

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

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017**

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

**OFFICERS**

Michael Mooney  
Erica Anderson  
Fred Waldkoetter  
Rebecca Crandall

Chair  
Vice-Chair  
Treasurer  
Secretary

**BOARD OF DIRECTORS**

Erica Anderson  
William Carrington, III  
Ray Green  
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Michael Mooney  
Fred Waldkoetter  
Vanessa Corral  
Rebecca Crandall  
Tim Schaller

**EXECUTIVE DIRECTOR**

Patrick Fitzsimmons

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

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## 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, 2017, 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.

Members  
American Institute of Certified Public Accountants  
S.C. Association of Certified Public Accountants



To the Board of Directors  
Mountain BizCapital, Inc.  
d/b/a Mountain BizWorks  
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## **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, 2017, 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.

## **Report on Summarized Comparative Information**

We have previously audited the Mountain BizCapital, Inc.'s 2016 financial statements, and our report dated March 31, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matter**

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 March 23, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mountain BizCapital, Inc.'s 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.

***McKinley, Cooper & Co., LLC***

Greenville, South Carolina  
March 23, 2018

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

**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**  
(with comparative totals for 2016)

<b>ASSETS</b>	<u>2017</u>	<u>2016</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,395,390	\$ 1,834,082
Accounts receivable	2,798	-
Loans receivable, net of allowance, current portion	997,915	1,052,727
Note receivable, current portion	7,612	7,461
Grants receivable	186,928	207,624
Other receivables	50,544	32,911
Prepaid expenses	3,886	3,211
Property available for sale	18,426	18,426
Total current assets	<u>4,663,499</u>	<u>3,156,442</u>
<b>Other Assets</b>		
Property and equipment, net of accumulated depreciation	832,248	868,340
Loans receivable, net of allowance, net of current portion	5,710,645	3,436,698
Note receivable, net of current portion	23,768	31,382
Total other assets	<u>6,566,661</u>	<u>4,336,420</u>
<b>Total assets</b>	<u><u>\$ 11,230,160</u></u>	<u><u>\$ 7,492,862</u></u>
 <b>LIABILITIES</b>		
<b>Current liabilities</b>		
Notes payable, current maturities	\$ 812,175	\$ 531,159
Mortgages payable, current maturities	32,430	30,752
Accounts payable	10,772	-
Payroll liabilities	10,188	3,150
Other current liabilities	10,361	31,303
Total current liabilities	<u>875,926</u>	<u>596,364</u>
<b>Long-term liabilities</b>		
Notes payable, net of current portion	6,349,372	4,148,435
Mortgages payable, net of current portion	692,636	724,950
Total long-term liabilities	<u>7,042,008</u>	<u>4,873,385</u>
<b>Total liabilities</b>	<u>7,917,934</u>	<u>5,469,749</u>
<b>EQUITY EQUIVALENT</b>	<u>197,000</u>	<u>197,000</u>
 <b>NET ASSETS</b>		
Unrestricted net assets	1,861,749	1,023,084
Temporarily restricted net assets	1,253,477	803,029
<b>Total net assets</b>	<u>3,115,226</u>	<u>1,826,113</u>
<b>Total liabilities, equity equivalent, and net assets</b>	<u><u>\$ 11,230,160</u></u>	<u><u>\$ 7,492,862</u></u>

*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, 2017**  
**(with comparative totals for 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>REVENUE AND SUPPORT</b>				
Federal grants	\$ 443,241	\$ 1,076,313	\$ 1,519,554	\$ 384,426
State, local, and federal pass-through grants	80,705	-	80,705	59,233
Foundation and private grants	219,834	74,583	294,417	67,165
Contributions	6,239	-	6,239	8,165
Program and service fees	390,977	-	390,977	342,109
Interest income	515,566	-	515,566	378,797
Contribution of SMDC loan program	-	-	-	47,777
Other income	140,277	-	140,277	91,576
Net assets released from restriction	700,448	(700,448)	-	-
<b>Total revenue and support</b>	<u>2,497,287</u>	<u>450,448</u>	<u>2,947,735</u>	<u>1,379,248</u>
<b>EXPENSES</b>				
Program services	1,398,064	-	1,398,064	1,027,935
Management and general	222,918	-	222,918	156,458
Fundraising	37,640	-	37,640	64,389
<b>Total expenses</b>	<u>1,658,622</u>	<u>-</u>	<u>1,658,622</u>	<u>1,248,782</u>
<b>INCREASE IN NET ASSETS</b>	838,665	450,448	1,289,113	130,466
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,023,084</u>	<u>803,029</u>	<u>1,826,113</u>	<u>1,695,647</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,861,749</u>	<u>\$ 1,253,477</u>	<u>\$ 3,115,226</u>	<u>\$ 1,826,113</u>

*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, 2017**  
**(with comparative totals for 2016)**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,289,113	\$ 130,466
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities		
Depreciation	36,092	37,462
Provision for loan losses	262,518	95,769
Non-cash contribution of SMDC loan program	-	(45,000)
Changes in operating assets and liabilities		
Accounts receivable	(2,798)	4,217
Loans receivable	(2,481,653)	(1,004,702)
Grants receivable	20,696	171,946
Other receivables	(17,633)	1,729
Prepaid expenses	(675)	(3,211)
Accounts payable	10,772	(16,047)
Payroll liabilities	7,038	21
Other current liabilities	(20,942)	10,466
<b>Net cash (used) by operating activities</b>	<b>(897,472)</b>	<b>(616,884)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	2,954,500	1,140,835
Repayment of notes and mortgages payable	(503,183)	(592,328)
<b>Net cash provided by financing activities</b>	<b>2,451,317</b>	<b>548,507</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipts from note receivable	7,463	7,313
<b>Net cash provided by investing activities</b>	<b>7,463</b>	<b>7,313</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,561,308	(61,064)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	1,834,082	1,895,146
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 3,395,390</b>	<b>\$ 1,834,082</b>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 97,686	\$ 81,571

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

**MOUNTAIN BIZCAPITAL, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**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 MBC have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial Statement Presentation**

MBC 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**

MBC 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, 2017 and 2016, which are included in

**MOUNTAIN BIZCAPITAL, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

cash and cash equivalents. These reserves, as with their related loan pools, are maintained in separate bank accounts. At December 31, 2017 and 2016, loan loss reserves totaled \$504,548 and \$454,027, 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 MBC 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, MBC 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, 2017. 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 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:

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.

**MOUNTAIN BIZCAPITAL, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017 and 2016, the amount charged to expense was \$25,610 and \$23,336, respectively.

**Income Tax Status**

MBC has obtained exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under the North Carolina Non-profit Corporation Act. 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, MBC 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. MBC's income tax filings are subject to audit by various taxing authorities. Management believes there was no impact on MBC'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.

**MOUNTAIN BIZCAPITAL, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Indirect Cost Allocation Plan**

In accordance with Title 2 CFR Part 200 of the Uniform Guidance, MBC has adopted a cost allocation method for allocating indirect costs to programs and activities. Under the method adopted, indirect costs are accumulated in a pool. Monthly, the costs in the pool are allocated to the programs and activities based on direct salaries charged to each program or activity that month.

**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 MBC's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

**NOTE 2 – ACQUISITION OF OTHER LOAN PORTFOLIOS**

During 2016, MBC acquired certain loan lending funds and the related small business loan portfolio from the Smoky Mountain Development Corp, a North Carolina nonprofit corporation, upon the closure of Smoky Mountain Development Corp. MBC accepted cash loan funds in the amount of \$12,000 and a loan receivable portfolio of \$45,000. MBC will service the loan portfolio for rural business.

**NOTE 3 – RESTRICTIONS ON ASSETS**

Temporarily restricted net assets are available for the following purposes:

<u>December 31,</u>	<u>2017</u>	<u>2016</u>
Future general operations	\$ 74,583	\$ 37,500
EDA loan program	175,198	-
SBA loan program	711,741	516,412
USDA loan programs	291,955	249,117
Temporarily restricted net assets	<u>\$ 1,253,477</u>	<u>\$ 803,029</u>

**MOUNTAIN BIZCAPITAL, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 – FUNDS HELD FOR LENDING**

MBC had cash available for lending in the following loan pools as of December 31, 2017 and 2016:

<u>Funding Source</u>	<u>2017</u>	<u>2016</u>
USDA Intermediary Relending Program	\$ 202,180	\$ 230,962
USDA Rural Microentrepreneur Assistance Program	55,200	90,078
USDA SMDC	41,324	33,795
SBA Microloan Program	575,617	442,276
MBC equity loan pool	1,161,362	293,221
Advantage Opportunity Program	144,641	60,866
Economic Development Administration	175,198	-
Total cash held for lending and cash reserves	<u>\$ 2,355,522</u>	<u>\$ 1,151,198</u>

In addition, MBC had cash reserved for loan loss in the following loan pools as of December 31, 2017 and 2016:

<u>Funding Source</u>	<u>2017</u>	<u>2016</u>
USDA - IRP	\$ 87,502	\$ 57,142
USDA - RMAP	45,000	27,363
SBA Microloan	372,046	369,522
	<u>\$ 504,548</u>	<u>\$ 454,027</u>

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, 2017 and 2016, undisbursed cash relating to undrawn loans totaled \$255,583 and \$254,505, respectively.

**NOTE 5 – LOANS RECEIVABLE**

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

**MOUNTAIN BIZCAPITAL, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

December 31, 2017	Loans Receivable	Allowance for Loan Losses	Net Receivable
USDA Intermediary Relending Program	\$ 1,310,152	\$ 159,569	\$ 1,150,583
USDA Rural Microentrepreneur Assistance Program	992,821	126,123	866,698
USDA SMDC	10,404	1,040	9,364
SBA Microloan Program	3,056,367	301,212	2,755,155
Economic Development Administration	511,729	12,792	498,937
MBC equity and private lenders	1,303,693	148,074	1,155,619
Advantage Opportunity Funds	352,441	80,237	272,204
	<u>7,537,607</u>	<u>829,047</u>	<u>6,708,560</u>
Less, current portion	<u>1,121,238</u>	<u>123,323</u>	<u>997,915</u>
Loans receivable, net of current portion	<u>\$ 6,416,369</u>	<u>\$ 705,724</u>	<u>\$ 5,710,645</u>

December 31, 2016	Loans Receivable	Allowance for Loan Losses	Net Receivable
USDA Intermediary Relending Program	\$ 887,355	\$ 80,868	\$ 806,487
USDA Rural Microentrepreneur Assistance Program	577,251	79,779	497,472
USDA SMDC	16,486	1,649	14,837
SBA Microloan Program	2,211,572	224,808	1,986,764
MBC equity and private lenders	885,778	88,942	796,836
Advantage Opportunity Funds	477,512	90,483	387,029
	<u>5,055,954</u>	<u>566,529</u>	<u>4,489,425</u>
Less, current portion	<u>1,196,277</u>	<u>143,550</u>	<u>1,052,727</u>
Loans receivable, net of current portion	<u>\$ 3,859,677</u>	<u>\$ 422,979</u>	<u>\$ 3,436,698</u>

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

	2017	2016
Balance - allowance for loan losses, beginning of year	\$ 566,529	\$ 470,760
Reserve assumed with SMDC loan funds	-	1,811
Loan loss expense	305,949	155,166
Write-offs - MBC - current year	(43,431)	(58,728)
Write-offs - MBC - prior years	(5,105)	(22,900)
Write-offs - AOF loan funds	-	(2,480)
Recoveries	5,105	22,900
Balance - allowance for loan losses, end of year	<u>\$ 829,047</u>	<u>\$ 566,529</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Guaranteed Loan Program**

Mountain BizCapital, Inc. participates in the SBA Community Advantage Pilot Loan Program, which is a loan guarantee program offered by the SBA. This program allows MBC to provide long-term financing (up to 10 years) to small businesses that would otherwise not be able to get a traditional bank loan.

SBA Community Advantage Pilot Loan Program (CA) is a pilot loan program introduced by the U.S. Small Business Administration (SBA) to meet the credit, Management, and technical assistance needs of small businesses in underserved markets. CA provides mission-oriented lenders access to 7(a) loan guarantees up to 85% for loans of \$250,000 or less. Loans receivable of \$2,522,218 at December 31, 2017, are guaranteed (up to 75% or 85%) by the CA program. The CA program requires the Corporation to fund reserves of at least 5% of the outstanding amount of the unguaranteed portion of the CA loan portfolio, which approximates a reserve requirement of \$19,657 at December 31, 2017.

CA-guaranteed portion loans of \$1,220,667 were sold at a premium of \$98,494 in the secondary market during the year ended December 31, 2017. The Corporation is required to fund reserves of at least 3% of the guarantee on loans sold which approximates \$50,235. Mountain BizCapital, Inc. held \$71,410 in a loan loss account at First Bank at December 31, 2017, satisfying both the 5% and 3% reserve requirements.

**Economic Development Administration (EDA) Loan Program**

During 2017, MBC received \$331,500 in Revolving Loan Fund (RLF) funds from the U.S. Department of Commerce, Economic Development Administration (EDA), which were matched with \$335,550 local funds for program lending activities and administration. As of December 31, 2017, MBC has disbursed loan funds of \$520,000, collected principal of \$8,271 against these loans, and expended \$10,601 for administrative costs related to the management of the RLF.

A summary of the assets and liabilities related to the EDA-RLF loan funds at December 31, 2017 is as follows:

Restricted cash - EDA lending	\$ 175,198
Loans receivable	511,729
Interest receivable	287
Loan loss reserves	<u>(12,792)</u>
Total assets	674,422
Liabilities - matching funds due to MBC	<u>(335,550)</u>
Net assets	<u><u>\$ 338,872</u></u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

A summary of the profit and loss related to the EDA-RLF loan funds at December 31, 2017 is as follows:

Revenues - EDA funding	\$ 331,550
Interest earned on loans	19,416
Interest earned on deposits	63
Fees earned on closed loans	11,236
Administrative expenses	(10,601)
Provision for loan loss reserve	(12,792)
	\$ 338,872

**NOTE 6 – NOTE RECEIVABLE**

The note receivable is due in 120 monthly installments of \$681 including interest at 2% per annum. The balance due is \$31,380 and \$38,843 at December 31, 2017 and 2016, respectively.

**NOTE 7 – PROPERTY AND EQUIPMENT**

A description of property and equipment is as follows:

December 31,	2017	2016
Buildings and improvements	\$ 1,154,529	\$ 1,154,529
Equipment and software	160,594	175,363
Vehicles	17,060	17,060
	1,332,183	1,346,952
Less, accumulated depreciation	(499,935)	(478,612)
Property and equipment	\$ 832,248	\$ 868,340

Depreciation expense for the years ended December 31, 2017 and 2016 was \$36,092 and \$37,462, respectively.

**NOTE 8 – EQUITY EQUIVALENT**

MBC elected to participate in the U.S. Treasury’s Small Business Lending Fund program. In September 2011, MBC 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 MBC. The general obligation is not secured by any of MBC’s assets. The equity equivalent is fully subordinated to the right of repayment of all of MBC’s other creditors. The investing institution, in this case the U.S. Treasury, does not have the right to accelerate payment unless MBC ceases its operations. The interest rate is 2% and interest payments are paid quarterly.

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

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 9 – NOTES PAYABLE**

Notes payable are described as follows:

	2017	2016
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.	\$ 173,981	\$ 182,766
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.	377,001	394,283
Note payable to U.S. Small Business Administration, interest at 2% per annum, and has a 10 year term. The note dated April 2017, is secured by loans receivable derived from the note. For the first year, no payments are required followed by 108 equal monthly installments of \$11,574 with balance due at maturity. Interest for first twelve months accrues at 0% based on buy down. Interest rate after twelve months may be reduced to .75% contingent on certain lending performance criteria.	1,250,000	-
Note payable to U.S. Small Business Administration, interest at 0.75% 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 \$8,684.	180,894	283,194
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.	193,739	231,237
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.	671,828	788,547

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

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

	2017	2016
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.	\$ -	\$ 11,492
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 seven years from the date of the note.	1,040,124	605,895
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 monthly principal and interest payments of \$2,841.	387,695	413,714
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	438,000
Note payable to U.S. Small Business Administration, interest at 0.375% 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 \$11,796, including interest, are due until September 2025.	1,067,238	1,205,025
Note payable to PNC Bank, bearing interest at 3% per annum. The note is dated June 2017, and is unsecured. Interest only payments are required monthly with a balloon principal payment due June 2022.	250,000	-
Note payable to Mary Reynolds Babcock Foundation, bearing interest at 2% per annum. The note is dated July 2017, and is unsecured. Interest only payments are required monthly with a balloon principal payment due July 2020.	250,000	-

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

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

	2017	2016
Note payable to Appalachian Community Capital, bearing interest at 2% per annum. The note is dated November 2017, and is unsecured. Interest only payments are required monthly with a balloon principal payment due November 2022.	\$ 100,000	\$ -
Note payable to USDA, under the IRP, bearing interest at 1% per annum and has a 30 year term. The note is dated October 2017, 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 27 yearly equal payments of principal and interest beginning on October 5, 2021. Total amount is \$750,000.	276,500	-
Note payable to USDA, under the Rural Microentrepreneur Assistance Program (RMAP), bearing interest at 1% per annum and has a 20 year term. The note dated August 2016, is secured by MBC's RMAP's revolving fund, including loans receivable derived from the note and property. Additional proceeds were drawn during 2017. Interest only payments are required until August 2018, followed by 216 equal payments of principal and interest.	504,547	125,441
	7,161,547	4,679,594
Less, current maturities	(812,175)	(531,159)
Notes payable, net of current maturities	\$ 6,349,372	\$ 4,148,435

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

December 31,	
2018	\$ 812,175
2019	700,588
2020	824,959
2021	741,803
2022	1,128,230
Thereafter	2,953,792
Totals	\$ 7,161,547

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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 10 – MORTGAGES PAYABLE**

Mortgages payable are described as follows:

	2017	2016
Mortgage note payable to First Bank, payable in 59 monthly repayments of \$4,959, including interest at 5.25%, with a five year balloon payment due on January 28, 2021. The note is secured by a building.	\$ 654,731	\$ 678,595
Mortgage note payable to First Bank, payable in 59 monthly repayments of \$894, including interest at 5.25%, with a five year balloon payment due on January 28, 2021. The note is secured by a building.	70,335	77,107
	725,066	755,702
Less, current maturities	(32,430)	(30,752)
Mortgages payable, net of current maturities	\$ 692,636	\$ 724,950

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

December 31,	
2018	\$ 32,430
2019	34,198
2020	36,610
2021	621,828
Totals	\$ 725,066

**NOTE 11 - LEASE COMMITMENTS**

MBC has entered into an operating lease for a copier. Required monthly payments are \$1,004, with the lease term ending in August 2021.

**NOTE 12 - UNUSED LINE OF CREDIT**

MBC 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 places a security interest on each individual SBA Community Advantage note as the line of credit is used for the funding. A first lien is placed on each note as it is funded until the line of credit is repaid. There were no outstanding balances at December 31, 2017 and 2016.

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

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 13 - BENEFIT PLANS**

MBC 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. MBC contributed \$16,724 and \$12,931 to the program for years ended December 31, 2017 and 2016, respectively.

**NOTE 14 - UNINSURED CASH BALANCES**

MBC 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 \$981,464 at December 31, 2017.

**NOTE 15 - RELATED PARTY TRANSACTIONS**

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

**NOTE 16 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

**Governmental Assisted Programs**

MBC 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. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although management expects such amounts, if any, to be immaterial. No provisions have been made on the accompanying financial statements for the refund of grant monies.

**Risk Management**

MBC 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. MBC carries commercial insurance coverage for risks of loss. Claims have not exceeded coverage in any period since inception.

**Concentration of Credit Risk**

MBC'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**

MBC has been approved to receive an additional \$1,250,000 in loan capital by the Small Business Administration. MBC has been awarded an unrestricted grant of \$70,000 from a private foundation. The grant is expected to be received in mid-2018.

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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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

**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**  
**(with comparative totals for 2016)**

	Program	Management and General	Fundraising	Total	
				2017	2016
Salaries	\$ 530,760	\$ 83,131	\$ 25,579	\$ 639,470	\$ 481,619
Payroll taxes	46,737	7,321	2,252	56,310	48,102
Benefits	52,458	8,216	2,528	63,202	17,359
Other	2,122	332	103	2,557	-
Total salaries and related expenses	632,077	99,000	30,462	761,539	547,080
Occupancy expenses					
Rent, parking and other	4,969	778	239	5,986	5,085
Cleaning and shredding	3,740	586	180	4,506	5,487
Utilities and security	3,936	616	190	4,742	5,335
Repairs and maintenance	1,814	284	87	2,185	4,326
Telephone and internet	5,585	875	269	6,729	6,207
Condo fees and real estate taxes	15,076	2,361	727	18,164	21,175
Travel and meetings					
Travel	11,023	1,727	531	13,281	9,371
Conference fees	2,772	434	134	3,340	2,720
Meetings and other	7,941	1,244	383	9,568	15,401
Office expenses					
Bank charges and SBA CA fees	5,994	939	289	7,222	6,268
Copier, computer and printing supplies	11,411	1,787	550	13,748	16,151
Dues and subscriptions	16,159	2,531	779	19,469	10,116
Insurance	9,212	2,303	-	11,515	12,632
IT and database management, website	15,577	2,440	751	18,768	11,764
Marketing	21,256	3,329	1,024	25,609	22,796
Office supplies and equipment	7,932	1,242	382	9,556	8,038
Licenses, fees and taxes	944	148	45	1,137	6,459
Postage and delivery	2,021	316	97	2,434	1,552
Cell phone	2,936	460	141	3,537	2,531
Professional fees					
Accounting and audit	7,885	1,235	380	9,500	9,980
Legal	4,113	1,028	-	5,141	4,102
Business coaches	153,278	-	-	153,278	128,029
Scale-up Program contractors	47,822	-	-	47,822	75,492
Program expenses - Scale-up specialists and other	44,749	-	-	44,749	31,083
Loan loss expense, net of recoveries	305,950	-	-	305,950	155,166
Other operating expenses	12,295	3,074	-	15,369	5,403
Total expenses before interest and depreciation	1,358,467	128,737	37,640	1,524,844	1,129,749
Interest expense	39,597	58,089	-	97,686	81,571
Depreciation	-	36,092	-	36,092	37,462
Total expenses	<u>\$ 1,398,064</u>	<u>\$ 222,918</u>	<u>\$ 37,640</u>	<u>\$ 1,658,622</u>	<u>\$ 1,248,782</u>

## **COMPLIANCE SECTION**

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Grants Expended:</b>			
<u>U.S. Department of Commerce</u>			
Direct:			
Economic Development Cluster			
* EDA Economic Adjustment Assistance RLF Program	11.307	N/A	\$ 348,764
<u>U.S. Small Business Administration</u>			
Direct:			
Microloan Program - Technical Assistance Grant	59.046	N/A	394,376
Prime Technical Assistance	59.050	N/A	22,125
ScaleUp America	59.068	N/A	184,000
Total U.S. Small Business Administration			600,501
<u>U.S. Department of Agriculture</u>			
Direct:			
Rural Microentrepreneur Assistance Program - Assistance Grant	10.870	N/A	80,939
Passed through Appalachian Sustainable Agriculture Project Risk Management Education Partnerships	10.460	RM16RMEPP522C032/ 4500069364	15,350
Farm Operating Loans	10.406	FA-NC-7-018	11,513
Passed through High Country Council of Governments Rural Business Development Grant	10.351	N/A	19,246
Total U.S. Department of Agriculture			127,048
<u>U.S. Department of Housing and Urban Development</u>			
Passed through City of Asheville CDBG - Entitlement Grants Cluster CDBG - Business Training Grant	14.218	N/A	80,705
<u>U.S. Department of the Treasury</u>			
Direct:			
Community Development Financial Institutions Cluster CDFI Program	21.020	N/A	663,701
<b>Total Grants Expended</b>			1,820,719

\*See accompanying notes to schedule for calculation.

(continued)

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Federal Loans:</b>			
<u>U.S. Small Business Administration</u>			
Microloan Program:			
2016 Microloan, beginning	59.046		\$ 1,205,025
2017 Microloan, current year draws	59.046		1,250,000
			<u>2,455,025</u>
<u>U.S. Department of Agriculture</u>			
Intermediary Relending Program (IRP):			
2015 Loan, beginning	10.767		438,000
2017 Loan, current year draws	10.767		276,500
			<u>714,500</u>
Rural Microentrepreneur Assistance Program (RMAP):			
2016 Loan, beginning	10.870		125,000
2016 Loan, current year draws	10.870		375,000
			<u>500,000</u>
<b>Total Federal Loans</b>			<u>3,669,525</u>
<b>Total Federal Awards Expended and Loans</b>			<u>\$ 5,490,244</u>

See accompanying notes to schedule.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of MBC under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented on the modified accrual basis of accounting and in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of MBC, it is not intended to and does not present the financial position or changes in net position of MBC.

**NOTE 2 – COST PRINCIPLES**

Expenditures are recognized following the cost principles contained in 2 CFR Part 200, Cost Principles for Nonprofit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Matching costs, i.e., the non-federal share of certain program costs, are not included in the Schedule.

**NOTE 3 – INDIRECT COST RATE**

MBC has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 4 – EDA RLF LOANS**

MBC had the following loan receivable balances outstanding at December 31, 2017. These loan receivable balances outstanding are also included in the federal expenditures presented in the Schedule.

Program Title	Federal CFDA Number	Outstanding Balance at December 31, 2017
EDA Revolving Loan Fund	11.307	\$ 511,729

The calculation of federal funds expended for the EDA Revolving Loan Fund as reported in the Schedule is as follows:

Revolving Loan Fund (RLF) Principal Outstanding	\$ 511,729
Cash Balances in the RLF	175,198
Administrative Expenses Paid from RLF Income	10,601
Unpaid Principal of all Loans Written Off	-
	697,528
Federal share of the RLF	50%
<b>Total Federal Expenditures</b>	<b>\$ 348,764</b>

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2017**

**NOTE 5 – OTHER FEDERAL LOANS OUTSTANDING**

Other federal loan balances outstanding as of December 31, 2017 are as follows:

<u>Loan Program</u>	
U.S. Small Business Administration Microloan Program	<u>\$ 2,317,238</u>
U.S. Department of Agriculture Intermediary Relending Program (IRP) Small Business Loans	<u>\$ 714,500</u>
U.S. Department of Agriculture Rural Microentrepreneur Assistance Program (RMAP)	<u>\$ 500,000</u>

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2017**

**I. Summary of Auditor's Results**

**Financial Statements**

Type of Auditor's Report issued on whether the financial statements audited were prepared in accordance with GAAP:

**Unmodified opinion**

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_ Yes X None reported
- Noncompliance material to financial statements noted \_\_\_ Yes X No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_ Yes X None Reported

Type of Auditor's Report issued on compliance for major federal programs:

**Unmodified opinion**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) (Uniform Guidance)?

\_\_\_ Yes X No

Identification of Major Federal Programs:

<u>CFDA #</u>	<u>Program Title</u>
10.870	Rural Microentrepreneur Assistance Program
11.307	EDA Revolving Loan Fund Program
21.020	Community Development Financial Institutions Program

The dollar threshold used to distinguish between Type A and B programs: \$750,000

MBC qualified as low-risk auditee? X Yes \_\_\_ No

**II. Financial Statement Findings**

None Reported.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2017**

**III. Major Federal Award Findings and Questioned Costs**

None Reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2017**

There were no federal award-related audit findings in the prior year.

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, 2017, and the related 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 March 23, 2018.

### 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.

Members  
American Institute of Certified Public Accountants  
S.C. Association of Certified Public Accountants



To the Board of Directors  
Mountain BizCapital, Inc.  
d/b/a Mountain BizWorks  
March 23, 2018

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

### **Compliance and Other Matters**

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

### **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 Mountain BizCapital, Inc.'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.

***McKinley, Cooper & Co., LLC***

Greenville, South Carolina  
March 23, 2018

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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of 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.

Members  
American Institute of Certified Public Accountants  
S.C. Association of Certified Public Accountants



To the Board of Directors  
Mountain BizCapital, Inc.  
d/b/a Mountain BizWorks  
March 23, 2018

### **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, 2017.

### **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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***McKinley, Cooper & Co., LLC***

Greenville, South Carolina  
March 23, 2018