

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2022

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

OFFICERS

Sophia Paulos
Tim Herdklotz
Leah Mayberry
Rebecca Crandall
Zane Adams

Chair
Vice-Chair
Treasurer
Secretary
Second Vice-Chair

BOARD OF DIRECTORS

Adriana Chavela
Tim Herdklotz
Duane Adams
Leah Mayberry
Zane Adams
Rebecca Crandall

Sophia Paulos
Tim Schaller
Paula Swepson
Brandon Wallace
Terry Young
Audrey Whetten Godfrey

EXECUTIVE DIRECTOR

Matt Raker

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

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-3
FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENT OF ACTIVITIES	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENT OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8-25
COMPLIANCE SECTION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	26-27
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	28-29
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	30-31
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	32
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 <i>GOVERNMENT AUDITING STANDARDS</i>	33-34
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	35-37



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate, (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate as of December 31, 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
and Affiliate
April 5, 2023

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations 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

To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
and Affiliate
April 5, 2023

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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2023, on our consideration of Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate'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. d/b/a Mountain BizWorks and Affiliate'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. d/b/a Mountain BizWorks and Affiliate's internal control over financial reporting and compliance.

Phillips CPAs and Advisers

Greenville, South Carolina
April 5, 2023

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(with comparative totals for 2021)**

ASSETS	2022	2021
Current Assets		
Cash and cash equivalents	\$ 10,638,219	\$ 11,177,667
Cash and cash equivalents - restricted	3,291,247	2,846,902
Interest receivable	99,405	91,878
Loans receivable, net of allowance, current portion	2,648,250	1,940,951
Grants receivable	492,794	659,654
Other receivables	281,627	75,525
Prepaid expenses	-	46,674
Property available for sale	18,426	18,426
Total current assets	<u>17,469,968</u>	<u>16,857,677</u>
Other Assets		
Property and equipment, net of accumulated depreciation	686,486	715,142
Loans receivable, net of allowance, net of current portion	11,846,701	8,179,147
Total other assets	<u>12,533,187</u>	<u>8,894,289</u>
Total assets	<u><u>\$ 30,003,155</u></u>	<u><u>\$ 25,751,966</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 293,467	\$ 154,443
Notes payable, current maturities	1,228,495	2,309,048
Mortgages payable, current maturities	46,497	45,044
Payroll liabilities	22,385	22,520
Payable to emergency funds	522,625	2,469,529
Payable to other funds	311,067	297,328
Deferred revenue	1,142,568	1,639,937
Other current liabilities	1,109,346	6,253
Total current liabilities	<u>4,676,450</u>	<u>6,944,102</u>
Long-term liabilities		
Notes payable, net of current portion	8,993,688	6,180,120
Other long-term liabilities	1,000,000	-
Mortgages payable, net of current portion	499,659	545,833
Total long-term liabilities	<u>10,493,347</u>	<u>6,725,953</u>
Total liabilities	<u>15,169,797</u>	<u>13,670,055</u>
EQUITY EQUIVALENT	<u>1,150,000</u>	<u>400,000</u>
NET ASSETS		
Without donor restrictions	9,438,476	7,582,762
With donor restrictions	4,244,882	4,099,149
Total net assets	<u>13,683,358</u>	<u>11,681,911</u>
Total liabilities, equity equivalent, and net assets	<u><u>\$ 30,003,155</u></u>	<u><u>\$ 25,751,966</u></u>

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

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

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022
(with comparative totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
REVENUE AND SUPPORT				
Federal grants	\$ 2,669,193	\$ 154,670	\$ 2,823,863	\$ 3,810,728
State, local, and federal pass-through grants	251,430	-	251,430	168,161
Foundation and private grants	202,026	680,470	882,496	489,386
Contributions	11,307	-	11,307	22,740
Program and service fees	645,130	-	645,130	1,597,027
Interest income	1,510,473	-	1,510,473	1,119,295
Other income	-	-	-	12,820
Net assets released from restriction	689,407	(689,407)	-	-
Total revenue and support	<u>5,978,966</u>	<u>145,733</u>	<u>6,124,699</u>	<u>7,220,157</u>
EXPENSES				
Program services	3,561,318	-	3,561,318	2,229,017
Management and general	462,027	-	462,027	381,750
Fundraising	99,907	-	99,907	76,499
Total expenses	<u>4,123,252</u>	<u>-</u>	<u>4,123,252</u>	<u>2,687,266</u>
INCREASE IN NET ASSETS	1,855,714	145,733	2,001,447	4,532,891
NET ASSETS, BEGINNING OF YEAR	<u>7,582,762</u>	<u>4,099,149</u>	<u>11,681,911</u>	<u>7,149,020</u>
NET ASSETS, END OF YEAR	<u>\$ 9,438,476</u>	<u>\$ 4,244,882</u>	<u>\$ 13,683,358</u>	<u>\$ 11,681,911</u>

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

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022
(with comparative totals for 2021)

	Program	Management and General	Fundraising	Total	
				2022	2021
Salaries	\$ 1,476,596	\$ 231,274	\$ 71,161	\$ 1,779,031	\$ 1,352,563
Payroll taxes	\$ 114,763	\$ 17,975	\$ 5,531	138,269	104,577
Benefits	\$ 155,681	\$ 24,384	\$ 7,503	187,567	135,294
Total salaries and related expenses	1,747,040	273,633	84,195	2,104,867	1,592,434
Occupancy expenses					
Rent, parking and other	5,777	905	278	6,960	16,860
Cleaning and shredding	3,354	525	162	4,041	3,479
Utilities and security	3,572	560	172	4,304	4,258
Repairs and maintenance	4,014	629	193	4,836	4,570
Telephone and internet	8,551	1,339	412	10,303	9,654
Condo fees and real estate taxes	16,902	2,647	815	20,364	19,249
Travel and meetings					
Travel	26,627	4,171	1,283	32,081	2,791
Conference fees	6,218	974	300	7,491	484
Meetings and other	30,179	4,727	1,454	36,360	8,716
Office expenses					
Bank charges	14,230	2,229	686	17,145	12,901
Copier, computer and printing supplies	6,110	957	294	7,362	8,023
Dues and subscriptions	12,056	1,888	581	14,525	30,427
Insurance	17,393	2,724	838	20,956	19,639
IT and database management, website	47,066	7,372	2,268	56,706	51,092
Marketing	53,719	8,414	2,589	64,722	57,352
Office supplies and equipment	30,231	4,735	1,457	36,423	31,385
Licenses, fees and taxes	8,356	1,309	403	10,068	1,598
Postage and delivery	1,023	160	49	1,232	1,290
Cell phone	2,561	401	123	3,085	3,676
Professional fees					
HR/Equity	7,300	1,143	352	8,795	14,400
Accounting and audit	13,322	2,087	642	16,051	18,533
Legal	7,468	1,170	360	8,997	4,652
Coaches, trainees and contractors	867,218	-	-	867,218	528,057
Other program expense	3,224	-	-	3,224	8,258
Loan loss expense, net of recoveries	440,426	-	-	440,426	(77,239)
Other operating expenses	104,931	-	-	104,931	107,946
Total expenses before interest and depreciation	3,488,868	324,698	99,907	3,913,473	2,484,485
Interest expense	72,449	108,674	-	181,123	174,125
Depreciation	-	28,656	-	28,656	28,656
Total expenses	<u>\$ 3,561,318</u>	<u>\$ 462,027</u>	<u>\$ 99,907</u>	<u>4,123,252</u>	<u>\$ 2,687,266</u>

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022
(with comparative totals for 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,001,447	\$ 4,532,891
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities		
Depreciation	28,656	28,656
Provision for loan losses	(290,767)	(157,559)
Changes in operating assets and liabilities		
Interest receivable	(7,527)	(15,601)
Loans receivable, net	(4,084,086)	(957,211)
Grants receivable	166,860	(243,103)
Other receivables	(206,102)	(3,674)
Prepaid expenses	46,674	(46,674)
Accounts payable	139,024	154,443
Payroll liabilities	(714)	9,094
Other current liabilities	1,079,343	(56,659)
Deferred revenue	(497,369)	1,639,937
Net cash provided (used) by operating activities	(1,624,561)	4,884,540
CASH FLOWS FROM FINANCING ACTIVITIES		
Payable to emergency funds	(1,946,349)	960,064
Payable to other funds	13,259	297,328
Proceeds from notes payable and mortgages payable	6,465,033	418,568
Repayment of notes and mortgages payable	(3,002,485)	(926,523)
Net cash provided by financing activities	1,529,458	749,437
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from note receivable	-	8,081
Net cash provided by investing activities	-	8,081
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(95,103)	5,642,058
CASH AND CASH EQUIVALENTS, beginning of year	14,024,569	8,382,511
CASH AND CASH EQUIVALENTS, end of year	\$ 13,929,466	\$ 14,024,569
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO FINANCIAL POSITION		
Cash and cash equivalents	\$ 10,638,219	\$ 11,177,667
Cash and cash equivalents, restricted	3,291,247	2,846,902
Total cash and cash equivalents	\$ 13,929,466	\$ 14,024,569
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 181,123	\$ 174,125

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate (“MBC”) was established in 2002 as a not-for-profit 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 consolidated financial statements of MBC have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the MBW Marketplace LLC (the “Affiliate”), an affiliated corporation established to support successful Western North Carolina small business ownership transitions of MBW. All intercompany transactions and balances have been eliminated in the consolidated financial statements.

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 with or without restriction, 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 without restricted 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.

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 cash loan loss reserves for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, cash loan loss reserves totaled \$953,449 and \$849,131, 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 4% to 10%. 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, 2022. 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 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 without donor restricted 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 with donor restricted net assets, depending on the nature of the restrictions. When a restriction expires, with donor restricted net assets are reclassified to without donor restricted 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, 2022 and 2021, the amount charged to expense was \$43,465 and \$56,847, 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 consolidated 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 consolidated 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. MBC 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 consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Prior Period Information

The consolidated 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 consolidated financial statements for the year ended December 31, 2021, 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:

	<u>2022</u>
Cash - operations	\$ 2,694,083
Current portion of loans and interest receivable	2,648,250
Cash - unrestricted	3,149,166
Grants and other receivables	<u>774,421</u>
Total financial assets as of year end	<u>9,265,920</u>
Total financial assets available to meet general expenditures within the next 12 months	<u><u>\$ 9,265,920</u></u>

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. To help manage unanticipated liquidity needs, MBC has a committed line of credit in the amount of \$500,000, which it could draw upon.

NOTE 3 – RESTRICTIONS ON ASSETS

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

<u>December 31,</u>	<u>2022</u>	<u>2021</u>
Future general operations	\$ 176,334	\$ 246,944
EDA loan program	602,800	671,596
SBA loan program	1,938,918	1,687,801
USDA loan programs	<u>1,526,830</u>	<u>1,492,808</u>
Net assets with donor restrictions	<u><u>\$ 4,244,882</u></u>	<u><u>\$ 4,099,149</u></u>

NOTE 4 – FUNDS HELD FOR LENDING

MBC had cash available for lending in the following loan pools as of December 31, 2022 and 2021:

<u>Funding Sources</u>	<u>2022</u>	<u>2021</u>
USDA Intermediary Relending Program	\$ 581,693	\$ 920,425
USDA Rural Microentrepreneur Assistance Program	942,998	821,113
USDA SMDC	42,520	26,799
SBA Microloan Program	1,381,997	1,094,081
MBC Equity Loan Pool	3,149,166	3,449,812
Advantage Opportunity Program	23,604	153,312
Economic Development Administration	602,801	671,596
All in Jackson Fund	311,883	297,394
COVID-19 Loan Fund	1,829,364	997,983
Catalyst Loan Fund	70,918	100,828
FTA/CA Guidehouse	-	24,529
PPP loan repayment program	-	1,551,525
Total Cash Held for Lending and Cash Reserves	<u>\$ 8,936,944</u>	<u>\$ 10,109,397</u>

In addition, MBC had cash reserved for loan loss in the following loan pools as of December 31, 2022 and 2021:

<u>Funding Sources</u>	<u>2022</u>	<u>2021</u>
USDA - IRP	\$ 152,525	\$ 138,327
USDA - RMAP	49,631	49,631
SBA Microloan	649,294	559,173
CA 7a Program	101,999	101,999
	<u>\$ 953,449</u>	<u>\$ 849,130</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, 2022 and 2021, undisbursed cash relating to undrawn loans totaled \$393,431 and \$382,555, respectively.

NOTE 5 – LOANS RECEIVABLE

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

December 31, 2022	Loans Receivable	Allowance for Loan Losses	Net Receivable
USDA Intermediary Relending Program	\$ 1,918,712	\$ 213,352	\$ 1,705,360
USDA Rural Microentrepreneur Assistance Program	321,326	45,578	275,748
USDA SMDC	23,404	3,511	19,893
SBA Microloan Program	2,746,921	310,027	2,436,894
Economic Development Administration	3,038,293	301,769	2,736,524
MBC Equity and Private Lenders	7,974,528	858,388	7,116,140
Catalyst Credit Builder Loans	41,192	-	41,192
Advantage Opportunity Funds	181,333	18,133	163,200
	16,245,709	1,750,758	14,494,951
Less, current portion	2,968,160	319,910	2,648,250
Loans receivable, net of current portion	<u>\$ 13,277,549</u>	<u>\$ 1,430,848</u>	<u>\$ 11,846,701</u>

December 31, 2021	Loans Receivable	Allowance for Loan Losses	Net Receivable
USDA Intermediary Relending Program	\$ 1,667,155	\$ 217,121	\$ 1,450,034
USDA Rural Microentrepreneur Assistance Program	473,012	82,750	390,262
USDA SMDC	36,342	5,451	30,891
SBA Microloan Program	2,708,957	348,769	2,360,188
Economic Development Administration	2,718,384	267,810	2,450,574
MBC Equity and Private Lenders	3,928,497	530,122	3,398,375
Advantage Opportunity Funds	47,741	7,967	39,774
	11,580,088	1,459,990	10,120,098
Less, current portion	2,220,965	280,014	1,940,951
Loans receivable, net of current portion	<u>\$ 9,359,123</u>	<u>\$ 1,179,976</u>	<u>\$ 8,179,147</u>

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

	2022	2021
Balance - allowance for loan losses, beginning of year	\$ 1,459,990	\$ 1,617,549
Loan loss expense	440,425	(77,239)
Write-offs - current year	(208,868)	(135,930)
Recoveries	59,210	55,610
Balance - allowance for loan losses, end of year	<u>\$ 1,750,757</u>	<u>\$ 1,459,990</u>

Guaranteed Loan Program

Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate 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 for working capital and up to 25 years for fixed asset purchases 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

\$150,000 or less and guarantees up to 75% for loans above \$150,000 to a maximum amount of \$350,000.

In 2020, MBC participated in the Community Advantage Recovery loans (CARL) program. In response to the Coronavirus Disease 2019 (COVID-19) pandemic, SBA developed a new, temporary CA loan product titled "Community Advantage Recovery Loans" (CA Recovery Loans) for eligible CA Lenders to provide technical and financial assistance to assist small businesses located in underserved areas with retooling their business models for the COVID-19 environment and building financial resiliency against potential future disruptions. MBC generated 8 loans totaling \$1,195,000 under the program which are included in the loan's receivable information (detailed below). These loans are guaranteed up to 90%.

In 2021, from February until September 30, the Economic Aid Act had extended the debt relief program established under the CARES Act and provided guarantees up to 90%. During this time period MBC generated 7 such loans totaling \$903,500 whose receivables are included below.

MBC loans receivable of \$6,257,625 as of December 31, 2022 are guaranteed (up to 90% see above) by the CA program. In addition, MBC has loans receivable of \$117,410 representing the unguaranteed portion of the loans sold to the secondary market. The CA program requires MBC to fund reserves of at least 5% of the outstanding amount of the unguaranteed portion of the unsold CA loan portfolio which approximates a reserve requirement of \$54,540 at December 31, 2022.

In 2019, CA-guaranteed portion loans of \$625,886 were sold at a premium of \$61,777 in the secondary market. The total of CA-guaranteed portion loans sold as of December 31, 2019 was \$2,020,512. In 2021 and 2022 no loans were sold. The balance of the guarantee portion sold is \$665,261 as of December 31, 2022. MBC is required to fund reserves of up to 3% of the guarantee on loans sold which approximates \$19,957.

Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate held \$102,000 in a loan loss account at First Bank as of December 31, 2022, satisfying all reserve requirements for unsold and sold loans.

During 2022, MBC submitted a total of 5 requests for the SBA to purchase the guaranteed portions. The total amount of these requests is: \$269,845 of which \$213,494 were sold loans. As of December 31, 2022, MBC has received \$247,980 against these requests.

Economic Development Administration (EDA) Loan Programs

During 2018, MBC received \$331,550 in Revolving Loan Fund (RLF) funds from the U.S. Department of Commerce, Economic Development Administration (EDA), which were matched with \$331,550 local funds for program lending activities and administration. Additional RLF funds of \$418,450 were received in 2019, which were matched with \$418,450 local funds. As of December 31, 2019, MBC has used the grant and match of \$1.5M in total. Since the inception of the program, MBC has expended \$144,275 for administrative costs related to the management of the RLF at December 31, 2022.

A summary of the assets and liabilities related to the EDA-RLF loan funds as of December 31, 2022 is as follows:

Total EDA Award: \$1,000,000

2022

Restricted Cash	\$ 354,316	Revenues - EDA Fundings	\$ 750,000
Loans Receivable	1,649,301	Interest Earned on Loans	606,661
Interest Receivable	9,382	Interest Earned on Deposits	388
Loan Loss Reserves	<u>(155,837)</u>	Fees Earned on Closed Loans	51,815
Total Assets	1,857,162	Administrative Expenses	(152,276)
Liabilities - Matching Funds	<u>(750,000)</u>	Provision for Loan Loss Reserves	<u>(149,427)</u>
Net Assets	<u>\$ 1,107,162</u>	Net	<u>\$ 1,107,162</u>

In August 2020, MBC received \$1,640,000 in a Coronavirus Aid, Relief, and Economic Security (CARES) Act Revolving Loan Fund (RLF) from the U.S. Department of Commerce, Economic Development Administration (EDA). This CARES Act RLF was accompanied by a \$160,000 administrative grant. The CARES Act RLF funding is specifically aimed to prevent, prepare for, and respond to COVID-19, including responding to the economic injury as a result of the coronavirus. As of December 31, 2022, the Cares Act RLF has a loan receivable balance of \$1,649,301, and has utilized the \$160,000 from the administrative grant.

A summary of the assets and liabilities related to the EDA CARES Act RLF loan funds at December 31, 2022 is as follows:

Total EDA Award: \$ 1,640,000

2022

Restricted Cash	\$ 248,485	Revenues - EDA Fundings	\$ 1,420,330
Loans Receivable	1,388,992	Interest Earned on Loans	66,123
Interest Receivable	4,074	Interest Earned on Deposits	35
Loan Loss Reserves	<u>(145,933)</u>	Other RLF Income	22,494
Total Assets	1,495,618	Fees Earned on Closed Loans	35,764
Liabilities - Matching Funds	<u>-</u>	Administrative Expenses	(31,378)
Net Assets	<u>\$ 1,495,618</u>	Provision for Loan Loss Reserves	<u>(17,750)</u>
		Net	<u>\$ 1,495,618</u>

NOTE 6 – COVID-19 EMERGENCY LOAN AND GRANT PROGRAMS

From its onset in early 2020, the global COVID-19 pandemic has posed acute and unprecedented challenges to local small businesses. In response to this crisis, Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate proactively sought to leverage its capabilities to provide needed emergency funding and technical support resources to existing borrowers as well as other at-risk small businesses and nonprofits across MBC's service area.

In 2021, the Organization deployed \$18,493,102 in emergency loans and grants. In 2022, MBC administered an additional \$18,493,102 in targeted relief loans and grants as COVID-19 continued to spread and cause acute

impacts for WNC small businesses. The major relief programs administered are described below. Each program was managed as a discrete funding facility.

- SBA Paycheck Protection Program (PPP): as an SBA partner lender, Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate participated in all rounds of the PPP lending program. PPP loans are designed to support payroll and other essential operating costs for COVID-impacted small businesses and nonprofits. The loans are 100% guaranteed by SBA and are eligible for full forgiveness if used within the program guidelines. MBW established PPP lending facilities via loan agreements with Dogwood Health Trust and other funders. A limited number of PPP loans were also made with MBW's own unrestricted loan funds. Following origination, PPP loans were refinanced using the Paycheck Protection Program Liquidity Facility of the US Federal Reserve. MBW provided \$11,606,068 in PPP loans in 2020 and \$13,048,853 in 2021. As of December 31, 2022, \$24,607,620 (99.8%) of the PPP loans had been forgiven with a balance of \$47,301 in PPP loans that either have not yet applied for forgiveness or that were not forgiven.
- NC Rapid Recovery Program (NCRR): MBC joined with several other NC-based CDFIs, the North Carolina Rural Center, Golden LEAF Foundation, State of North Carolina, and other partners to establish and operate the NC Rapid Recovery Program. This program provided flexible and affordable COVID disaster loans to NC small businesses. The loans are up to \$250,000 in amount and up to a term of 120 months. A 100% participation in all NCRR loans have been sold to the NC Rural Center, the statewide NCRR fund coordination agency. MBW will continue to service loans made.
- Local County and City Disaster Loan Funds: MBW is administering 8 local COVID-19 disaster funds established by WNC local governments. Each of the funds are structurally the same with loans up to \$10,000 and up to 42 months in term. MBW will continue to administer the funds and service the underlying loans through termination.
- Other programs: MBW also administered three local COVID-19 grant programs. The Buncombe County Tourism Jobs Recovery Fund was a \$5 million grant program for tourism-related businesses in Buncombe County. The Cleveland County Small Business Recovery Program was a \$325,000 grant program for COVID-impacted businesses in Cleveland County. The One Buncombe Grants program provided \$1,037,500 in relief grants over two rounds. An administration fee was assessed for each program.

Emergency lending balance as of December 31, 2022 are depicted below:

Restricted Cash	
Local Funds	\$ 1,639,680
NC Rural	501,567
PPP Forgiveness	119,038
Loans Receivable	
Local Funds	319,926
NC Rural	18,884,490
PPP	-
Total Assets	<u>21,464,701</u>
Liabilities	
Local Funds	478,709
NC Rural	19,196,806
PPPLF	-
PPP Timing Reconciliation	-
Total Liabilities	<u>19,675,515</u>
Payable to Emergency Funds	<u>\$ (1,789,186)</u>

NOTE 7 – OTHER LOAN PROGRAMS

All in Jackson Fund was converted from an emergency lending fund to a regular lending fund on November 16, 2021. In its new form, All in Jackson serves as leverage fund allowing for increases in funding for Jackson County small businesses.

All in Jackson lending balances as of December 31, 2022 are depicted below:

Restricted cash	\$ 310,587
Loans receivable	<u>14,348</u>
Total Assets	<u>324,935</u>
Loans payable	324,936
Timing reconciliation	310,587
Total Liabilities	<u>635,523</u>
Payable to All in Jackson	<u>\$ 310,588</u>

NOTE 8 – PROPERTY AND EQUIPMENT

A description of property and equipment is as follows:

<u>December 31,</u>	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 1,154,529	\$ 1,154,529
Equipment and software	114,292	114,292
Vehicles	17,060	17,060
	<u>1,285,881</u>	<u>1,285,881</u>
Less, accumulated depreciation	(599,395)	(570,739)
Property and equipment	<u>\$ 686,486</u>	<u>\$ 715,142</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$28,656 and \$28,656, respectively.

NOTE 9 – EQUITY EQUIVALENT

Equity note consists of the following:

	<u>2022</u>	<u>2021</u>
In November 2022, MBC issued an equity equivalent ownership to Pinnacle Bank and received the principal sum of \$750,000. Interest at 2% per annum is paid quarterly, beginning March 2023, with the entire principal due November 2027.	\$ 750,000	-
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	\$ 400,000
	<u>\$ 1,150,000</u>	<u>\$ 400,000</u>

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 10 – NOTES PAYABLE

Notes payable are described as follows:

	<u>2022</u>	<u>2021</u>
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.	\$ 128,719	\$ 137,952
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.	287,963	306,127
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.	698,905	723,508
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.	365,104	383,789
Note payable to USDA, under the IRP, bearing interest at 1% per annum and has a 30 year term. The note dated April 2021, secured by MBC's IRP's revolving fund, including loans receivable derived from the note. Total amount available for draw under the loan agreement is \$750,000. For the first three years, interest only payments are required followed by 27 yearly equal payments of principal and interest beginning April 26, 2025.	142,500	142,500

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.	251,645	281,292
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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.	393,587	423,926
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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. In 2021, MBC decided not to draw the remaining balance of \$250,000 out of the \$500,000 stipulated in the original amount. 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.	225,234	240,901
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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 \$12,042 with balance due at maturity. Interest rate of 0.75% based on size of microloans.	612,080	750,599
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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.	-	43,748
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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.

93,530 207,668

Note payable to U.S. Small Business Administration, interest at 1.625% per annum, which can be adjusted by future events, and has a 10 year term. The note dated August 2015, is secured by loans receivable derived from the note. For the first year, no payments are required followed by 108 equal monthly installments of \$11,796.

374,556 514,135

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. Interest rate of 1.375%, based on size of microloans extended by MBC. Monthly payments of \$12,389, including principal and interest are due beginning June 2019 through June 2028, when the balance of all unpaid principal and interest is due.

770,383 906,517

Note payable to U.S. Small Business Administration, with a 10 year term. The note is dated June 27, 2019, and is secured by loans receivable derived from the note. Total amount available for draw under the loan agreement is \$1,250,000. Interest rate of 1.260%, based on size of microloans extended by MBC. Monthly payments of \$4,138, including principal and interest are due beginning July 2020 through July 2029, when the balance of all unpaid principal and interest is due.

1,086,163 353,696

Various notes payable to individuals under MBC's Investment Note Program. These notes range from \$500 to \$125,000, bearing interest from 0% to 3%, and are due in one to seven years from the date of the note.

1,575,803 1,525,082

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. In March 2020, Mary Reynolds Babcock Foundation informed MBC that the interest rate on their loan would be reduced from 2% to 0% and that \$50,000 of the \$250,000 loan would be converted to grant funds. In February 2021, the loan was extended from July 2021 to July 2024.

200,000 200,000

Note payable to Appalachian Community Capital, bearing interest at 2.94% per annum. The note is dated May 31, 2022, and is unsecured. Interest only payments are required quarterly with annual payments of principal on the fourth, fifth, sixth and seventh anniversary of this loan.

1,350,000 100,000

Note payable to Appalachian Community Capital, bearing interest at 2.85% per annum. The note is dated November 18, 2022, and is unsecured. Interest only payments are required monthly with principal and any unpaid interest due at maturity in November 2029.

1,000,000 250,000

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.

400,000 400,000

Note payable to Community Reinvestment Fund, Inc., dated July 29, 2019 bearing interest at 2.75%, with a 6 year term. Total amount available to draw under the loan agreement is \$400,000. From April 2020 until February 2021, monthly payments of principal and interest were \$3,281. Beginning March 2021, monthly principal and interest payments are \$8,633 until loan is fully paid off in August 2025.

266,011 347,728

10,222,183 8,489,168

(1,228,495) (2,309,048)

Less, current maturities

Notes payable, net of current maturities

\$ 8,993,688 \$ 6,180,120

Scheduled principal repayments for the next five years on notes payable at December 31, 2022, are as follows:

<u>December 31,</u>	
2023	\$ 1,228,495
2024	1,488,743
2025	1,151,055
2026	1,209,369
2027	1,291,854
Thereafter	<u>3,852,667</u>
Totals	<u>\$ 10,222,183</u>

NOTE 11 – MORTGAGES PAYABLE

Mortgages payable are described as follows:

	<u>2022</u>	<u>2021</u>
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% until December 2021, at which date the rate was reduced to 4.2%. Monthly installments of principal and interest payments of \$5,751 are due until the loan is fully paid off on or before May 2033. The note is secured by a building.	<u>\$ 546,156</u>	<u>\$ 590,877</u>
	546,156	590,877
Less, current maturities	<u>(46,497)</u>	<u>(45,044)</u>
Mortgages payable, net of current maturities	<u>\$ 499,659</u>	<u>\$ 545,833</u>

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

<u>December 31,</u>	
2023	\$ 46,497
2024	48,456
2025	50,620
2026	52,818
2027	55,112
Thereafter	<u>292,653</u>
Totals	<u>\$ 546,156</u>

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%, plus 0.5%.

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 \$49,276 and \$35,322 to the program for years ended December 31, 2022 and 2021, 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 \$11,508,227 at December 31, 2022.

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 consolidated 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 – MBW MARKETPLACE LLC d/b/a MOUNTAIN BIZWORKS MARKET ADVISORS

In October 2021, Mountain BizWorks launched a new social enterprise subsidiary, MBW Marketplace LLC d/b/a Mountain BizWorks Market Advisors ("Market Advisors"), to support successful Western North Carolina small business ownership transitions. Market Advisors goal is to provide a platform for business owners to receive assistance with buying or selling a small business. Market Advisors has been established to help address this regional need.

MBW Marketplace LLC d/b/a Mountain BizWorks Market Advisors is a wholly-owned subsidiary of Mountain BizWorks. Its financial activities are reflected within Mountain BizWorks' consolidated financial statements. Market Advisors' activities were limited and immaterial in 2021 and 2022, but are expected to grow in 2023 as the new program is established.

NOTE 18 – SUBSEQUENT EVENTS

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

COMPLIANCE SECTION

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2022**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Grants Expended:			
<u>U.S. Department of Commerce</u>			
Direct:			
Economic Development Cluster			
* EDA Economic Adjustment Assistance RLF Program	11.307	N/A	<u>\$ 2,727,462</u>
<u>U.S. Department of the Treasury</u>			
Direct:			
Community Development Financial Institutions Cluster			
CDFI-FA	21.020	N/A	150,000
CDFI Rapid Response Program (CDFI RRP)	21.024	N/A	<u>901,265</u>
Total U.S. Department of the Treasury			<u>1,051,265</u>
<u>U.S. Small Business Administration</u>			
Direct:			
Microloan Program - Technical Assistance Grant	59.046	N/A	939,527
Prime Technical Assistance	59.050	N/A	<u>60,000</u>
Total U.S. Small Business Administration			<u>999,527</u>
<u>U.S. Department of Agriculture</u>			
Direct:			
Rural Microentrepreneur Assistance Program - Assistance Grant	10.870	N/A	<u>114,648</u>
<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	<u>108,333</u>
<u>Appalachian Regional Commission</u>			
Direct:			
Appalachian Area Development - Growing Outdoors (POWER)	23.002	N/A	<u>588,768</u>
Total Grants Expended			<u>5,590,003</u>

*See accompanying notes to schedule for calculation.

(continued)

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2022**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Loans:			
<u>U.S. Small Business Administration</u>			
Microloan Program:			
2016 Microloan, beginning	59.046		\$ 514,135
2017 Microloan, beginning	59.046		750,599
2018 Microloan, beginning	59.046		906,517
2019 Microloan, beginning	59.046		353,696
2019 Microloan, current year draws	59.046		<u>833,333</u>
			<u>3,358,280</u>
<u>U.S. Department of Agriculture</u>			
Intermediary Relending Program (IRP):			
2015 Loan, beginning	10.767		383,788
2017 Loan, beginning	10.767		723,508
2021 Loan, beginning	10.767		<u>420,500</u>
			<u>1,527,796</u>
Rural Microentrepreneur Assistance Program (RMAP):			
2016 Loan, beginning	10.870		418,125
2018 Loan, beginning	10.870		<u>237,100</u>
			<u>655,225</u>
Total Federal Loans			<u>5,541,301</u>
Total Federal Awards Expended and Loans			<u>\$ 11,131,304</u>

See accompanying notes to schedule.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022**

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, 2022. 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, 2022. These loan receivable balances outstanding are also included in the federal expenditures presented in the Schedule.

Program Title	Federal CFDA Number	EDA 1	EDA 2
		Outstanding Balance at December 31, 2021	Outstanding Balance at December 31, 2021
EDA Revolving Loan Fund	11.307	<u>\$ 1,524,301</u>	<u>\$ 1,513,992</u>

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

	EDA 1	EDA 2
Revolving Loan Fund (RLF) Principal Outstanding	\$ 1,524,301	\$ 1,513,992
Cash Balances in the RLF	481,649	129,046
Administrative Expenses Paid from RLF Income	(8,000)	(9,460)
Unpaid Principal of all Loans Written Off	9,818	90,000
	<u>2,007,768</u>	<u>1,723,578</u>
Federal Share of the RLF	50.00%	100.00%
Total Federal Expenditures	<u>\$ 1,003,884</u>	<u>\$ 1,723,578</u>

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022**

NOTE 5 – OTHER FEDERAL LOANS OUTSTANDING

Other federal loan balances outstanding as of December 31, 2022 are as follows:

<u>Loan Program</u>	
U.S. Small Business Administration	
Microloan Program	<u>\$ 2,843,182</u>
U.S. Department of Agriculture	
Intermediary Relending Program (IRP)	
Small Business Loans	<u>\$ 1,064,009</u>
U.S. Department of Agriculture	
Rural Microentrepreneur Assistance	
Program (RMAP)	<u>\$ 664,827</u>

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022**

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?
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?
- Noncompliance material to financial statements noted

___ Yes X No

___ Yes X None reported

___ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

___ Yes X No

___ 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>
59.046	SBA Microloan Program
10.767	USDA Intermediary Relending Program (IRP)

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
AND AFFILIATE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022**

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, 2022**

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
and Affiliate
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 and Affiliate (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MBC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MBC's internal control. Accordingly, we do not express an opinion on the effectiveness of MBC's internal control.

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

To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
and Affiliate
April 5, 2023

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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MBC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MBC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MBC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Phillips CPAs and Advisors

Greenville, South Carolina
April 5, 2023



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
and Affiliate
Asheville, North Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of MBC's major federal programs for the year ended December 31, 2022. MBC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Mountain BizCapital, Inc. d/b/a Mountain BizWorks and Affiliate 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
and Affiliate
April 5, 2023

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

To the Board of Directors
Mountain BizCapital, Inc.
d/b/a Mountain BizWorks
and Affiliate
April 5, 2023

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Phillips CPAs and Advisors

Greenville, South Carolina
April 5, 2023