

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2018

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

OFFICERS

Michael Mooney
Erica Anderson
Fred Waldkoetter
Rebecca Crandall

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Vice-Chair
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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 not-for-profit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, 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, 2018, 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 2017 financial statements, and our report dated March 23, 2018, 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, 2017, 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 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 18, 2019, 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 18, 2019

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

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(with comparative totals for 2017)

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 3,575,579	\$ 3,395,390
Interest receivable	76,276	48,585
Loans receivable, net of allowance, current portion	2,082,164	997,915
Note receivable, current portion	7,765	7,612
Grants receivable	297,447	186,928
Other receivables	6,117	4,757
Prepaid expenses	-	3,886
Property available for sale	18,426	18,426
Total current assets	<u>6,063,774</u>	<u>4,663,499</u>
Other Assets		
Property and equipment, net of accumulated depreciation	801,109	832,248
Loans receivable, net of allowance, net of current portion	7,518,308	5,710,645
Note receivable, net of current portion	16,003	23,768
Total other assets	<u>8,335,420</u>	<u>6,566,661</u>
Total assets	<u><u>\$ 14,399,194</u></u>	<u><u>\$ 11,230,160</u></u>
 LIABILITIES		
Current liabilities		
Notes payable, current maturities	\$ 991,788	\$ 812,175
Mortgages payable, current maturities	33,119	32,430
Accounts payable	8,935	10,772
Payroll liabilities	13,734	10,188
Other current liabilities	11,180	10,361
Total current liabilities	<u>1,058,756</u>	<u>875,926</u>
Long-term liabilities		
Notes payable, net of current portion	7,712,860	6,349,372
Mortgages payable, net of current portion	662,637	692,636
Total long-term liabilities	<u>8,375,497</u>	<u>7,042,008</u>
Total liabilities	<u>9,434,253</u>	<u>7,917,934</u>
EQUITY EQUIVALENT	<u>597,000</u>	<u>197,000</u>
NET ASSETS		
Without donor restrictions	2,719,025	1,861,749
With donor restrictions	1,648,916	1,253,477
Total net assets	<u>4,367,941</u>	<u>3,115,226</u>
Total liabilities, equity equivalent, and net assets	<u><u>\$ 14,399,194</u></u>	<u><u>\$ 11,230,160</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, 2018
(with comparative totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
REVENUE AND SUPPORT				
Federal grants	\$ 236,299	\$ 1,096,496	\$ 1,332,795	\$ 1,519,554
State, local, and federal pass-through grants	76,861	-	76,861	80,705
Foundation and private grants	409,202	93,888	503,090	294,417
Contributions	7,880	-	7,880	6,239
Program and service fees	277,324	-	277,324	390,977
Interest income	797,518	-	797,518	515,566
Recoveries	168,567	-	168,567	-
Other income	11,503	-	11,503	140,277
Net assets released from restriction	794,945	(794,945)	-	-
Total revenue and support	2,780,099	395,439	3,175,538	2,947,735
EXPENSES				
Program services	1,626,226	-	1,626,226	1,398,064
Management and general	253,413	-	253,413	222,918
Fundraising	43,184	-	43,184	37,640
Total expenses	1,922,823	-	1,922,823	1,658,622
INCREASE IN NET ASSETS	857,276	395,439	1,252,715	1,289,113
NET ASSETS, BEGINNING OF YEAR	1,861,749	1,253,477	3,115,226	1,826,113
NET ASSETS, END OF YEAR	\$ 2,719,025	\$ 1,648,916	\$ 4,367,941	\$ 3,115,226

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

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

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018
(with comparative totals for 2017)

	Program	Management and General	Fundraising	Total	
				2018	2017
Salaries	\$ 612,084	\$ 95,869	\$ 29,498	\$ 737,451	\$ 639,470
Payroll taxes	50,511	7,911	2,435	60,857	56,310
Benefits	61,977	9,707	2,987	74,671	63,202
Other	2,082	326	100	2,508	2,557
Total salaries and related expenses	726,654	113,813	35,020	875,487	761,539
Occupancy expenses					
Rent, parking and other	5,447	853	263	6,563	5,986
Cleaning and shredding	3,537	554	171	4,262	4,506
Utilities and security	4,255	666	205	5,126	4,742
Repairs and maintenance	4,252	666	205	5,123	2,185
Telephone and internet	4,529	709	219	5,457	6,729
Condo fees and real estate taxes	15,016	2,352	724	18,092	18,164
Travel and meetings					
Travel	12,349	1,934	595	14,878	13,281
Conference fees	3,021	473	146	3,640	3,340
Meetings and other	7,321	1,147	352	8,820	9,568
Office expenses					
Bank charges and SBA CA fees	9,958	1,560	480	11,998	7,222
Copier, computer and printing supplies	10,466	1,639	505	12,610	13,748
Dues and subscriptions	10,322	1,617	497	12,436	19,469
Insurance	9,364	1,467	451	11,282	11,515
IT and database management, website	13,772	2,157	664	16,593	18,768
Marketing	20,856	3,267	1,005	25,128	25,609
Office supplies and equipment	14,730	2,307	710	17,747	9,556
Licenses, fees and taxes	882	138	43	1,063	1,137
Postage and delivery	1,285	201	62	1,548	2,434
Cell phone	2,645	414	128	3,187	3,537
Professional fees					
Accounting and audit	8,051	1,261	388	9,700	9,500
Legal	7,290	1,142	351	8,783	5,141
Business coaches	195,137	-	-	195,137	153,278
Scale-up Program contractors	4,120	-	-	4,120	47,822
Program expenses - Scale-up specialists and other	22,565	-	-	22,565	44,749
Loan loss expense, net of recoveries	446,432	-	-	446,432	305,950
Other operating expenses	7,478	1,887	-	9,365	15,369
Total expenses before interest and depreciation	1,571,734	142,224	43,184	1,757,142	1,524,844
Interest expense	54,492	80,050	-	134,542	97,686
Depreciation	-	31,139	-	31,139	36,092
Total expenses	<u>\$ 1,626,226</u>	<u>\$ 253,413</u>	<u>\$ 43,184</u>	<u>\$ 1,922,823</u>	<u>\$ 1,658,622</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, 2018
(with comparative totals for 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,252,715	\$ 1,289,113
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities		
Depreciation	31,139	36,092
Provision for loan losses	293,374	262,518
Changes in operating assets and liabilities		
Interest receivable	(27,691)	(2,798)
Loans receivable	(3,185,286)	(2,481,653)
Grants receivable	(110,519)	20,696
Other receivables	(1,360)	(17,633)
Prepaid expenses	3,886	(675)
Accounts payable	(1,837)	10,772
Payroll liabilities	3,546	7,038
Other current liabilities	819	(20,942)
Net cash (used) by operating activities	(1,741,214)	(897,472)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from equity equivalent	400,000	-
Proceeds from notes payable and mortgage	3,099,535	2,954,500
Repayment of notes and mortgages payable	(1,585,744)	(503,183)
Net cash provided by financing activities	1,913,791	2,451,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from note receivable	7,612	7,463
Net cash provided by investing activities	7,612	7,463
NET INCREASE IN CASH AND CASH EQUIVALENTS	180,189	1,561,308
CASH AND CASH EQUIVALENTS, beginning of year	3,395,390	1,834,082
CASH AND CASH EQUIVALENTS, end of year	\$ 3,575,579	\$ 3,395,390
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 134,542	\$ 97,686

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, 2018

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.

Net Assets

MBC has adopted ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities, as it relates to net asset classification and liquidity disclosure. This requires MBC to report donor contributions as unrestricted support or restricted support, in accordance with donor stipulations.

Net assets without donor restrictions 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. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Net assets with donor restrictions are those net assets whose use has been limited by donors to specified purposes or to later periods of time.

A summary of the net assets reclassification in accordance with ASU 2016-14 is as follows:

As originally stated:

Unrestricted Net Assets, beginning of year	\$ 1,861,749
Temporarily Restricted Net Assets, beginning of year	1,253,477
	<u>\$ 3,115,226</u>

MOUNTAIN BIZCAPITAL, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

As restated:

Net Assets Without Donor Restrictions, beginning of year	\$ 1,861,749
Net Assets With Donor Restrictions, beginning of year	<u>1,253,477</u>
	<u><u>\$ 3,115,226</u></u>

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, 2018 and 2017, 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, 2018 and 2017, loan loss reserves totaled \$634,981 and \$504,548, 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, 2018. 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.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Depreciation is computed using the straight-line method based on the estimated useful life of each class of depreciable assets, 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, 2018 and 2017, the amount charged to expense was \$25,128 and \$25,609, 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

**MOUNTAIN BIZCAPITAL, INC.
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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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.

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, 2017, from which the summarized information was derived.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF FUNDS

MBC's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

	2018
Cash - operations	\$ 601,586
Loans and interest receivable	2,166,205
Grants and other receivables	303,564
Total financial assets as of year end	3,071,355
Total financial assets available to meet general expenditures within the next 12 months	\$ 3,071,355

As part of MBC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, MBC invests cash in excess of daily requirements in short-term investments.

NOTE 3 – RESTRICTIONS ON ASSETS

Net assets with donor restrictions are available for the following purposes:

December 31,	2018	2017
Future general operations	\$ 217,852	\$ 74,583
EDA loan program	142,915	175,198
SBA loan program	634,284	711,741
USDA loan programs	653,865	291,955
Net assets with donor restrictions	\$ 1,648,916	\$ 1,253,477

NOTE 4 – FUNDS HELD FOR LENDING

MBC had cash available for lending in the following loan pools as of December 31, 2018 and 2017:

Funding Sources	2018	2017
USDA Intermediary Relending Program	\$ 116,665	\$ 202,180
USDA Rural Microentrepreneur Assistance Program	252,108	55,200
USDA SMDC	26,390	41,324
SBA Microloan Program	664,735	575,617
MBC Equity Loan Pool	946,291	1,161,362
Advantage Opportunity Program	102,199	144,641
Economic Development Administration	142,915	175,198
Total Cash Held for Lending and Cash Reserves	\$ 2,251,303	\$ 2,355,522

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

In addition, MBC had cash reserved for loan loss in the following loan pools as of December 31, 2018 and 2017:

<u>Funding Sources</u>	<u>2018</u>	<u>2017</u>
USDA - IRP	\$ 125,565	\$ 87,502
USDA - RMAP	49,500	45,000
SBA Microloan	459,916	372,046
	<u>\$ 634,981</u>	<u>\$ 504,548</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, 2018 and 2017, undisbursed cash relating to undrawn loans totaled \$491,627 and \$255,583, respectively.

NOTE 5 – LOANS RECEIVABLE

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

<u>December 31, 2018</u>	<u>Loans Receivable</u>	<u>Allowance for Loan Losses</u>	<u>Net Receivable</u>
USDA Intermediary Relending Program	\$ 2,107,848	\$ 162,671	\$ 1,945,177
USDA Rural Microentrepreneur Assistance Program	961,892	154,375	807,517
USDA SMDC	27,365	2,737	24,628
SBA Microloan Program	3,470,033	335,249	3,134,784
Economic Development Administration	1,421,885	29,640	1,392,245
MBC Equity and Private Lenders	2,343,639	304,713	2,038,926
Advantage Opportunity Funds	390,231	133,036	257,195
	<u>10,722,893</u>	<u>1,122,421</u>	<u>9,600,472</u>
Less, current portion	<u>2,325,596</u>	<u>243,432</u>	<u>2,082,164</u>
Loans receivable, net of current portion	<u>\$ 8,397,297</u>	<u>\$ 878,989</u>	<u>\$ 7,518,308</u>

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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>

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

	2018	2017
Balance - allowance for loan losses, beginning of year	\$ 829,047	\$ 566,529
Loan loss expense	446,432	305,949
Write-offs - current year	(153,058)	(43,431)
Write-offs - prior years	(168,568)	(5,105)
Recoveries	168,568	5,105
Balance - allowance for loan losses, end of year	<u>\$ 1,122,421</u>	<u>\$ 829,047</u>

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 \$4,212,426 at December 31, 2018, 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 \$32,230 (100% sold and unsold loans) at December 31, 2018.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

The total of CA-guaranteed portion loans sold as of December 31, 2018 was \$1,776,533. In 2018, CA-guaranteed portion loans of \$420,240 were sold at a premium of \$39,296 in the secondary market during the year ended December 31, 2018. The Corporation is required to fund reserves of at least 3% of the guarantee on loans sold which approximates \$53,296. Mountain BizCapital, Inc. held \$87,710 in a loan loss account at First Bank at December 31, 2018, 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. Additional RLF funds of \$418,450 were received in 2018, which were matched with \$418,450 local funds. As of December 31, 2018, MBC has used the grant and match of \$1.5m in total, collected principal of \$180,060 against these loans, and expended \$76,787 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, 2018 and 2017, is as follows:

	2018	2017
Restricted cash - EDA lending	\$ 142,915	\$ 175,198
Loans receivable	1,421,885	511,729
Interest receivable	9,714	287
Loan loss reserves	<u>(29,640)</u>	<u>(12,792)</u>
Total assets	1,544,874	674,422
Liabilities - matching funds due to MBC	<u>(750,000)</u>	<u>(335,550)</u>
Net assets	<u><u>\$ 794,874</u></u>	<u><u>\$ 338,872</u></u>

A summary of the profit and loss related to the EDA-RLF loan funds cumulative through December 31, 2018 is as follows:

Revenues - EDA funding	\$ 750,000
Interest earned on loans	121,566
Interest earned on deposits	164
Fees earned on closed loans	29,839
Administrative expenses	(76,787)
Provision for loan loss reserve	<u>(29,908)</u>
	<u><u>\$ 794,874</u></u>

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 \$23,768 and \$31,380 at December 31, 2018 and 2017, respectively.

NOTE 7 – PROPERTY AND EQUIPMENT

A description of property and equipment is as follows:

December 31,	2018	2017
Buildings and improvements	\$ 1,154,529	\$ 1,154,529
Equipment and software	135,275	160,594
Vehicles	17,060	17,060
	1,306,864	1,332,183
Less, accumulated depreciation	(505,755)	(499,935)
Property and equipment	\$ 801,109	\$ 832,248

Depreciation expense for the years ended December 31, 2018 and 2017 was \$31,139 and \$36,092, respectively.

NOTE 8 – EQUITY EQUIVALENT

Equity note consists of the following:

	2018	2017
In September 2011, MBC issued an equity equivalent ownership to the U. S. Treasury, under the Treasury's Small Business Lending Fund program, and received the principal sum of \$197,000. Interest at 2% per annum is paid quarterly. Principal Due September, 2019.	\$ 197,000	\$ 197,000
In August, 2018, MBC issued an equity equivalent ownership to Capital Bank, a division of First Tennessee Bank, and received the principal sum of \$400,000. Interest at 3% per annum is paid quarterly, beginning September, 2018, with the entire principal due August, 2023.	400,000	-
	\$ 597,000	\$ 197,000

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

The equity equivalent 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 does not have the right to accelerate payment unless MBC ceases its operation.

NOTE 9 – NOTES PAYABLE

Notes payable are described as follows:

	2018	2017
<p>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. For the first three years, interest only payments are required followed by 27 yearly payments of principal and interest of \$10,613.</p>	\$ 165,108	\$ 173,981
<p>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. For the first three years, interest only payments are required followed by 27 yearly payments of principal and interest of \$21,225.</p>	359,546	377,001
<p>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. 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.</p>	748,214	276,500
<p>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. For the first three years, interest only payments are required followed by 23 yearly payments of principal and interest of \$22,281.</p>	438,000	438,000
<p>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. For the first two years, interest only payments are required followed by 216 monthly principal and interest payments of \$2,841.</p>	361,085	387,695

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

	2018	2017
<p>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 date August 2016, is secured by MBC's RMAP's revolving loan fund, including loans receivable derived from the note. Interest only payments are required until August 2018, followed by 216 equal payments of principal and interest of \$2,571.</p>	\$ 496,734	\$ 504,547
<p>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 November 2018, is secured by MBC's RMAP's revolving fund, including loans receivable derived from the note. Total amount available for draw under the loan agreement is \$500,000. For the first two years, interest only payments are required followed by monthly principal and interest payments, calculated on a 20 year amortization, with remaining principal and interest due November 2038.</p>	125,000	-
<p>Note payable to U.S. Small Business Administration Interest at 0% for the first year, 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 rate after twelve months may be increased to 0.75% based on size of microloans.</p>	1,159,954	1,250,000
<p>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.</p>	77,807	180,894
<p>Note payable to U.S. Small Business Administration, interest at 0% 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.</p>	156,241	193,739

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

	2018	2017
<p>Note payable to U.S. Small Business Administration, interest at 0% 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.</p>	\$ 555,788	\$ 671,828
<p>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. For the first year, no payments are required followed by 108 equal monthly installments of \$11,796.</p>	929,737	1,067,238
<p>Note payable to U.S. Small Business Administration, with a 10 year term. The note is dated May, 2018, and is secured by loans receivable derived from the note. Total amount available for draw under the loan agreement is \$1,250,000. No payments of principal or interest are due during the first 12 months, however, interest accrues at 0.63% the first year and up to 1.37% for the remainder of the term, based on size of microloans extended by MBC. Monthly payments of \$12,504, including principal and interest are due beginning June 2019 through June 2028, when the balance of all unpaid principal and interest is due.</p>	833,333	-
<p>Various notes payable to individuals under MBC's Investment Note Program. These notes range from \$500 to \$110,000, bearing interest from 0% to 3%, and are due in one to seven years from the date of the note.</p>	1,048,101	1,040,124
<p>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.</p>	250,000	250,000
<p>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.</p>	250,000	250,000
<p>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.</p>	100,000	100,000

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

	2018	2017
Note payable to Appalachian Community Capital, bearing interest at 3.35% per annum. The note is dated October 2018, and is unsecured. Interest only payments are required monthly with a balloon principal payment due October 2022.	\$ 250,000	\$ -
Note payable to Wells Fargo Investment Holdings, LLC, dated May 23, 2018, bearing interest at 2%, with a 12 year term. Interest only is paid quarterly beginning June 2018 to March 2028, followed by 8 quarterly principal payments of \$50,000, plus interest. Any remaining unpaid principal and interest is due May, 2030.	400,000	-
	8,704,648	\$ 7,161,547
Less, current maturities	(991,788)	
Notes payable, net of current maturities	\$ 7,712,860	

Scheduled principal repayments for the next five years on notes payable at December 31, 2018, are as follows:

December 31,	
2019	\$ 991,788
2020	981,720
2021	889,565
2022	1,531,923
2023	887,989
Thereafter	3,421,663
Totals	\$ 8,704,648

NOTE 10 – MORTGAGES PAYABLE

Mortgages payable are described as follows:

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

	2018	2017
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
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
In May 2018, MBC refinanced the 2 mortgage payable notes with a 15 year mortgage note to First Bank. The note carries interest at 5.2%, and is payable in monthly installments of \$5,751, including principal and interest, until May 2033, at which date the note will be paid off. The note is secured by a building.	695,756	-
	695,756	\$ 725,066
Less, current maturities	(33,119)	
Mortgages payable, net of current maturities	\$ 662,637	

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

December 31,	
2019	\$ 33,119
2020	34,908
2021	36,794
2022	38,781
2023	40,876
Thereafter	511,278
Totals	\$ 695,756

NOTE 11 - LEASE COMMITMENTS

MBC has entered into an operating lease for a copier. Required monthly payments are \$1,028 plus tax, with the lease term ending in August 2021.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, 2018 and 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 \$19,600 and \$16,724 to the program for years ended December 31, 2018 and 2017, 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 \$1,900,295 at December 31, 2018.

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.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

In January 2019, MBC received a loan from Wood Forest National Bank in the amount of \$250,000. The note is unsecured. For the first two years, interest only payments are required to be paid monthly; followed by 10 quarterly payments of principal and interest totaling \$13,610, beginning March 2021. A balloon payment of the remainder principal and interest is due June 2023.

MBC has been approved to receive an additional \$1,250,000 in loan capital by the Small Business Administration as long as the latest SBA loan has been fully expended and being over 75% deployed as micro-borrowers.

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.

COMPLIANCE SECTION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

<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>
Grants Expended:			
<u>U.S. Department of Commerce</u>			
Direct:			
Economic Development Cluster			
* EDA Economic Adjustment Assistance RLF Program	11.307	N/A	\$ 820,484
<u>U.S. Small Business Administration</u>			
Direct:			
Microloan Program - Technical Assistance Grant	59.046	N/A	444,200
Prime Technical Assistance	59.050	N/A	83,472
Total U.S. Small Business Administration			527,672
<u>U.S. Department of Agriculture</u>			
Direct:			
Rural Microentrepreneur Assistance Program - Assistance Grant	10.870	N/A	48,712
Passed through Appalachian Sustainable Agriculture Project: Cooperative Extension Service	10.500	2015-49200-24228	7,605
Farm Operating Loans	10.406	FA-NC-7-018	3,454
Total U.S. Department of Agriculture			59,771
<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	76,861
<u>U.S. Department of the Treasury</u>			
Direct:			
Community Development Financial Institutions Cluster CDFI Program	21.020	N/A	236,299
<u>Appalachian Regional Commission</u>			
Direct:			
Appalachian Area Development - Filling the Gaps	23.002	N/A	65,668
Appalachian Area Development - Growing Outdoors (POWER)	23.002	N/A	25,456
Total Appalachian Regional Commission			91,124
Total Grants Expended			1,812,211

*See accompanying notes to schedule for calculation.

(continued)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

<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>
Federal Loans:			
<u>U.S. Small Business Administration</u>			
Microloan Program:			
2016 Microloan, beginning	59.046		\$ 1,067,238
2017 Microloan, beginning	59.046		1,250,000
2018 Microloan, current year draws	59.046		833,333
			<u>3,150,571</u>
<u>U.S. Department of Agriculture</u>			
Intermediary Relending Program (IRP):			
2015 Loan, beginning	10.767		438,000
2017 Loan, beginning	10.767		276,500
2017 Loan, current year draws	10.767		473,500
			<u>1,188,000</u>
Rural Microentrepreneur Assistance Program (RMAP):			
2016 Loan, beginning	10.870		500,000
2018 Loan, current year draws	10.870		125,000
			<u>625,000</u>
Total Federal Loans			<u>4,963,571</u>
Total Federal Awards Expended and Loans			<u>\$ 6,775,782</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, 2018

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, 2018. The information in this Schedule is presented on the 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, 2018. 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, 2018
EDA Revolving Loan Fund	11.307	\$ 1,421,885

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	\$ 1,421,885
Cash Balances in the RLF	142,915
Administrative Expenses Paid from RLF Income	66,186
Unpaid Principal of all Loans Written Off	9,981
	1,640,967
Federal Share of the RLF	50%
Total Federal Expenditures	\$ 820,484

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

NOTE 5 – OTHER FEDERAL LOANS OUTSTANDING

Other federal loan balances outstanding as of December 31, 2018 are as follows:

<u>Loan Program</u>	
U.S. Small Business Administration	
Microloan program	<u>\$ 2,923,025</u>
U.S. Department of Agriculture	
Intermediary Relending Program (IRP)	
Small Business Loans	<u>\$ 1,186,214</u>
U.S. Department of Agriculture	
Rural Microentrepreneur Assistance	
Program (RMAP)	<u>\$ 614,851</u>

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

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

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes 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 No

Identification of Major Federal Programs:

<u>CFDA #</u>	<u>Program Title</u>
59.046	SBA Microloan 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? 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, 2018**

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, 2018

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, 2018, 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 18, 2019.

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 18, 2019

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 18, 2019

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, 2018. 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 18, 2019

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, 2018.

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 18, 2019