

ROCKY MOUNTAIN MICROFINANCE INSTITUTE

Financial Statements

September 30, 2017

(Together with Independent Auditors' Report)



ROCKY MOUNTAIN MICROFINANCE INSTITUTE
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rocky Mountain MicroFinance Institute
Denver, Colorado

We have audited the accompanying financial statements of Rocky Mountain MicroFinance Institute (a Colorado nonprofit organization), which comprise the statement of financial position as of September 30, 2017, 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; 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rocky Mountain MicroFinance Institute as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP
Denver, Colorado

March 28, 2018

ROCKY MOUNTAIN MICROFINANCE INSTITUTE

Statement of Financial Position September 30, 2017

ASSETS

Assets

Cash and cash equivalents	\$	354,582
Restricted cash		15,000
Designated cash - loan funds		129,215
Contributions receivable		43,096
Accounts receivable		15,733
Loans receivable, net		57,342
Loan recoveries receivable		1,845
Prepaid and other		4,107
Property and equipment, net		<u>112,993</u>
Total Assets	\$	<u><u>733,913</u></u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$	44,199
Accrued expenses		40,231
Notes payable - lending program		185,000
Note payable - facility improvements		<u>140,000</u>
Total Liabilities		<u>409,430</u>

Net Assets

Unrestricted		
Undesignated		99,254
Investment in property and equipment		112,993
Board designated		<u>65,261</u>
Total Unrestricted Net Assets		277,508
Temporarily restricted		<u>46,975</u>
Total Net Assets		<u>324,483</u>
Total Liabilities and Net Assets	\$	<u><u>733,913</u></u>

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

ROCKY MOUNTAIN MICROFINANCE INSTITUTE

Statement of Activities Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants	\$ 421,600	\$ -	\$ 421,600
Contributions	236,494	-	236,494
Government	59,837	-	59,837
In-kind contributions	11,139	-	11,139
Program service revenue	11,835	-	11,835
Loan interest and fees	5,955	-	5,955
Investment interest and other	1,465	-	1,465
Net assets released from restrictions	54,401	(54,401)	-
Total Support and Revenue	802,726	(54,401)	748,325
Expenses			
Program services	531,916	-	531,916
Supporting services			
Management and general	89,059	-	89,059
Fundraising	106,940	-	106,940
Total Supporting Services	195,999	-	195,999
Total Expenses	727,915	-	727,915
Change in Net Assets	74,811	(54,401)	20,410
NET ASSETS, Beginning of Year	202,697	101,376	304,073
NET ASSETS, End of Year	<u>\$ 277,508</u>	<u>\$ 46,975</u>	<u>\$ 324,483</u>

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

ROCKY MOUNTAIN MICROFINANCE INSTITUTE

Statement of Functional Expenses Year Ended September 30, 2017

	Program	Supporting Services		Total Supporting Services	Total
		Management and General	Fund-Raising		
Salaries and wages	\$ 290,425	\$ 54,719	\$ 75,763	\$ 130,482	\$ 420,907
Payroll taxes	22,196	4,182	5,790	9,972	32,168
Employee benefits	7,425	1,399	1,936	3,335	10,760
Total employee expenses	320,046	60,300	83,489	143,789	463,835
Capacity building	95,940	2,374	-	2,374	98,314
Professional fees	12,210	12,440	-	12,440	24,650
Depreciation	16,592	3,126	4,329	7,455	24,047
Program delivery expense	20,968	-	-	-	20,968
Rent and occupancy	12,173	2,293	3,175	5,468	17,641
Technology	8,813	1,660	2,299	3,959	12,772
Development fees and events	3,311	-	9,191	9,191	12,502
Office expenses	8,057	631	1,085	1,716	9,773
Bad debts	9,687	-	-	-	9,687
Materials and supplies	8,530	564	113	677	9,207
Staff development	3,832	2,799	961	3,760	7,592
Fees and interest expense	3,503	953	877	1,830	5,333
Meetings and conferences	3,140	250	679	929	4,069
Insurance	2,183	1,244	158	1,402	3,585
Dues and memberships	1,731	425	284	709	2,440
In-kind	1,200	-	300	300	1,500
Total Expenses	<u>\$ 531,916</u>	<u>\$ 89,059</u>	<u>\$ 106,940</u>	<u>\$ 195,999</u>	<u>\$ 727,915</u>

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

ROCKY MOUNTAIN MICROFINANCE INSTITUTE

Statement of Cash Flows Year Ended September 30, 2017

Cash Flows from Operating Activities

Change in net assets	\$	20,410
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		24,047
Loan losses, net of recoveries		(2,707)
(Increase) decrease in:		
Restricted cash		(15,000)
Designated cash - loan funds		(129,215)
Contributions receivable		(25,586)
Accounts receivable		(8,753)
Prepaid and other		(421)
Increase (decrease) in:		
Accounts payable		43,177
Accrued expenses		16,898
Net cash provided by operating activities		<u>(77,150)</u>

Cash Flows from Investing Activities

Purchase of property and equipment		(135,169)
Loans receivable repayments		78,403
Loans receivable funded		<u>(49,825)</u>
Net cash used in investing activities		<u>(106,591)</u>

Cash Flows from Financing Activities

Proceeds from note payable - facility improvements		<u>140,000</u>
Net cash provided by financing activities		<u>140,000</u>

Net increase in cash and cash equivalents		(43,741)
CASH AND CASH EQUIVALENTS, beginning of year		<u>398,323</u>
CASH AND CASH EQUIVALENTS, end of year	\$	<u><u>354,582</u></u>

Supplemental Information:

Fees and interest paid	\$	<u><u>5,333</u></u>
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The accompanying notes are an integral part of the financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

The Rocky Mountain MicroFinance Institute (“RMMFI”) is a Denver, Colorado based nonprofit corporation established under the laws of the State of Colorado.

RMMFI was founded in August 2008 and is a community creating economic and social mobility through entrepreneurship. RMMFI helps curious people transform into serious entrepreneurs through skill building, mentorship, and microlending. RMMFI provides a simple and effective approach to business development built around the philosophy that poor planning equals poor results. RMMFI provides a mix of flexible microloans and wrap-around services (business education, mentoring, and accountability) to low-income entrepreneurs, who see business ownership as a chance to earn meaningful income, and transform their lives. RMMFI seeks to prove that with the right mix of skill-building, mentorship, microlending, hard-work and entrepreneurship can give individuals the opportunity to break down barriers and build businesses that lead to income, jobs, and the ability to create positive impact in the local community.

Basis of Accounting

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

Basis of Presentation

The accompanying financial statements include a statement of financial position that presents the amounts for each of the three classes of net assets: unrestricted, temporarily restricted and permanently restricted. RMMFI did not have any permanently restricted net assets at September 30, 2017. These net assets are classified based on the existence or absence of donor-imposed restrictions and a statement of activities that reflects the changes in those categories of net assets.

Unrestricted Net Assets – Are those currently available at the discretion of the Board of Directors for use in RMMFI’s operations.

Temporarily Restricted Net Assets – Are those resources currently available for use, but expendable only for purposes specified by the donor or grantor.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

1. Organization and Summary of Significant Accounting Policies (continued)

Income Taxes

RMMFI is a nonprofit corporation and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the accompanying financial statements contain no provision for income taxes. In addition, contributions to RMMFI qualify for the charitable contribution deduction under Section 170(b)(1)(A) and RMMFI has been classified as an organization that is not a private foundation under Section 509(a)(2).

RMMFI follows *Accounting for Uncertainty in Income Taxes*, which requires RMMFI to determine whether a tax position (and related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. During the year ended September 30, 2017, RMMFI's management evaluated its tax positions to determine the existence of uncertainties, and did not note any matters that would require recognition or which may have an effect on its tax-exempt status.

Concentration of Credit Risk

RMMFI maintains several bank accounts at different institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Although at times the balances in these accounts may exceed the federally insured limit, RMMFI has never experienced any losses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, RMMFI considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Loans Receivable

Loans receivable represent the affordable and accessible business development loan balances that RMMFI has loaned to low-income individuals to help foster entrepreneurial growth in Colorado communities. Amounts loaned range from \$900 to \$5,125, carry 8 percent interest rates, and are due 6-24 months from origination.

RMMFI records loans receivable based on the actual amount borrowed. Payments are applied to principal and interest according to amortization schedules based on the specific terms of the loan agreement. Interest is recognized and accrued based on the original loan agreement and when earned, regardless of when paid. Based on the performance of loans, charge-off history, and individual evaluations for impairment, RMMFI wrote-off loan amounts totaling \$8,137 during the year ending September 30, 2017. Of the amounts written-off, \$5,430 was recovered through the Colorado Credit Reserve Program administered by the Colorado Housing and Finance Authority (CHFA), for the year ending September 30, 2017.

Beginning in 2012, all loans became covered by CHFA's Colorado Credit Reserve Program. Under this program, each loan enrolled is insured up to the amount of the outstanding principal owed on the loan and within the balance available in the program.

RMMFI uses the allowance method to record uncollectible loans receivable. The allowance is based on past experience, the availability of funds in the Colorado Reserve Program, and management's analysis of specific loans receivable. At September 30, 2017, management concluded that all outstanding loan balances will be collected.

1. Organization and Summary of Significant Accounting Policies (continued)

Restricted Cash

Restricted cash consists of funds set aside pursuant to RMMFI's loan agreement with the Colorado Growth and Revitalization Fund, LLC.

Designated Cash – Loan Funds

RMMFI has designated certain funding as loan funds. The cash in these accounts are to be used for future loan disbursements under RMMFI's microlending program.

Contributions Receivable

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. RMMFI uses the allowance method to record uncollectible contributions and grants receivable. The allowance is based on prior years' experience and management's analysis of specific contributions and grants made. Management has determined that all receivables are collectible as of September 30, 2017.

Property and Equipment

Property and equipment are stated at cost or at the estimated fair value at the date of donation. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets, 3 years. Leasehold improvements are depreciated using the straight-line method over the term of the lease. All assets with a useful life of more than one year, and a cost of more than \$1,000, are capitalized.

Maintenance, repairs and renewals, which neither materially add to the value of the property and equipment nor prolong its useful life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in income.

Recognition of Revenues and Support

Unconditional promises to give cash and other assets to RMMFI are reported at fair value at the date the promise is received. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Unrestricted gift and grant support is reflected as revenue in the year of receipt.

Revenues and support that are restricted by the donor, grantor, or other outside party for particular operating purposes are reported as temporarily restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization's policy is to record contributions whose restrictions are met in the same reporting period as unrestricted contributions. Contributions whose restrictions are not met in the same reporting period are reported as temporarily restricted net assets. Contributions for support of future operations and fundraising activities are recorded as temporarily restricted support in the year the contribution is made.

Program service revenue consists of income from RMMFI's educational classes and other programs. Program service revenues are recorded when earned.

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Materials and Services

Donated materials and services are recorded as contributions at their estimated fair values at the date of donation. Contribution of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Subsequent Events

In accordance with the *Subsequent Events* Topic of FASB ASC, management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. RMMFI's financial statements were available to be issued on March 28, 2018, and this is the date through which subsequent events were evaluated.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. This ASU is meant to eliminate diversity in practice and increase comparability among not-for-profit entities. The FASB believes that certain requirements of the ASU will increase transparency around a not-for-profit's available financial resources and flexibility. This ASU is effective for fiscal years beginning after December 15, 2017; however, early adoption of this ASU is permitted. Management is currently evaluating the potential impact of this ASU on the Organization's financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605 Revenue Recognition, and most industry specific guidance. When adopted, the amendments in the ASU must be applied using either a full or modified retrospective method. ASU No. 2014-09 is effective for nonpublic companies for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of ASC 606 on its financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize on the balance sheet a right-of-use asset and a lease liability for most lease arrangements with a term greater than one year. The new standard also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from the leases. ASU 2016-02 is effective for nonpublic companies for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments in this update should be applied using a modified retrospective approach. Management is currently evaluating the effect that ASU 2016-02 will have on its financial statements.

ROCKY MOUNTAIN MICROFINANCE INSTITUTE
Notes to Financial Statements
September 30, 2017

2. Property and Equipment

As of September 30, 2017, property and equipment consisted of the following:

<u>Description</u>	
Leasehold improvements	\$ 102,321
Technology assets	2,843
Furniture and equipment	4,092
Construction in process	<u>30,005</u>
	139,261
Less: Accumulated depreciation	<u>26,268</u>
Net property and equipment	<u>\$ 112,993</u>

3. Notes Payable

As of September 30, 2017, notes payable consisted of the following:

Lending Program

Note payable to a bank for the lending program;
non-interest bearing; unsecured; entire balance
due in June 2019

\$ 100,000

Note payable to a foundation for the lending
program; interest at 2% payable annually;
unsecured; \$20,000 due in April 2020,
remaining balance due in April 2021

50,000

Note payable to a bank for the lending program;
interest at 1% payable annually; unsecured;
entire balance due in August 2018

35,000

Total notes payable – lending program

\$ 185,000

Facility Improvements

Note payable to a Community Development entity
for improvements at RMMFI's headquarters; interest
only payments at 4.9% through October 1, 2019, then
principal and interest payments of \$916 through
September 1, 2022, remaining balance due October 1,
2022. Secured by property and equipment .

\$ 140,000

ROCKY MOUNTAIN MICROFINANCE INSTITUTE
Notes to Financial Statements
September 30, 2017

3. Notes Payable (continued)

Future maturities of notes payable are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Amount</u>
2018	\$ 65,000
2019	100,000
2020	25,244
2021	35,995
2022	6,296
thereafter	<u>92,465</u>
	<u>\$ 325,000</u>

As part of the loan requirements for the \$140,000 facility improvement note payable, RMMFI established a \$15,000 debt service reserve in a bank account at September 30, 2017. RMMFI funded an additional \$15,000, in December 31, 2017. The funds in the account can be used to make the periodic payment of debt service on the note.

4. In-Kind Contributions

Donated materials and services are important to RMMFI's operations and, accordingly, are reflected as contributions in the accompanying financial statements at their estimated fair values at date of receipt. Donated materials and services consist of the following for the year ending September 30, 2017:

<u>Description</u>	
Rent	\$ 9,639
Marketing	<u>1,500</u>
	<u>\$ 11,139</u>

No amounts have been reflected in the financial statements for donated volunteer services because the criteria for recognition under generally accepted accounting principles have not been satisfied. However, a substantial number of volunteers have donated significant amounts of their time to develop RMMFI's programs and fundraising events.

5. Board Designated Unrestricted Net Assets

Unrestricted net assets have been designated by the Board of Directors with the following intent and purposes as of September 30, 2017:

<u>Description</u>	
Board designated for reserves	<u>\$ 65,261</u>

ROCKY MOUNTAIN MICROFINANCE INSTITUTE
Notes to Financial Statements
September 30, 2017

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of September 30, 2017:

<u>Description</u>	
Contributions receivable	\$ 43,096
Leadership development	<u>3,879</u>
Total Temporarily Restricted Net Assets	<u>\$ 46,975</u>

7. Commitments

Lease Commitments

In November 2015, RMMFI entered into an agreement to lease two spaces from the Housing Authority of the City and County of Denver (CCD) under an operating lease expiring in June 2019. One space is for the principal headquarters of RMMFI, and one space is to be subleased to graduates of RMMFI at a rate beginning at \$6 per square foot and increasing to \$12 per square foot as the businesses demonstrate the ability to manage the full financial burden of the space. RMMFI is to remit 25% of the sublease rent to CCD. For the year ended September 30, 2017, there were no sublease agreements in place.

Rent under the CCD lease agreement is \$1 per year provided that RMMFI satisfies the Community Contribution requirement on an annual basis. RMMFI's management anticipates satisfying this annual service requirement. RMMFI recorded an in-kind donation in the amount of \$9,639 for this space, as discussed in Note 4.

RMMFI rented office space for its principal headquarters in Denver, Colorado under an operating lease that expired in December 2016. In December 2016, RMMFI moved its headquarters to one of the office space locations leased with the Housing Authority of the City and County of Denver.

Approximate minimum rent payments due under all operating leases are as follows:

Year Ending September 30:	
2018	\$ 1
2019	<u>1</u>
	<u>\$ 2</u>

Rent and occupancy related expense totaled \$17,641, which includes \$9,639 in in-kind, for the year ending September 30, 2017.

Construction Commitments

In September 2017, RMMFI signed a construction agreement in the amount of \$85,427, to construct the space that will eventually be subleased to RMMFI graduates.