MOUNTAIN BIZCAPITAL, INC.
d/b/a MOUNTAIN BIZWORKS
AND SUBSIDIARY

Asheville, North Carolina

Financial Statements
and Supplementary Information

Year Ended December 31, 2012

CARTER™
ACCOUNTING & CONSULTING

MOUNTAIN BIZCAPITAL, INC. d/b/a MOUNTAIN BIZWORKS AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Subsidiary as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Mountain BizCapital, Inc. d/b/a Mountain BizWorks and 2011 consolidated financial statements, and our report dated March 30, 2012, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. In addition, the schedule of expenditures of federal awards, as required by Office of Management and budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2013, on our consideration of Mountain BizCapital, Inc.'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 Mountain BizCapital, Inc.'s internal control over financial reporting and compliance.

Carter, P.C.

Asheville, North Carolina
April 25, 2013

MOUNTAIN BIZCAPITAL, INC. d/b/a MOUNTAIN BIZWORKS AND SUBSIDIARY

Consolidated Statement of Financial Position
December 31, 2012
(With Comparative Totals for 2011)

	2012	2011
Assets		
Current assets:		
Cash and equivalents	$ 1,348,555	$ 1,820,830
Accounts receivable	25,797	18,121
Current portion of loans receivable, net of reserves	611,849	435,721
Current portion of subsidiary note receivable	6,888	6,749
Grants receivable and promises to give	186,298	217,801
Other receivables	21,582	16,239
Property available-for-sale	18,426	18,426
Other current assets	7,282	1,998
Total current assets	2,226,677	2,535,885
Other assets:		
Property and equipment	1,050,979	1,082,741
Loans receivable, net of current portion and reserves	1,851,961	1,388,191
Subsidiary note receivable, net of current portion	60,350	67,238
Beneficial interest in an endowment fund	0	8,382
Total other assets	2,963,290	2,546,552
Total assets	$ 5,189,967	$ 5,082,437
Liabilities, equity equivalent, net assets, and equity		
Current liabilities:		
Current maturities of notes payable	$ 469,601	$ 297,965
Current maturities of subsidiary note payable	6,851	6,741
Accounts payable	16,669	25,243
Payroll liabilities	10,733	17,988
Total current liabilities	503,854	347,937
Notes payable, net of current maturities	3,088,494	2,837,308
Subsidiary note payable, net of current maturities	127,760	134,482
Total liabilities	3,720,108	3,319,727
Equity equivalent	197,000	197,000
Net assets and equity:		
Unrestricted net assets:		
Undesignated	789,468	284,995
Designated for investment in property and equipment	287,903	298,425
Total unrestricted net assets	1,077,371	583,420
Temporarily restricted net assets	286,289	1,069,538
Retained earnings	(90,801)	(87,248)
Total net assets and equity	1,272,859	1,565,710
Total liabilities, equity equivalent, net assets, and equity	$ 5,189,967	$ 5,082,437

The accompanying notes are an integral part of these financial statements.

MOUNTAIN BIZCAPITAL, INC. d/b/a MOUNTAIN BIZWORKS AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended December 31, 2012
(With Comparative Totals for 2011)

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
Revenue and support				
Federal grants	$ 61,102	$ 498,705	$ 559,807	$ 923,841
State, local, and federal pass-through grants	50,926	154,016	204,942	117,423
Foundation and private grants	9,640	134,500	144,140	337,000
Contributions	7,010	0	7,010	17,954
Service fees	122,342	20,306	142,648	238,904
Special event income	3,428	0	3,428	8,335
In-kind contributions	0	0	0	212
Interest income	110,694	113,151	223,845	191,183
Gain on disposal of property and equipment	1,050	0	1,050	0
Other income	1,714	0	1,714	344
Net assets released from restriction	1,703,927	(1,703,927)	0	0
Total revenue and support	2,071,833	(783,249)	1,288,584	1,835,196
Expenses				
Program services	1,302,469	0	1,302,469	1,225,391
Management and general	192,339	0	192,339	265,283
Fundraising	76,186	0	76,186	106,156
Operating and other	10,736	0	10,736	1,004
Total expenses	1,581,730	0	1,581,730	1,597,834
Increase (decrease) in net assets and net income before investment activity and discontinued operations	490,103	(783,249)	(293,146)	237,362
Investment activity				
Investment expense, net	0	0	0	(19)
Gains (losses) on beneficial interest in an endowment fund	295	0	295	(320)
Total investment activity	295	0	295	(339)
Increase (decrease) in net assets and net income before discontinued operations	490,398	(783,249)	(292,851)	237,023
Discontinued operations				
Loss from operations of discontinued retail sales component	0	0	0	(23,888)
Loss on sale of discontinued operations	0	0	0	(9,974)
Loss on discontinued operations	0	0	0	(33,862)
Increase (decrease) in net assets and net income	490,398	(783,249)	(292,851)	203,161
Net assets and equity, beginning of year	496,172	1,069,538	1,565,710	1,362,549
Net assets and equity, end of year	$ 986,570	$ 286,289	$ 1,272,859	$ 1,565,710

The accompanying notes are an integral part of these financial statements.

MOUNTAIN BIZCAPITAL, INC. d/b/a MOUNTAIN BIZWORKS AND SUBSIDIARY

Consolidated Statement of Cash Flows
Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets and net income	$ (292,851)	$ 203,161
Adjustments to reconcile change in net assets and net income to net cash used by operating activities:		
Depreciation	66,084	68,685
Loss on discontinued operations	0	9,974
Provision for loan losses	85,137	45,384
(Gains) losses on beneficial interest in an endowment fund	(295)	320
Gains on disposal of property and equipment	(1,050)	0
Changes in working capital – sources (uses):		
Accounts receivable and other receivables	(13,019)	(8,173)
Loans receivable	(725,035)	(285,497)
Grants receivable and promises to give	31,503	(42,092)
Inventories	0	2,754
Other current assets	(5,284)	79
Accounts payable	(8,574)	(16,789)
Payroll liabilities	(7,255)	(13,617)
Net cash used by operating activities	(870,639)	(35,811)
Cash flows from investing activities		
Receipts from subsidiary note receivable	6,749	0
Purchase of property and equipment	(35,322)	(3,677)
Proceeds from disposal of property and equipment	2,050	0
Change in beneficial interest in an endowment fund	0	19
Proceeds from beneficial interest in an endowment fund	8,677	0
Net cash used by investing activities	(17,846)	(3,658)
Cash flows from financing activities		
Proceeds from notes payable	711,382	510,600
Repayment of notes payable	(288,560)	(203,116)
Repayment of subsidiary note payable	(6,612)	(3,556)
Issuance of equity equivalent securities	0	197,000
Net cash provided by financing activities	416,210	500,928
Net increase (decrease) in cash and equivalents	(472,275)	461,459
Cash and equivalents, beginning of year	1,820,830	1,359,371
Cash and equivalents, end of year	$ 1,348,555	$ 1,820,830
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 98,836	$ 101,614
Establishment of note receivable from discontinued operations	$ 0	$ 73,987

The accompanying notes are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

Organization

Mountain BizCapital (MBC) was established in 2002 as a nonprofit corporation under the laws of the State of North Carolina. The Organization is classified as a publicly-supported charitable organization under Section 501(c)(3) of the Internal Revenue Code. It qualifies for exemption from federal and state income taxes. When established, the primary purpose of MBC was to provide direct small business micro-lending. In April 2003, MBC was certified as a Community Development Financial Institution by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury. On July 1, 2011 a common board of directors approved the merger of MBC and MBW with MBC being the surviving entity. MBC has continued MBW's services doing business as Mountain BizWorks, which includes small business lending, consulting, training, technical assistance, and support for starting and expanding small businesses.

In May 2000, MBW expanded its program activities by incorporating a for-profit subsidiary, Mountain Made, Inc. (Mountain Made). Mountain Made is a taxable C-Corporation under the laws of the State of North Carolina. In June 2001, MBW purchased all authorized, issued, and outstanding shares of stock in Mountain Made making MBW the sole shareholder in the company. MBW created Mountain Made in order to have an actual for-profit business model. Mountain Made was a retail store that purchased and sold items created by artists in Western North Carolina and opened for business in August 2002. On July 1, 2011 when MBC and MBW merged the sole ownership of Mountain Made transferred to MBC, the surviving entity. In the year ended December 31, 2011, the board of directors of MBC discontinued the operations of Mountain Made and sold all operational assets on November 30, 2011. As of December 31, 2011 Mountain Made still exists as a for-profit subsidiary with only indirect cash flows remaining.

Principles of Consolidation

As described above, MBC owns 100 percent of the outstanding voting stock of its for-profit subsidiary, Mountain Made; therefore, consolidation of the financial statements of the subsidiary into the parent is required by accounting principles generally accepted in the United States of America. Furthermore, because MBC and MBW operated under the same board of directors and management and there was a common controlling interest between the two entities, the prior year summarized financial statements are consolidated. All inter-organization balances and transactions have been eliminated. The notes to the financial statements contained herein pertain to the consolidated entities (the Organization).

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Basis of Presentation

Mountain BizCapital, Inc. reports in compliance with FASB ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements.* Information regarding its financial position and activities are grouped according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The three classes of net assets are defined as follows:

- Unrestricted Net Assets: Unrestricted net assets represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.

- Temporarily Restricted Net Assets: Temporarily restricted net assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted net assets are reclassified to unrestricted as their time and purpose requirements are met.

- Permanently Restricted Net Assets: Permanently restricted net assets represent resources that must be maintained permanently. Like temporarily restricted net assets, permanent restrictions may be imposed only by the donor. However, permanently restricted net assets generally do not get reclassified, since, by definition, their restrictions never expire.

Cash and Equivalents

Cash and equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. During the year ended December 31, 2012, the USDA loan program amended its conditions by not requiring debt reserves for each loan. As required by certain loan covenants for its lending operations, MBC established debt reserves for the year ended December 31, 2011 and loan loss reserves for years ended December 31, 2012 and 2011; these amounts are included in cash and equivalents. These reserves, as with their related loan pools, are maintained in separate bank accounts. At December 31, 2012 and 2011, debt reserves total $0 and $9,985 and loan loss reserves total $222,801 and $204,757, respectively.

Accounts Receivable

The Organization considers accounts receivable to be fully collectible and accordingly, has not recorded an allowance for doubtful accounts. It is the policy of the Organization to write-off accounts receivable that are determined to be uncollectible at the time the determination is made.

Note 1 - Summary of Significant Accounting Policies (continued)

Loans Receivable

Loans receivable are stated at unpaid principal balances, less a loan loss reserve for doubtful accounts. The Organization provides for losses on loans receivable using an allowance method. The allowance is based on management's assessment of the current status of the individual accounts. Loans receivable are considered delinquent once the Organization deems contractual terms of the loan have been violated and are written off when the balance is considered uncollectible.

Interest income on loans receivable is accrued based on the loan balance and the interest rate stated in the individual loan agreements, ranging from 8% to 12%. Once a loan receivable is determined to be uncollectible and written off, the Organization no longer recognizes interest income on the loan balance. Any payments received on loans previously written off are recorded as loan loss recoveries.

Grants Receivable and Promises to Give

Grants receivable and promises to give consist of unconditional promises to give that have been made but not collected as of December 31, 2012. Management considers all grants and promises to give to be fully collectible; therefore, no allowance has been made. As of December 31, 2012 all balances are expected to be received within one year.

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. If received as a gift, they are recorded at the estimated fair value at the date of the gift. Major renewals and replacements are capitalized as incurred. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed as incurred. Items with an estimated useful life extending beyond one year and that cost at least $5,000 are capitalized. Cash or other assets whose use is restricted to acquire long-lived assets are recorded as temporarily restricted until such assets are acquired. All long-lived assets are recorded as unrestricted assets.

Depreciation is computed using the straight-line method based on the estimated useful life of each class of depreciable asset, which are as follows:

Building and leasehold improvements	10 - 39 years
Equipment and software	5 - 15 years
Vehicles	3 - 5 years

Note 1 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements and Disclosures

FASB ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

Level 2 - Inputs to the valuation methodology include

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

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Grants Revenue Recognition

Governmental grant and contract revenue received on a cost-reimbursement basis is recognized in income as related expenses are incurred.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Note 1 - Summary of Significant Accounting Policies (continued)

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2012 and 2011 was $14,324 and $18,003, respectively.

Uncertain Tax Positions

FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes,* clarifies the accounting for uncertainty in income tax positions. Based on an evaluation of uncertain tax positions, management is required to measure potential tax liabilities that could have a risk of greater than a 50% likelihood of being realized upon settlement. As of December 31, 2012, management has determined that Mountain Made has no such risk and therefore no liabilities have been recorded for uncertain tax positions.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions material to the financial statements.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The Organization reports its expenses on a functional basis among program, management and general, and fundraising. Expenses that can be identified with a specific function are charged directly to the function according to their nature and expenditure classification. Other expenses that are common to two or more functions are allocated by statistical means.

Comparative Financial Information

The financial statements include certain prior year financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statement for the year ended December 31, 2011, from which the summarized information was derived.

Reclassification

Certain amounts for 2011 have been reclassified for comparative purposes to conform to the current year presentation.

Note 2 - Restrictions on Assets

Temporarily restricted net assets are available for the following purposes:

At December 31	2012	2011
Future general operations	$ 187,500	$ 702,877
SBA loan program	79,362	146,723
USDA loan programs	2,763	169,938
Latino Business Program	16,664	50,000
Temporarily restricted net assets	$ 286,289	$ 1,069,538

Note 3 - Funds Held for Lending

The Organization had cash available for lending in the following loan pools as of December 31, 2012 and 2011:

Funding Source	2012	2011
USDA Intermediary Relending Program	$ 273,089	$ 269,963
USDA Rural Microentrepreneur Assistance Program	102,487	12,079
SBA Microloan Program	173,285	366,384
MBC equity loan pool	250,923	301,571
Total cash held for lending and cash reserves	$ 799,784	$ 949,997

The Organization had cash reserved for loan loss in the following loan pools as of December 31, 2012 and 2011:

Funding Source	2012	2011
USDA - IRP related loan loss reserve	$ 24,340	$ 24,309
USDA - RMAP related loan loss reserve	25,009	25,003
SBA Microloan related loan loss reserve	173,452	155,445
Total cash held for loan loss reserves	$ 222,801	$ 204,757

MBC has made lines of credit available to some of its borrowers. Included in the above cash pools are undistributed lines of credit issued. At December 31, 2012 and 2011 undisbursed cash relating to unused lines of credit totaled, approximately $230,186 and $163,431, respectively.

Note 4 - Loans Receivable

Information on Organization’s loans receivable is shown below by funding source:

At December 31, 2012	Loans Receivable	Loan Loss Reserves	Net Receivable
USDA Intermediary Relending Program	$ 379,484	$ 35,860	$ 343,624
USDA Rural Microentrepreneur Assistance Program	168,538	16,592	151,946
SBA Microloan Pr ogram	900,725	81,072	819,653
SBA Community Advantage Program	95,788	9,579	86,209
US Department of HUD - CDBG	51,573	5,157	46,416
MBC equity and private lenders	1,108,921	92,959	1,015,962
	2,705,029	241,219	2,463,810
Less, current maturities	671,222	59,373	611,849
Notes receivable, net of current maturities	$ 2,033,807	$ 181,846	$ 1,851,961

At December 31, 2011	Loans Receivable	Loan Loss Reserves	Net Receivable
USDA Intermediary Relending Program	$ 342,887	$ 25,101	$ 317,786
USDA Rural Microentrepreneur Assistance Program	116,422	11,143	105,279
SBA Microloan Program	655,742	49,421	606,321
US Department of Treasury - CDFI	19,543	1,484	18,059
US Treasury - Small Business Fund Program	30,000	1,500	28,500
MBC equity and private lenders	815,400	67,433	747,967
	1,979,994	156,082	1,823,912
Less, current maturities	472,669	36,948	435,721
Notes receivable, net of current maturities	$ 1,507,325	$ 119,134	$ 1,388,191

Changes in MBC’s loan loss reserves are summarized as follows:

At December 31	2012	2011
Beginning of year	$ 156,082	$ 110,698
Loan loss expense	165,676	100,721
Write-offs	(88,645)	(82,406)
Recoveries	8,106	27,069
Balance of loan loss reserves, end of year	$ 241,219	$ 156,082

Note 5 - Property and Equipment

A description of property and equipment is as follows:

At December 31	2012	2011
Buildings and improvements	$ 1,154,529	$ 1,154,529
Equipment and software	239,872	204,550
Vehicles	17,060	27,808
	1,411,461	1,386,887
Less, accumulated depreciation	360,482	304,146
Property and equipment	$ 1,050,979	$ 1,082,741

Depreciation expense for the years ended December 31, 2012 and 2011, was $66,084 and $68,685, respectively. For the year ended December 31, 2011, $65,234 is reported in the Organization's functional expenses and $3,451 is included in the loss from operations of discontinued retail sales component.

Note 6 - Beneficial Interest in an Endowment Fund

The Organization established an endowment fund with the Community Foundation of Western North Carolina, Inc. (Foundation). Under the agreement, all or a portion of the principal of the fund can be distributed with the approval of three-fourths of the members of the Organization's board of directors and a majority of the board of the Foundation. The beneficial interest in an endowment fund is presented in the financial statements in the aggregate at the fair value. Due to the Foundation's new minimum balance requirement not being met by the Organization's endowment, the endowment was closed and distributed in full to the Organization during the year ended December 31, 2012.

The fair value of the beneficial interest in endowment fund was measured using FASB ASC 820 input guidance and valuation techniques. Due to the nature of a beneficial interest in an endowment fund, the investment is classified as a Level 3 instrument. For years ended December 31, 2012 and 2011, there were no financial instruments held by the Organization valued according to Level 1 and Level 2 inputs.

Note 6 - Beneficial Interest in an Endowment Fund (continued)

Endowment related activity and the cumulative unrealized gains on this fund are as follows.

At December 31	2012	2011
Fair market value, beginning of year	$ 8,382	$ 8,721
Investment income	0	131
Net appreciation (depreciation)	295	(320)
Management fees	0	(150)
Distribution	(8,677)	
Fair market value, end of year	0	8,382
Cost	0	7,212
Cumulative unrealized gains	$ 0	$ 1,170

Note 7 - Equity Equivalent

The Organization elected to participate in the U.S. Treasury's Small Business Lending Fund program. In September 2011, the Organization issued the equivalent of 197 debenture shares to the U.S. Treasury and received the principal of $197,000. The securities do not constitute a class of stock or represent any equity ownership in the Organization. The general obligation is not secured by any of the Organization's assets. The equity equivalent is fully subordinated to the right of repayment of all of the Organization's other creditors. The investing institution, in this case the U.S. Treasury, does not have the right to accelerate payment unless the Organization ceases its operations. The interest rate is 2.0% and interest payments are to be paid quarterly.

Note 8 - Notes Payable

Notes payable are described as follows:

At December 31	2012	2011
Note payable to U.S. Department of Agriculture (USDA), under the Intermediary Relending Program (IRP) bearing interest at 1% per annum and has a 30 year term. The note, dated June 1, 2002 is secured by MBC's IRP revolving fund, including loans receivable derived from the note. For the first three years, interest only payments are required followed by 27 equal payments of principal and interest.	$ 0	$ 39,755
Note payable to USDA, under the IRP bearing interest at 1% per annum and has a 30 year term. The note, dated May 20, 2005 is secured by MBC's IRP revolving fund, including loans receivable derived from the note. For the first three years, interest only payments are required followed by 27 equal payments of principal and interest.	217,046	225,295

Note 8 - Notes Payable (continued)

At December 31	2012	2011
Note payable to USDA, under the IRP bearing interest at 1% per annum and has a 30 year term. The note, dated September 28, 2007 is secured by MBC's IRP revolving fund, including loans receivable derived from the note. For the first three years, interest only payments are required followed by 27 equal payments of principal and interest.	445,764	204,416
Note payable to U. S. Small Business Administration, interest at 3.25% per annum, which can be adjusted by future events, and has a 10 year term. The note is dated June 5, 2007 and is secured by the loans receivable derived from the note. For the first year, no payments are required followed by 108 equal monthly installments.	434,381	522,526
Note payable to U. S. Small Business Administration, interest at 3.25% per annum, which can be adjusted by future events, and has a 10 year term. The note is dated September 27, 2009 and is secured by the loans receivable derived from the note. For the first year, no payments are required followed by 108 equal monthly installments.	652,647	458,901
Note payable to Capital Bank, Government Lending Department, interest at 3% per annum and has a 3 year term. The original note dated September 26, 2007 was reissued December 5, 2010. For the first three years, interest only payments are required followed by 1 principal payment due December 2013.	50,000	50,000
Note payable to Banc of America Community Development Corporation, interest at 3.5% per annum and has an 8 year term. The note, dated May 30, 2007, is guaranteed by MBC. For the first four years, interest only payments are required followed by 3 annual principal installments of $50,000 and one final installment of all outstanding principal and interest.	200,000	250,000
Note payable to the Mary Reynolds Babcock Foundation, interest at 2% per annum and has a 6 year term. The note, dated January 1, 2007, is guaranteed by MBC. For the first five years, interest only payments are required followed by 2 annual principal installments of $100,000 beginning January 31, 2014.	200,000	200,000

Note 8 - Notes Payable (continued)

At December 31		2012		2011
Note payable to Fifth Third Bank, fixed interest at 4.89% per annum and has a 48 month term. The note, dated August 3, 2009 is secured by a vehicle.		2,032		6,099
Various notes payable to individuals under MBC's Investment Note Program. These notes range from $500 to $75,000, bearing interest from 0% to 3%, and are due in 1 to 5 years from the date of the note.		340,259		275,064
Note payable to First Bank, modified on December 20, 2011, interest at 5.75% per annum. Payable in 47 regular monthly installments of principal and interest of $5,183 and a one final balloon of all remaining principal and interest due December 20, 2014.. The note is secured by a building and note receivable.		761,044		778,217
Note payable to USDA, under the Rural Microentrepreneur Assistance Program (RMAP), bearing interest at 2% per annum and has a 20 year term. The note, dated December 22, 2010 is secured by MBC's RMAP's revolving fund, including loans receivable derived from the note. For the first two years, interest only payments are required followed by 216 equal payments of principal and interest		254,922		125,000
		3,558,095		3,135,273
Less, current maturities		469,601		297,965
Notes payable, net of current maturities	$	3,088,494	$	2,837,308

The subsidiary note payable is described as follows:

At December 31		2012		2011
Note payable to First Bank, modified on December 20, 2011, bearing a variable interest rate of 5.5% and is secured by a building and other assets and guaranteed by MBC. The note is payable in 47 regular monthly installments of principal and interest of $1,195 and one final balloon of all remaining principal and interest due December 20, 2015.	$	134,611	$	141,223
Less, current maturities		6,851		6,741
Subsidiary note payable, net of current maturities	$	127,760	$	134,482

Note 8 - Notes Payable (continued)

Scheduled principal repayments on notes payable for the next five years are as follows:

At December 31	
2013	$ 476,452
2014	547,261
2015	1,100,905
2016	278,644
2017	196,517
Thereafter	1,092,927
Total principal payments	$ 3,692,706

Note 9 - Lease Commitments

The Organization leased its Sylva office space under an operating lease that required a $945 monthly payment. The lease expired August 31, 2012. The Organization leased its Hendersonville office under an operating lease expiring June 30, 2012 that required monthly rental payments of $850. Total expense for these leases and other office related leases for the years ended December 31, 2012 and 2011 was $12,660 and $24,970, respectively.

Mountain Made leased its facility in Asheville under an operating lease. The lease expired November 30, 2009 and was continued on a month-to-month basis with payments of $2,365. Total rental expense for this lease and others related to storage and parking for the years ended December 31, 2012 and 2011 was $0 and $28,286, respectively. The Mountain Made operations were discontinued in the prior year and all related leases were not renewed.

Minimum future lease payments are as follows:

At December 31	
2013	$ 16,313
2014	16,313
2015	16,313
2016	13,213
2017	5,387
Totals	$ 67,539

Note 10 - Income Taxes

Due to a history of operating losses and no foreseeable evidence of future taxable income, Mountain Made has made no provision for income taxes. As of December 31, 2012, cumulative federal loss carry forwards are approximately $345,961 with state loss carry forwards of similar amounts, which will begin to expire in 2016 if not utilized. These loss carry forwards are available to offset future taxable income.

Deferred taxes result primarily from temporary differences in the recognition of certain items of income and expenses for income tax and financial reporting purposes. The sources of these differences result from accelerated tax depreciation, tax amortization of start-up cost, charitable contribution carry forwards, and net operating loss carry forwards. Deferred taxes are described as follows:

At December 31	2012	2011
Net operating loss carry forwards	$ 70,434	$ 17,845
Other deferred tax assets, net	555	555
Total deferred tax asset	70,989	18,400
Valuation allowance	(70,989)	(18,400)
Deferred taxes, net	$ 0	$ 0

In prior years a valuation allowance was established to eliminate the net deferred tax benefit that existed because it was uncertain if the tax benefits would be realized. As of December 31, 2012 and 2011 the deferred tax asset and the valuation allowance were increased (decreased) by approximately $52,589 and ($32,300), respectively.

Open Tax Years

The Organizations Return of Organization Exempt from Income Tax (Form 990) for 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they are filed.

Mountain Made files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. U.S. federal income tax returns prior to 2009 are closed. State jurisdictions have statutes of limitations that generally range from three to five years.

Note 11 - Benefit Plans

The Organization provides individual SEP-IRA retirement accounts for eligible employees and contributes to them on a discretionary basis as a percentage of the employee’s salary. The Organization has not contributed to the program for the years ended December 31, 2012 and 2011.

Note 12 - Agreement with Subsidiary

MBW issued a note receivable to Mountain Made for business start-up and store build-out costs. The original loan agreement between MBW and Mountain Made has been modified since its inception with the most recent agreement calling for monthly, interest-only payments at a per annum rate of 4.96%. Furthermore, MBW has made subsequent advances to cover operating deficits. Due to continuous operating shortfalls and cash flow issues as of January 1, 2011, the inter-organization loan was placed on a non-accrual status. The loan was assigned to MBC at the time MBW and MBC merged into a single entity. On November 30, 2011, when Mountain Made sold all of its operating assets and discontinued its retail operations, MBC released Mountain Made from its indebtedness. For the years ended December 31, 2012 and 2011, the total debt forgiveness was $5,550 and $196,555, respectively. MBC's loss from the loan write-off is netted against Mountain Made's gain of an equal amount.

Note 13 - Uninsured Cash Balances

The Organization maintains its cash and equivalents at financial institutions that are insured up to $250,000 by the Federal Deposit Insurance Corporation. The uninsured collective balance was approximately $444,453 at December 31, 2012.

Note 14 - Related Party Transactions

During the year ended December 31, 2010, a board member loaned MBC $10,000 under the Investment Note Program. The note pays interest at a rate of 3% and is due December 2015. During the year ended December 31, 2012, three loans were made under the Investment Note Program; one by a board member to MBC for $2,500, with note paying interest of 3% and due September 2017, one by a board member to MBC for $200, with note paying interest of 0% and due December 2022, and one by the CEO to MBC for $2,500, with note paying interest of 1% and due June 2015.

Note 15 - Summary Disclosure of Significant Contingencies

Governmental Assisted Programs

The Organization has received proceeds from governmental agencies. Periodic audits of these grants and third party reimbursements are required and certain costs may be questioned as not being appropriate expenditures under the agreements. Such audits could result in the refund of grant and third party reimbursement monies to the grantor agency. Management believes that any required refunds would be immaterial. No provisions have been made in the accompanying consolidated financial statements for the refund of grant monies.

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; and natural disasters. Commercial insurance coverage is carried for risks of loss. Claims have not exceeded coverage in any period since inception.

Note 16 - Discontinued Operations

During the year ended December 31, 2011 the Organization discontinued the retail operations of its for-profit subsidiary, Mountain Made, by selling all Mountain Made's assets.

Mountain Made remains an active C-Corporation under the laws of the State of North Carolina. The expected activity and cash flows of Mountain Made are the collection of payments from the note receivable established through the sale of its assets and the repayment of a note payable. The cash flows from the note receivable is expected to last until December 1, 2021 at which time the note is due in full. The note receivable carries an annual fix interest rate of 2% and requires monthly principal and interest payments beginning January 1, 2012 of $681.

The cash flows of the note payable are expected to last until December 20, 2015 at which time it is due in full. The note payable carries a variable interest rate based on the Wall Street Journal's prime rate. The interest charged currently is 5.5% which is the floor amount stipulated by the note. At December 31, 2012 and 2011 the required monthly payments of principal and interest are $1,195 with one final balloon payment due December 20, 2015. The continuous cash flows are indirect to the disposed component due to the lack of an on-going retail operation.

Note 17 - Subsequent Events

Management has evaluated subsequent events through April 25, 2013, which is the date the financial statements were available to be issued. No events have occurred from the end of the year through this date that requires recognition or disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

Mountain BizCapital, Inc.
Schedule of Functional Expenses
Year Ended December 31, 2012
(With Comparative Totals for 2011)

	Program	Management and General	Fund-raising	Total 2012	Total 2011
Salaries	$ 618,416	$ 65,867	$ 47,570	$ 731,853	$ 775,931
Payroll taxes	54,365	5,790	4,182	64,337	66,531
Benefits	65,743	7,002	5,057	77,802	90,410
Total salaries and related expenses	738,524	78,659	56,809	873,992	932,872
Bank charges, penalties, and fees	4,345	4,495	0	8,840	5,416
Copier	4,701	500	362	5,563	15,815
Dues, subscriptions, and licenses	8,338	888	642	9,868	11,679
Insurance	0	13,016	0	13,016	8,908
Supplies	22,654	2,413	1,742	26,809	36,531
Postage and delivery	1,744	186	134	2,064	3,349
Printing	6,452	687	496	7,635	8,606
Accounting and auditing	27,623	1,015	0	28,638	30,505
Computer services	35,038	18,866	0	53,904	28,448
Other professional fees	64,489	6,027	3,375	73,891	105,332
Rent	13,836	1,474	1,064	16,374	24,970
Repairs and maintenance	15,737	1,676	1,211	18,624	17,440
Facility expenses	15,776	1,680	1,214	18,670	19,828
Staff development	1,648	1,799	79	3,526	10,623
Telephone and internet	12,220	1,301	940	14,461	18,843
Travel and entertainment	29,353	3,126	2,258	34,737	31,800
Utilities	8,241	878	634	9,753	12,467
Marketing and advertising	12,104	1,289	931	14,324	18,003
Loan loss expense, net of recoveries	165,676	0	0	165,676	100,721
Other	0	952	0	952	3,921
Total expenses before interest and depreciation	1,188,499	140,927	71,891	1,401,317	1,446,077
Interest	58,129	45,464	0	103,593	85,519
Depreciation	55,841	5,948	4,295	66,084	65,234
Total expenses	$ 1,302,469	$ 192,339	$ 76,186	$ 1,570,994	$ 1,596,830

COMPLIANCE SECTION

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

To the Board of Directors
Mountain BizCapital, Inc.

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 financial statements of Mountain BizCapital, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Mountain BizCapital, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain BizCapital, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Mountain BizCapital, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors
Mountain BizCapital, Inc.

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. Finding 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain BizCapital, Inc.'s consolidated 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mountain BizCapital, Inc.'s Response to the Finding

Mountain BizCapital, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Mountain BizCapital, Inc.'s response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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.

Carter, P.L.

Asheville, North Carolina
April 25, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Mountain BizCapital, Inc.

Report on Compliance for Each Major Federal Program

We have audited Mountain BizCapital, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mountain BizCapital, Inc.'s major federal programs for the year ended December 31, 2012. Mountain BizCapital, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Mountain BizCapital, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountain BizCapital, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mountain BizCapital, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Mountain BizCapital, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

To the Board of Directors
Mountain BizCapital, Inc.

Report on Internal Control Over Compliance

Management of Mountain BizCapital, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mountin BizCapital, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mountain BizCapital, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Carter, P.C.

Asheville, North Carolina
April 25, 2013

MOUNTAIN BIZCAPITAL, INC. d/b/a MOUNTAIN BIZWORKS AND SUBSIDIARY

Mountain BizCapital, Inc.
Schedule of Expenditures of Federal Awards
December 31, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
Grants Expended:		
U.S. Small Business Administration		
Microloan Technical Assistance Program - Lender	59.046	$ 182,675
U.S. Department of Agriculture		
Rural Business Enterprise Grants - ARRA	10.783	62,500
U.S. Department of Housing and Urban Development		
Passed through City of Asheville		
Community Development Block Grant	14.218	52,452
Community Development Block Grant - ARRA	14.218	12,081
U.S. Treasury		
Community Development Financial Institutions Program	21.020	740,377
Appalachian Regional Commission		
Appalachian Area Development	23.002	23,076
Total Grants Expended		1,073,161
Loan Balances:		
U.S. Small Business Administration		
Microloan Program	59.046	1,087,028
U.S. Department of Agriculture		
Intermediary Relending Program (IRP)		
Small Business Loans	10.767	662,810
Rural Microentrepreneur Assistance Program (RMAP)		
Small Business Loans	10.870	250,000
Total Loan Balances		1,999,838
Total Federal Awards Expended and Loan Balances		$ 3,072,999

Note A - Basis of Presentation

This schedule has been prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenditures are recognized when obligations are incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

MOUNTAIN BIZCAPITAL, INC. d/b/a MOUNTAIN BIZWORKS AND SUBSIDIARY

Mountain BizCapital, Inc.
Schedule of Findings and Questioned Costs
December 31, 2012

Section I Summary of Auditors' Results

Financial Statements

Type of Auditors' report issued:	Unqualified	

Internal control over financial reporting

Material weakness(es) identified	_____ yes	__X__ no
Significant deficiencies identified that are not considered to be material weaknesses?	__X__ yes	_____ no
Noncompliance material to financial statements noted?	_____ yes	__X__ no

Federal awards

Internal control over major programs

Material weakness(es) identified	_____ yes	__X__ no
Significant deficiencies identified that are not considered to be material weaknesses?	_____ yes	__X__ no

Compliance

Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____ yes	__X__ no

Programs tested as major were:

SBA Microloan Program	CFDA# 59.046
U.S. Treasury - Community Development Financial Institutions Program	CFDA# 21.020

The threshold for distinguishing Type A and Type B programs was $300,000. In addition, all material loan programs with continuous compliance requirements are classified as type A programs.

Mountain BizCapital, Inc. was not determined to be a low-risk auditee.

Mountain BizCapital, Inc.
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2012

Section II Financial Statement Findings

Finding 2012-1

Condition: There is a lack of segregation of duties among the Organization's personnel.

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions, specifically in the area of cash.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The Board of Directors should provide some of these controls.

Response and Action Taken: Management and the Board are aware of the lack of segregation of duties concern addressed. Management routinely examines current procedures for improvements to mitigate the risk of mishandling. Currently the Chief Financial Officer (CFO) prepares checks and the Chief Operating Officer (COO) signs the checks and reviews the supporting documents. Additionally, the Development Director reviews the signed checks and supporting documents prior to returning to CFO for mailing. Monthly bank statements are opened and reviewed by the COO prior to giving to CFO. The COO also reviews the reconciliations once completed by CFO. Payroll is processed by an outside payroll service on a monthly basis. Payroll reports and paycheck stubs are opened by the COO for review.

Receipts are recorded by certain staff members in our client software. These receipts are reconciled to the payment processing report prior to giving to CFO. The CFO prepares the bank deposit and a different staff member takes the deposits to the bank.

Beginning with the first quarter of 2013, the Board Treasurer will review general journal entries on a quarterly basis. Management and the Board believe the procedures in place are adequate to mitigate the risks identified.

Section III Federal Awards Findings and Questioned Costs

No audit findings were reported.

Mountain BizCapital, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Finding 2011-1

Condition: There is a lack of segregation of duties among the Organization's personnel.

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions, specifically in the area of cash.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The Board of Directors should provide some of these controls.

Response and Action Taken: Management is aware of the lack of segregation of duties issue and routinely examines current procedures for improvements to mitigate the risk of mishandling. Currently the Chief Financial Officer prepares checks and the Chief Operating Officer signs and reviews supporting documents. Additionally the Development Director reviews signed checks and supporting documents before checks are mailed. Monthly bank statements are opened and reviewed by the COO prior to reconciliation by the CFO.

Current status: See Finding 2012-1.