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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

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

OFFICERS

William Carrington, III	Chair
Erica Anderson	Vice-Chair
Rollin Groseclose	Treasurer
Peter Marks	Secretary

BOARD OF DIRECTORS

Erica Anderson
William Carrington, III
Josh Dorfman
Rollin Groseclose
Gary Heisey
James Lee, III
Peter Marks
Stephen Smith
Michael Mooney
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EXECUTIVE DIRECTOR

Patrick Fitzsimmons

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

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McKinley, Cooper & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
Asheville, North Carolina

We have audited the accompanying financial statements of Mountain BizCapital, Inc. d/b/a Mountain BizWorks (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

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Suite 225 555 North Pleasantburg Drive Greenville, South Carolina 29607-2191
(864) 233-1800 Fax (864) 232-6971 www.mckinleycooper.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountain BizCapital, Inc. d/b/a Mountain BizWorks as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Information

The financial statements for the year ended December 31, 2014 were audited by a predecessor auditor, whose report dated May 18, 2015, expressed an unmodified opinion on those financial statements. The prior year summarized comparative information included herein has been derived from those financial statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the 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 financial statements. In addition, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 7, 2016, 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.

Greenville, South Carolina
April 7, 2016

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

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(with comparative totals for 2014)

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,895,146	$ 1,302,494
Accounts receivable	4,217	794
Loans receivable, net of allowance, current portion	924,062	630,105
Note receivable, current portion	7,311	7,166
Grants receivable	379,570	135,573
Other receivables	34,640	30,667
Property available for sale	18,426	18,426
Total current assets	3,263,372	2,125,225
Other Assets		
Property and equipment, net of accumulated depreciation	905,802	948,220
Loans receivable, net of allowance	2,611,430	2,407,707
Note receivable	38,845	46,158
Total other assets	3,556,077	3,402,085
Total assets	$ 6,819,449	$ 5,527,310
LIABILITIES		
Current liabilities		
Notes payable, current maturities	$ 506,800	$ 1,189,259
Mortgages payable, current maturities	61,859	138,256
Accounts payable	16,047	11,695
Payroll liabilities	3,129	6,011
Other current liabilities	20,837	2,495
Total current liabilities	608,672	1,347,716
Long-term liabilities		
Notes payable	3,561,862	2,180,857
Mortgages payable	756,268	705,100
Total long-term liabilities	4,318,130	2,885,957
Total liabilities	4,926,802	4,233,673
EQUITY EQUIVALENT	197,000	197,000
NET ASSETS		
Unrestricted net assets	928,700	596,156
Temporarily restricted net assets	766,947	500,481
Total net assets	1,695,647	1,096,637
Total liabilities, equity equivalent, and net assets	$ 6,819,449	$ 5,527,310

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

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

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015
(with comparative totals for 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
REVENUE AND SUPPORT				
Federal grants	$ 272,207	$ -	$ 272,207	$ 287,459
State, local, and federal pass-through grants	68,782	-	68,782	125,299
Foundation and private grants	220,000	145,000	365,000	62,250
Contributions	12,737	-	12,737	9,456
Program and service fees	182,372	-	182,372	57,445
Interest income	187,250	121,466	308,716	318,041
Contribution of AOF loan program	377,919	-	377,919	-
Loss on liquidation of subsidiary	(5,121)	-	(5,121)	-
Gain on sale of loans receivable	-	-	-	8,033
Other income	38,029	-	38,029	27,737
Total revenue and support	1,354,175	266,466	1,620,641	895,720
EXPENSES				
Program services	875,510	-	875,510	631,917
Management and general	100,023	-	100,023	128,012
Fundraising	46,098	-	46,098	34,755
Total expenses	1,021,631	-	1,021,631	794,684
INCREASE IN NET ASSETS	332,544	266,466	599,010	101,036
NET ASSETS, BEGINNING OF YEAR	596,156	500,481	1,096,637	995,601
NET ASSETS, END OF YEAR	$ 928,700	$ 766,947	$ 1,695,647	$ 1,096,637

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

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

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015
(with comparative totals for 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 599,010	$ 101,036
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities		
Depreciation	42,418	45,034
Provision for loan losses	(43,608)	19,835
Gains on sale of loans receivable	-	(8,033)
Non-cash contribution of AOF loan program	(124,076)	-
Changes in operating assets and liabilities		
Accounts receivable	(3,423)	(718)
Loans receivable	(329,996)	(239,810)
Grants receivable	(243,997)	117,521
Other receivables	(3,973)	(11,286)
Accounts payable	4,352	(11,086)
Payroll liabilities	(2,882)	2,247
Other current liabilities	18,342	2,495
Net cash (used) by operating activities	(87,833)	17,235
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	1,688,000	823,266
Repayment of notes payable	(1,014,683)	(669,195)
Net cash provided by financing activities	673,317	154,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of loans receivable	-	119,000
Receipts from note receivable	7,168	7,028
Net cash provided by investing activities	7,168	126,028
NET INCREASE IN CASH AND CASH EQUIVALENTS	592,652	297,334
CASH AND CASH EQUIVALENTS, beginning of year	1,302,494	1,005,160
CASH AND CASH EQUIVALENTS, end of year	$ 1,895,146	$ 1,302,494
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 91,758	$ 94,830

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

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mountain BizCapital, Inc. d/b/a Mountain BizWorks ("MBC") was established in 2002 as a nonprofit corporation under the laws of the State of North Carolina. 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 Mountain BizWorks, Inc. ("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.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Organization 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. The income may be unrestricted or may also be restricted according to the donor's wishes.

Cash and Cash Equivalents

The Organization considers all cash and short-term investments with an original maturity of three months or less to be cash equivalents. As required by certain loan covenants for its lending operations, MBC has established loan loss reserves for the years ended December 31, 2015 and 2014, which are included in cash and cash equivalents. These reserves, as with their related loan pools, are maintained in separate bank accounts. At December 31, 2015 and 2014, loan loss reserves totaled $454,106 and $331,659, respectively.

Loans Receivable

Loans are stated at unpaid principal balances, less an allowance for loan losses. 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 individual loan agreements, ranging from 7.25% 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

Grants receivable consist of grants awarded but not received as of December 31, 2015. Management considers all grants to be fully collectible; therefore, no allowance has been made. All balances are expected to be received within 24 months.

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 area expensed as incurred. Items with an estimated useful like 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:

Buildings and improvements	5 - 39 years
Equipment and software	3 - 10 years
Vehicles	5 years

Fair Value Measurements and Disclosures

The carrying values of cash and cash equivalents, other receivables, and accounts payable and accruals approximate fair value because of the terms and relative short maturity of financial instruments. The carrying value of loans receivable and long-term debt approximates its fair values, since interest rates approximate market rates.

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

Contributions that are restricted by the donor are reported as increases in unrestricted net assets, if the restrictions expire (that is, when the stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a 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.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2015 and 2014, the amount charged to expense was $14,599 and $8,246, respectively.

Income Tax Status

The Organization has obtained exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the financial statements.

The Financial Accounting Standards Board (FASB) ASC 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the Organization has taken or expects to take on a tax return. In accordance with FASB ASC 740-10, the Organization recognizes the tax benefits from uncertain tax positions only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Organization's income tax filings are subject to audit by various taxing authorities. Management believes there was no significant impact on the Organization's financial statements as a result of ASC 740-10.

Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. 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.

Estimates

Management uses estimates and assumptions in preparing 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.

Prior Period Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the summarized information was derived. Certain amounts for the year ended

December 31, 2014 have been reclassified in these comparative financial statements. These reclassifications had no effect on net income.

NOTE 2 – ACQUISITION OF ADVANTAGE OPPORTUNITY FUND LOAN PORTFOLIO

During 2015, MBC acquired certain loan lending funds and the related small business loan portfolio from Western North Carolina Regional Economic Development Non-Profit Corporation d/b/a AdvantageWest Economic Development Group ("AdvantageWest"), a North Carolina nonprofit corporation, upon the closure of AdvantageWest. The loan program, known as Advantage Opportunity Funds (AOF), provides high-growth entrepreneurial companies in western North Carolina with early stage funding needed to launch or expand business. The AOF program also provides entrepreneurial training and coaching. MBC accepted cash loan funds in the amount of $253,843, and a loan receivable portfolio of $124,076, net of allowance for loan losses, resulting in recognizing a contribution from AdvantageWest of $377,919. MBC will service the loan portfolio and continue the AOF's lending and technical assistance program for the westernmost 23 counties of North Carolina.

NOTE 3 – DISSOLUTION OF MOUNTAIN MADE, INC.

MBC owned 100% of the outstanding voting stock of a for-profit subsidiary, Mountain Made, Inc. ("MM"). Accordingly, the activity of MM was for financial statement reporting in accordance with accounting principles generally accepted in the United States of America. In recent years, MM's activity consisted solely of collections on a note receivable and payment of a bank loan.

During 2015, MM was dissolved under the laws of the State of North Carolina. The outstanding note receivable was assigned to MBC, and MBC assumed the loan balance owed to the bank, resulting in a loss of $5,121 for the year ended December 31, 2015.

NOTE 4 – RESTRICTIONS ON ASSETS

Temporarily restricted net assets are available for the following purposes:

December 31,	2015	2014
Future general operations	$ 182,500	$ 37,500
SBA loan program	378,791	339,789
USDA loan programs	205,656	123,192
Temporarily restricted net assets	$ 766,947	$ 500,481

NOTE 5 – FUNDS HELD FOR LENDING

The Organization had cash available for lending in the following loan pools as of December 31, 2015 and 2014:

Funding Source	2015	2014
USDA Intermediary Relending Program	$ 393,776	$ 51,943
USDA Rural Microentrepreneur Assistance Program	81,627	178,109
SBA Microloan Program	305,147	252,350
MBC equity loan pool	362,164	367,435
Advantage Opportunity Program	187,504	-
Total cash held for lending and cash reserves	$ 1,330,218	$ 849,837

In addition, the Organization had cash reserved for loan loss in the following loan pools as of December 31, 2015 and 2014:

Funding Source	2015	2014
USDA - IRP	$ 41,701	$ 31,857
USDA - RMAP	25,063	25,063
SBA Microloan	387,342	274,739
	$ 454,106	$ 331,659

MBC has made lines of credit available to some of its borrowers. Included in the above cash pools are distributable lines of credit issued. At December 31, 2015 and 2014, undisbursed cash relating to unused lines of credit totaled $131,120 and $118,277, respectively.

NOTE 6 – LOANS RECEIVABLE

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

December 31, 2015	Loans Receivable	Allowance for Loan Losses	Net Receivable
USDA Intermediary Relending Program	$ 692,877	$ 66,830	$ 626,047
USDA Rural Microentreprenuer Assisstance Program	450,731	41,809	408,922
SBA Microloan Program	1,816,556	168,372	1,648,184
US Department of HUD - CDBG	4,071	203	3,868
MBC equity and private lenders	686,819	77,098	609,721
Advantage Opportunity Funds	355,198	116,448	238,750
	4,006,252	470,760	3,535,492
Less, current portion	1,047,072	123,010	924,062
Loans receivable, net of current portion	$ 2,959,180	$ 347,750	$ 2,611,430

December 31, 2014	Loans Receivable	Allowance for Loan Losses	Net Receivable
USDA Intermediary Relending Program	$ 563,929	$ 41,194	$ 522,735
USDA Rural Microentreprenuer Assisstance Program	365,031	31,283	333,748
SBA Microloan Program	1,520,641	120,773	1,399,868
US Department of HUD - CDBG	12,466	861	11,605
MBC equity and private lenders	865,927	96,071	769,856
	3,327,994	290,182	3,037,812
Less, current portion	715,105	85,000	630,105
Loans receivable, net of current portion	$ 2,612,889	$ 205,182	$ 2,407,707

Changes in MBC's allowance for loan losses are summarized as follows:

	2015	2014
Balance - allowance for loan losses, beginning of year	$ 290,182	$ 307,812
Reserve assumed with AOF loan funds	224,186	-
Loan loss expense	151,663	19,835
Write-offs - MBC	(129,044)	(46,715)
Write-offs - AOF loan funds	(68,877)	-
Recoveries	2,650	9,250
Balance - allowance for loan losses, end of year	$ 470,760	$ 290,182

NOTE 7 – PROPERTY AND EQUIPMENT

A description of property and equipment is as follows:

December 31,	2015	2014
Buildings and improvements	$ 1,154,529	$ 1,154,529
Equipment and software	239,872	239,872
Vehicles	17,060	17,060
	1,411,461	1,411,461
Less, accumulated depreciation	(505,659)	(463,241)
Property and equipment	$ 905,802	$ 948,220

Depreciation expense for the years ended December 31, 2015 and 2014 was $42,418 and $45,034, respectively.

NOTE 8 – 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% and interest payments are paid quarterly.

NOTE 9 – NOTES PAYABLE

Notes payable are described as follows:

	2015	2014
Note payable to USDA, under the IRP bearing interest at 1% per annum and has a 30 year term. The note dated May 2005, is secured by MBC's IRP revolving fund, including loans receivable derived from the note and property. For the first three years, interest only payments are required followed by 27 equal payments of principal and interest.	$ 191,465	$ 200,077

	2015	2014
Note payable to USDA, under the IRP bearing interest at 1% per annum and has a 30 year term. The note dated September 2007, is secured by MBC's IRP revolving fund, including loans receivable derived from the note and property. For the first three years, interest only payments are required followed by 27 equal payments of principal and interest.	$ 411,394	$ 428,336
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 dated June 2007, is secured by loans receivable derived from the note. For the first year, no payments are required followed by 108 equal monthly installments of $7,936.	151,963	249,482
Note payable to U.S. Small Business Administration, interest at 2% per annum, which can be adjusted by future events, and has a 10 year term. The note dated September 2009, is secured by loans receivable derived from the note. For the first year, no payments are required followed by 108 equal monthly installments of $6,944.	384,757	485,561
Note payable to U.S. Small Business Administration, interest at 0% for the first year, increasing to .0625% per annum, which can be adjusted by future events, and has a 10 year term. The note dated February 2013, is secured by loans receivable derived from that note. For the first year, no payments are required followed by 108 equal monthly installments of $3,125.	268,734	306,232
Note payable to U.S. Small Business Administration, interest at 0% for the first year, increasing to .0750% per annum, which can be adjusted by future events, and has a 10 year term. The note dated October 2013, is secured by loans receivable derived from that note. For the first year, no payments are required followed by 108 equal monthly installments of $9,670.	914,257	666,666
Note to Capital Bank, Government Lending Department, interest at 3% per annum and has a 3 year term. The original note dated September 2007 was reissued September 2014, payable in 36 regular monthly installments of principal and interest of $1,455 due September 2017.	28,331	44,658
Note to Banc of America Community Development Corporation, interest at 3.5% per annum, with an 8 year term. The note dated May 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 final installment of all outstanding principal and interest due May 2015.	-	100,000
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 one to five years from the date of the note.	423,835	424,777
Note payable to First Bank, with a final balloon payment of all remaining principal and interest due December 2015, extended to January 2016. The note is secured by a building.	113,027	-

	2015	2014
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 2010, is secured by MBC's RMAP's revolving fund, including loans receivable derived from the note and property. For the first two years, interest only payments are required followed by 216 equal payments of principal and interest.	$ 439,260	$ 464,327
Note payable to USDA, under the IRP, bearing interest at 1% per annum and has a 25 year term. The note dated August 2015, is secured by MBC's IRP's revolving fund, including loans receivable derived from the note and property. For the first three years, interest only payments are required followed by 23 yearly payments of principal and interest of $22,281.	438,000	-
Note payable to U.S. Small Business Administration, interest at 1.625% per annum, which can be adjusted by future events, and has a 10 year term. The note dated August 2015, is secured by loans receivable derived from the note. Beginning in September 2016, monthly payments of $4,114, including interest, are due until September 2025. A total of $1,250,000 is available under the loan agreement, with $416,666 drawn as of December 31, 2015.	416,666	-
	4,886,789	3,370,116
Less, current maturities	(448,494)	(1,189,259)
Notes payable, net of current maturities	$ 4,438,295	$ 2,180,857

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

December 31,	
2016	$ 506,800
2017	585,518
2018	553,286
2019	536,354
2020	456,367
Thereafter	1,430,337
Totals	$ 4,068,662

NOTE 10 – MORTGAGES PAYABLE

Mortgages payable are described as follows:

	2015	2014
Mortgage note payable to First Bank, with a final balloon payment of all remaining principal and interest due December 2015, extended to January 2016. The note is secured by a building.	$ 705,100	$ 723,190
Mortgage note payable to First Bank, with a final balloon payment of all remaining principal and interest due December 2015, extended to January 2016. The note is secured by a building.	113,027	120,166
	818,127	843,356
Less, current maturities	(61,859)	(138,256)
Mortgages payable, net of current maturities	$ 756,268	$ 705,100

In January 2016, the Organization entered into a Change in Terms Agreement with First Bank related to the note payable in the amount of $705,100 at December 31, 2015. Terms of the agreement consist of renewal of the loan with a principal reduction of $5,000, and 59 monthly repayments of $4,959, including interest at 5.25%, with a five year balloon payment due on January 28, 2021.

In January 2016, the Organization entered into a Change in Terms Agreement with First Bank related to the note payable in the amount of $113,027 at December 31, 2015. Terms of the agreement consist of renewal of the loan with a principal reduction of $30,000, and 59 monthly repayments of $894, including interest at 5.25%, with a five year balloon payment due on January 28, 2021.

The scheduled principal maturities on notes payable for the next five years reflects the current and long-term portions of debt under the change in terms on notes payable to First Bank as described above.

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

December 31,	
2016	$ 61,859
2017	30,752
2018	32,430
2019	34,198
2020	36,610
Thereafter	622,278
Totals	$ 818,127

NOTE 11 - LEASE COMMITMENTS

The Organization has entered into two operating leases for copiers. Required monthly payments are $1,389, with lease terms ending in 2017 and 2019. For the years ended December 31, 2015 and 2014, lease expense of the copiers totaled $14,340 and $23,362, respectively.

December 31,		
2016	$	13,200
2017		8,323
2018		5,040
2019		2,520
Totals	$	29,083

NOTE 12 - UNUSED LINE OF CREDIT

The Organization maintains a revolving line of credit with a local bank. Maximum borrowings on the line are $500,000. Monthly interest payments are required at a floating rate per year equal to the bank's Prime Rate, currently 3.25%, less 0.25%. The line of credit is secured by a security interest in all of the Small Business Administration (SBA) Loans financed by the line of credit, together with an undivided pro rata interest in all collateral securing such SBA loans and all related loan documents. There were no outstanding balances at December 31, 2015 and 2014.

NOTE 13 - 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 contributed $8,188 and $0 to the program for years ended December 31, 2015 and 2014, respectively.

NOTE 14 - UNINSURED CASH BALANCES

The Organization maintains its cash and cash equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation and the National Credit Union Association for deposits up to $250,000. The uninsured collective balance was approximately $804,000 at December 31, 2015.

NOTE 15 - RELATED PARTY TRANSACTIONS

At times various board members participate in the Organization's Investment Note Program and make contributions.

NOTE 16 - 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 on the accompanying 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 volunteers; and natural disasters. The Organization carries commercial insurance coverage for risks of loss. Claims have not exceeded coverage in any period since inception.

Concentration of Credit Risk

The Organization's lending activity is with small businesses, located primarily in Western North Carolina, that are unable to obtain 100% of their financing from other sources. The loans are secured by liens.

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent event through the date of the auditor's report, which is the date the financial statements were available to be issued.

In January 2016, the Organization entered into agreements with First Bank for a change in terms of notes payable to First Bank. The statement of financial position reflects current and long-term portions of debt under these agreements.

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

SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015
(with comparative totals for 2014)

	Program	Management and General	Fundraising	Total 2015	Total 2014
Salaries	$ 302,603	$ 32,422	$ 25,217	$ 360,242	$ 333,663
Payroll taxes	29,089	3,117	2,424	34,630	30,689
Benefits	9,270	993	773	11,036	11,008
Total salaries and related expenses	340,962	36,532	28,414	405,908	375,360
Occupancy expenses					
Rent, parking, and other	2,099	1,584	277	3,960	3,945
Cleaning and shredding	4,554	488	379	5,421	5,247
Utilities and security	3,143	2,372	415	5,930	5,507
Repairs and maintenance	2,115	1,596	279	3,990	4,093
Telephone and internet	5,081	544	424	6,049	6,285
Condo fees and real estate taxes	10,688	8,066	1,412	20,166	19,869
Travel and Meetings					
Travel	5,727	614	477	6,818	8,856
Conference fees	1,147	123	96	1,366	120
Meetings and other	2,183	234	182	2,599	10,734
Office expenses					
Bank charges and SBA CA fees	3,646	192	-	3,838	7,759
Copier, computer, and printing supplies	20,603	2,207	1,717	24,527	25,368
Dues and subscriptions	6,049	672	-	6,721	7,438
Insurance	8,819	945	735	10,499	12,372
Marketing	11,195	1,199	933	13,327	7,843
Office supplies and equipment	6,591	706	549	7,846	4,022
Licenses, fees, and taxes	-	1,241	-	1,241	1,845
Postage and delivery	2,781	298	232	3,311	875
Cell phone and website	2,297	246	191	2,734	2,417
Professional fees					
Accounting and audit	22,259	2,385	1,855	26,499	31,635
Legal	5,803	1,451	-	7,254	4,760
IT and database management	10,881	1,166	907	12,954	21,046
Other	1,870	200	156	2,226	18,006
Business coaches	87,313	-	-	87,313	58,422
Scale-Up Program Contractors	30,332	-	-	30,332	-
Program expenses - ScaleUp specialists and other	16,065	-	-	16,065	-
Loan loss expense, net of recoveries	151,663	-	-	151,663	10,585
Other operating expenses	5,009	537	417	5,963	7,338
Total expenses before interest and depreciation	770,875	65,598	40,047	876,520	661,747
Interest expense	82,154	17,458	3,081	102,693	87,903
Depreciation	22,481	16,967	2,970	42,418	45,034
Total expenses	$ 875,510	$ 100,023	$ 46,098	$ 1,021,631	$ 794,684

COMPLIANCE SECTION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2015

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Number	Expenditures
Grants Expended:		
U.S. Small Business Administration		
Microloan Technical Assistance Program - ARRA Lender	59.046	$ 140,967
U.S. Department of Agriculture		
Rural Microentrepreneur Assistance Program	10.870	56,240
U.S. Department of Housing and Urban Development		
Passed through City of Asheville		
Community Development Block Grant	14.218	68,782
Appalachian Regional Commission		
Appalachian Area Development	23.002	75,000
Total Grants Expended		340,989
Loan Balances:		
U.S. Small Business Administration		
Microloan Program - ARRA Lender, beginning	59.046	1,707,941
Current Year Draws	59.046	750,000
		2,457,941
U.S. Department of Agriculture		
Intermediary Relending Program (IRP)		
Small Business Loans, beginning	10.767	628,413
Current Year Draw	10.767	-
		628,413
Total Loan Balances		3,086,354
Total Federal Awards Expended and Loan Balances		$ 3,427,343

See accompanying note to schedule.

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

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mountain BizCapital, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB, *Uniform Guidance*.

Loan balances outstanding as of December 31, 2015 are as follows:

Loan Program	
U.S. Small Business Administration	
Microloan Program - ARRA	$ 2,136,377
U.S. Department of Agriculture	
Intermediary Relending Program (IRP)	
Small Business Loans	$ 1,040,859

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified

Internal Control Over Financial Reporting

Material weakness(es) identified?	__ yes X no
Significant 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 auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular?	__ yes X no

Program tested as major was:

SBA Microloan Program	CFDA# 59.046

The threshold for distinguishing Type A and Type B programs was $750,000 for the year. In addition, all material loan programs with continuous compliance requirements are classified as Type A programs.

Mountain BizCapital, Inc. was determined to be a low-risk auditee.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2015-001

Condition: The Organization does not employ a system for tracking expenses by program.

Criteria: Recipients of federal awards are required to charge expenses to correct programs.

Effect: Programs could be adversely affected by charging an unallowed or disproportionate amount of expenses.

Cause: Expenses, either direct or indirect, are not being recorded in the accounting software by specific program.

Recommendation: The Organization should develop and implement a system to accurately charge expenses to programs.

Response and Action Taken: The Organization has created a model to track expenses by program. The model is being reviewed by management with anticipated implementation in the 2016 fiscal year.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No audit findings were reported.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

<u>Finding 2014-001 – Financial Statement Finding</u>

Condition: The Organization does not employ a system for tracking expenses by program.

Current Status: The finding has been repeated in the current year as Finding 2015-001.

McKinley, Cooper & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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.
d/b/a Mountain BizWorks
Asheville, North Carolina

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. d/b/a Mountain BizWorks (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

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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 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 2015-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain BizCapital, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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*.

Response to Findings

Mountain BizCapital, Inc.'s response to the findings 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 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 result 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.

Greenville, South Carolina
April 7, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
Asheville, North Carolina

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 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, 2015. Mountain BizCapital, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

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To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
April 7, 2016

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, 2015.

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 Mountain 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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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.

Greenville, South Carolina
April 7, 2016