capacity Building Grant for Community				
Community Development,				
Local Initiatives Support Corporation	14.252	PA#41942-0032	7,000	0
Capacity Building Grant,				
Local Initiatives Support Corporation	14.252	PA#41942-0033	18,043	0
Total HUD			<u>25,043</u>	<u>0</u>
<u>U.S. Department of Treasury</u>				
Community Development Financial Institutions Rapid Response Program	21.024	21RRP056586	632,693	0
Total nonmajor programs			<u>1,586,675</u>	<u>0</u>
Total			<u>\$ 2,404,498</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, 2023

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, 2023 consist of the following:

IRP #1 - U.S. Department of Agriculture (August 1994)	\$ 103,288
IRP #2 - U.S. Department of Agriculture (August 1996)	123,888
IRP #3 - U.S. Department of Agriculture (August 2000)	243,467
IRP #4 - U.S. Department of Agriculture (April 2003)	301,023
IRP #5 - U.S. Department of Agriculture (October 2006)	413,909
IRP #6 - U.S. Department of Agriculture (March 2009)	467,974
U.S. Small Business Administration (May 2020)	696,527
U.S. Small Business Administration (September 2015)	212,477
U.S. Small Business Administration (June 2017)	165,551
Total	<u>\$ 2,728,104</u>

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

NOTES TO CONSOLIDATED SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2023

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 2023 financial statements:

Expenditures per SEFA	\$ 2,404,498
Total RLF funds received, reflected on SEFA per the Guidelines	(302,221)
Revenue recognized in prior year, expended in current year	<u>(632,693)</u>
Government grants revenue per financial statements	<u>\$ 1,469,584</u>

Revenue recognized in prior year, expended in current year are included in expenditures of federal awards. These reflect amounts expended from the Community Development Financial Institutions Fund (CDFI) that were recognized as revenue in a prior fiscal year. Funds received from CDFI are subject to performance and financial reporting, but the required use of funds is within the normal operations of the Organization.



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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, 2023, 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 26, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 Organization's 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 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 that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 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 26, 2023



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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

Opinion on Each Major Federal Program

We have audited the Mountain Association for Community Economic Development, Inc. (a nonprofit organization) and Affiliates (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal program for the year ended April 30, 2023. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended April 30, 2023.

Basis for Opinion on Each Major Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 26, 2023

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2023

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>	<u>Name of Federal Program</u>
23.002	Appalachian Regional Commission, Appalachian Area Development
59.046	Small Business Administration, Microloan Program

**MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC
DEVELOPMENT, INC. AND AFFILIATES**
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2023

Dollar threshold used to distinguish
between type A and B programs:

\$750,000

Auditee qualified as low-risk auditee?

 ✓ yes no

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, 2023

No findings or questioned costs were reported for the year ended April 30, 2022.