ECDC ENTERPRISE DEVELOPMENT GROUP

Financial Statements and
U.S. Office of Management and Budget Circular A-133 Reports

For the Years Ended September 30, 2016 and 2015
(With Independent Auditor's Reports Thereon)

Alexander Gibbs Chartered
Certified Public Accountant
Largo, Maryland

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
ECDC Enterprise Development Group
Arlington, VA

We have audited the accompanying consolidated statements of financial position of the ECDC Enterprise Development Group (EDG) as of September 30, 2016, and September 30, 2015, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of EDG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EDG's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EDG as of September 30, 2016, and September 30, 2015, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017, on our consideration of the EDG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of the EDG. The schedules of functional expenses on pages 27 and 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of EDG. 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Alexander Gibbs Chartered

Largo, MD
February 14, 2017

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ECDC Enterprise Development Group
Statement of Financial Position
As of September 30,

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	2,235,759	$ 1,989,159
Grants receivable	322,775	155,344
Microloan notes receivable, net of allowance for loan losses - current maturities	1,815,627	1,517,101
Accrued interest receivable, net of allowance for interest losses	14,450	13,957
Other receivable	155,897	150,000
TOTAL CURRENT ASSETS	4,544,508	3,825,561
MICROLOAN NOTES RECEIVABLE, NET OF ALLOWANCE FOR LOAN LOSSES - NET OF CURRENT MATURITIES	1,666,369	1,662,760
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	497	745
OTHER ASSETS		
Cash restricted in microloan revolving fund accounts - SBA	2,294,989	1,372,929
Cash restricted in microloan revolving fund accounts - Other	2,889,648	2,746,415
Cash restricted in loan loss reserve fund accounts	210,782	315,261
Cash designated for loan loss reserves	596,470	497,263
Cash restricted in individual development accounts	20,138	21,782
TOTAL OTHER ASSETS	6,012,027	4,953,650
TOTAL ASSETS	$ 12,223,401	$ 10,442,716
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Due to related parties	74,638	74,638
Due to microloan borrowers	1,149	117
Accounts payable	11,682	14,679
Accrued expenses	51,921	50,807
Deposits payable	13,695	15,358
Refundable advances	23,063	22,884
Deferred revenue	472,247	96,670
Individual development account deposits payable	20,138	21,782
Notes payable - current maturities	459,888	941,628
TOTAL CURRENT LIABILITIES	1,128,421	1,238,563
NONCURRENT LIABILITIES		
Notes payable - net of current maturities	4,762,001	3,420,240
Equity equivalent securities	770,000	570,000
TOTAL NONCURRENT LIABILITIES	5,532,001	3,990,240
TOTAL LIABILITIES	6,660,422	5,228,803
NET ASSETS		
Unrestricted		
Undesignated	4,628,675	4,431,176
Board designated reserve fund	337,834	285,474
Designated for loan loss reserves	596,470	$ 497,263
Total unrestricted	5,562,979	5,213,913
TOTAL NET ASSETS	5,562,979	5,213,913
TOTAL LIABILITIES AND NET ASSETS	$ 12,223,401	$ 10,442,716

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

ECDC Enterprise Development Group
Statement of Activities
As of September 30, 2016

	2016				
	Unrestricted				
	Undesignated	Designated	Total	Temporarily Restricted	Grand Total
SUPPORT AND REVENUE					
Federal government grants	$ 691,123		$ 691,123		$ 691,123
State and local government grants	89,842		89,842		89,842
Private grants	176,432		176,432		176,432
Donations	-		-		-
Fees for services	17,485		17,485		17,485
Loan origination fees	41,131		41,131		41,131
Tuition fees	300		300		300
Microloan interest income	301,480		301,480		301,480
Penalty micro loans	7,591		7,591		7,591
Rental commission	17,359		17,359		17,359
Interest income on deposits	11,250		11,250		11,250
Other	915		915		915
Net assets released from restrictions	(99,207)	99,207	-	-	-
TOTAL SUPPORT AND REVENUE	1,255,701	99,207	1,354,908	-	1,354,908
EXPENSES					
Program services					
Microenterprise development	766,418	-	766,418	-	766,418
Total program services	766,418		766,418	-	766,418
Supporting services					
General and administrative	239,424	-	239,424	-	239,424
TOTAL EXPENSES	1,005,842	-	1,005,842		1,005,842
CHANGE IN NET ASSETS	249,859	99,207	349,066	-	349,066
NET ASSETS AT BEGINNING OF YEAR	4,716,650	497,263	5,213,913	-	5,213,913
NET ASSETS AT END OF YEAR	$ 4,966,509	$ 596,470	$ 5,562,979	$ -	$ 5,562,979

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

2015				
Unrestricted			Temporarily	
Undesignated	Designated	Total	Restricted	Grand Total
$ 690,319		$ 690,319		$ 690,319
104,154		104,154		104,154
200,113		200,113		200,113
500		500		500
26,966		26,966		26,966
35,013		35,013		35,013
1,720		1,720		1,720
300,579		300,579		300,579
11,023		11,023		11,023
17,511		17,511		17,511
2,472		2,472		2,472
1,425		1,425		1,425
62,668	(62,668)	-	-	-
1,454,463	(62,668)	1,391,795	-	1,391,795
648,491		648,491		648,491
648,491		648,491	-	648,491
351,589		351,589	-	351,589
1,000,080		1,000,080		1,000,080
454,383	(62,668)	391,715	-	391,715
4,262,267	559,931	4,822,198	-	4,822,198
$ 4,716,650	$ 497,263	$5,213,913	$ -	$5,213,913

ECDC Enterprise Development Group
Statements of Cash Flows
As of September 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	349,066	391,715
Adjustments to reconcile change in net assets to net cash		
provided by operating activities		
Bad debts	16,342	3,415
Depreciation	248	248
Change in operating assets and liabilities		
(Increase) decrease in operating assets		
Grants receivable	(167,431)	5,501
Accrued interest receivable	(493)	115
Other receivable	(5,897)	(149,440)
Increase (decrease) in operating liabilities		
Due to related parties	-	64,296
Due to microloan borrowers	1,032	80
Accounts payable	(2,998)	2,217
Accrued expenses	1,114	(49,594)
Deposits payable	(1,663)	2,899
Refundable advances	179	(5,625)
Deferred revenue	375,577	(23,330)
Individual development accounts deposits payable	(1,644)	(8,639)
CASH PROVIDED BY OPERATING ACTIVITIES	563,432	233,858
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash advanced as microloans	(2,648,054)	(2,285,301)
Proceeds from principal repayments on microloans advanced	2,329,578	2,196,948
Sale (Purchases) of investments	-	506,769
Withdrawals from (investments in) cash restricted in microloan revolving fund accounts - SBA	(922,060)	773,418
Withdrawals from (investments in) cash restricted in microloan revolving fund accounts - Other	(143,233)	(2,746,415)
(Investments in) withdrawals from cash restricted in loan loss reserve fund accounts	104,479	(133,020)
Withdrawals from (investments in) cash designated for loan loss reserves	(99,207)	62,668
Investments in individual development accounts	1,644	8,639
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,376,853)	(1,616,294)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of equity equivalent securities	200,000	-
Proceeds from borrowings on notes issued	1,300,000	800,000
Principal repayments on notes issued	(439,979)	(339,948)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,060,021	460,052
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	246,600	(922,384)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,989,159	2,911,543
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,235,759	1,989,159
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 55,594	$ 44,180

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

A—NATURE OF ORGANIZATION

ECDC Enterprise Development Group (EDG) is a non-profit corporation, incorporated under the laws of the Commonwealth of Virginia on June 09, 1997. EDG, which formally began operations on May 10, 2001, when its non-profit status was approved by the Internal Revenue Service, is a Community Development Financial Institution currently certified by the Community Development Financial Institutions Fund (CDFI) of the United States Department of the Treasury pursuant to the regulations of the CDFI and is an approved SBA Microloan Program Intermediary. EDG's mission is to promote sustainable community and economic development among underserved populations by providing entrepreneurial financing and technical assistance; employment training; rental assistance; and a spectrum of related services. EDG's activities are supported primarily by grants and loans from federal, state, and local government agencies; financial institutions; as well as private foundations; corporate and public individual contributions of cash, goods and services.

EDG is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and is not classified as a private foundation as defined in Code Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1) of the Internal Revenue Code, and as such is subject to income taxes only to the extent of unrelated business income. EDG is, however, required to file Federal Form 990-Return of Organization Exempt from Income Tax, which is an informational return only.

B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting. Consequently, revenues and gains are recognized when earned rather than received, and expenses and losses are recognized when obligations are incurred rather than when cash is disbursed.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205-05-6. If donor-imposed restrictions are met in the same period as the gift or investment income is received, the amount is reported as unrestricted revenues. Accordingly, net assets of the EDG and changes therein are classified and reported as follows:

- *Unrestricted net assets*—Net assets that are not subject to donor-imposed stipulations and, therefore, are available for various programs and administration.
- *Temporarily restricted net assets*—Net assets that are available for use but expendable only for those purposes specified by the grantor.

B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Amounts restricted by the donor for a particular purpose are reported as temporarily restricted revenue when received, and such unexpended amounts are reported as temporarily restricted net assets at year end. When 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'.

Restrictions on gifts of fixed assets or contributions restricted for the purchase of fixed assets expire when the asset is placed in service, unless otherwise stipulated by the donor.

- *Permanently restricted net assets*—Net assets subject to donor-imposed stipulations that they be maintained permanently by EDG. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

There were no permanently restricted net assets at year end.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Revenue Recognition
A substantial portion of EDG's revenues are derived from grants, contracts and cooperative agreements with federal, state, and local government agencies. Revenues from these grants, contracts and cooperative agreements are recognized in accordance with the terms of the underlying agreements. Amounts received on the basis of these agreements prior to the incurrence of expenditures are recorded as advances. Expenses incurred under cost-reimbursement agreements prior to receipt of the revenues are recorded as receivables.

Interest income is accrued as earned. Interest on microloans accrues from the date of issue through the date of maturity. Interest on microloans is computed based on the contractual loan note rate.

Revenue is generally recognized when all significant contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured. Revenue from services is recognized at the time services are provided. Student tuition and fees are recognized when earned in accordance with the service agreement. When tuition and fees are received in advance, they are recorded as unearned revenue and recognized as income over the academic period for which they were paid. In instances where

B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

collection of a receivable is not reasonably assured, revenues and the related costs are deferred.

Cash and Cash Equivalents
Cash includes cash on hand, and on deposit with banks. EDG considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

Investments
Investments consist of debt securities, which are classified as held-to-maturity and carried at amortized cost.

Notes receivable and related allowance for loan losses
The reported balance of notes receivable, net of the allowance for loan losses, represents EDG's estimate of the amount that ultimately will be realized in cash. Management considers receivables over 90 days as past due. EDG reviews the adequacy of the allowance for loan losses on an ongoing basis, using historical payment trends, the age of the receivables, the current business environment and knowledge of its individual borrowers. When its analyses indicate, it increases or decreases the allowance accordingly. However, if the financial condition of the borrowers were to deteriorate, additional allowances might be required.

Property and Equipment
Property and equipment are carried at cost. Acquisitions with an initial cost of $1,000 or more are capitalized at cost, when purchased, or at fair market value at the date of gift, when donated.

Asset acquisition costs, which extend the life, increase the capacity, or improve the safety or efficiency of property, are capitalized. Depreciation is computed using the straight-line method based on the assets' estimated useful lives, of 5-7 years for furniture, fixtures and equipment; and 10 years for motor vehicles. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

Refundable Advances
EDG records grant revenues over the period of the award, and the provisions of the grant determine the timing of revenue recognition. Grant expenses are recognized when incurred. Amounts that have been received but not earned are included in refundable advances.

Contributions

Cash and Other Monetary Assets

Contributions of cash and other monetary assets, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by

B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the donor and are recognized as revenues in the period the contribution is received or unconditional promise is given. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Property and Equipment

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, EDG reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor; EDG reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Services

Donated services are recognized as contributions at either the fair value of the services received or the fair value of the asset or of the asset enhancement resulting from the services if the services (a) create or enhance nonfinancial assets, including land, buildings, use of facilities or utilities, materials and supplies, intangible assets, or other services, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by EDG. Volunteers have donated significant amounts of time assisting EDG with special projects, and provision of program services throughout the year, which are not recognized as contributions in the financial statements since the recognition criteria codified under FASB ASC 958-605-30-10 were not met.

Fair Value Measurements

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, EDG accounts for its financial instruments at fair value. Fair value is defined as the price that would be paid in an orderly transaction, or exit price, between market participants to sell the asset or transfer the liability in the principal or most advantageous market for the asset or liability.

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, EDG uses assumptions that market participants would use in pricing the asset or liability. EDG is required by GAAP to categorize its financial instruments based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument. The financial instrument recorded on the

B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

balance sheets is categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on quoted prices for identical assets or liabilities in an active market that EDG has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or use model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; pricing models whose inputs are observable for substantially the full term of the asset or liability; and pricing models whose inputs are derived principally from or corroborated by observable market data. Level 2 assets also include investment funds that do not have a readily determinable fair value but meet other criteria.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 assets may not permit redemptions at net asset value, or its equivalent, at the measurement date.

Functional Allocation of Expenses
Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of EDG.

C—INVESTMENTS

EDG's investment of cash in excess of requirements and cash held temporarily until restrictions are met were as follows at year-end:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$0	$0	$ 0	$ 0

There were no investments at the end of fiscal 2016 nor 2015. Net investment income for fiscal years 2016 and 2015 was $0 and $0.

D—MICROLOAN NOTES RECEIVABLE

Microloan notes receivable consist of amounts due to EDG on loans made to small businesses as well as to individuals. These loans were funded by loan funds received from the U. S. Small Business Administration, Community Development Financial

D—MICROLOAN NOTES RECEIVABLE (continued)

Institution Fund of the U. S. Department of the Treasury, Small Business Loan Fund, Arlington and Fairfax Counties of the Commonwealth of Virginia, City of Alexandria of the Commonwealth of Virginia, PNC Bank, NA, and Capital One Community Development Corporation. The notes are secured and bear interest ranging between 8.9% and 12.75%.

Notes receivable are reported at net realizable value and consist of the following at September 30:

	2016	2015
Microloan notes receivable	$3,627,080	$3,341,243
Allowance for loan losses	(145,084)	(161,382)
Microloan notes receivable net of allowances	$3,481,996	$ 3,179,861

Collectability of the receivables is reviewed regularly, and an allowance is established or adjusted, as necessary, using a combination of the specific identification method and the percentage method of recording bad debts based on historical experience. Loan losses have consistently been within management's expectation.

The notes receivable are pledged to collateralize notes issued to the U.S. Small Business Administration.

Interest income on these notes totaled $301,480 and $300,579 for fiscal years 2016 and 2015, respectively.

E—PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Furniture and equipment	$123,444	$ 123,444
Motor vehicles	7,300	7,300
Total property and equipment	130,744	130,744
Less: accumulated depreciation	(130,247)	(129,999)
Property and equipment net of depreciation	$ 497	$ 745

F—CASH RESTRICTED IN MICROLOAN REVOLVING FUND ACCOUNTS

EDG is required to segregate cash received from the U.S. Small Business Administration under the terms of its note agreements, therewith, that restricts its use to issuing microloans and maintaining adequate loan loss reserves. Funding received

F—CASH RESTRICTED IN MICROLOAN REVOLVING FUND ACCOUNTS (continued)

under these agreements, with the U.S. Small Business Administration, are segregated in microloan revolving fund accounts at a financial institution and collateralize notes issued to the U.S. Small Business Administration to secure them. Management has elected to restrict additional cash for the purposes of debt servicing and funding of microloans not funded by the SBA.

G—CASH RESTRICTED IN LOAN LOSS RESERVE FUND ACCOUNTS

As required by the terms of its note agreements underlying the face value of $5,300,000 and $4,100,000 notes in 2016, and 2015, respectively, due in the aggregate to the U.S. Small Business Administration (SBA), EDG maintains as loan loss reserves an amount equivalent to 10% and 15% of the outstanding SBA funded microloan receivables in 2016, and 2015, respectively. The loan loss reserves are held in interest-bearing accounts in EDG's name and stand as collateral for the $5,300,000 and $4,100,000 face value of the notes due to SBA and are not available for operating purposes. These reserves are further pledged as collateral for funds due SBA. The SBA funded microloan receivables were $2,107,818 and $2,101,738 in 2016 and 2015, respectively, while the related cash in loan loss reserve fund accounts were $210,782 and $315,261 in 2016, and 2015, respectively.

H—CASH DESIGNATED FOR LOAN LOSS RESERVES

Management has internally designated certain funds contributed locally to establish a long-term reserve to cover loan losses. These reserves are reported as a component of unrestricted net assets in the accompanying financial statements.

I—CASH RESTRICTED IN INDIVIDUAL DEVELOPMENT ACCOUNTS

Cash restricted in individual development accounts on the Statements of Financial Position, amounting to $20,138 and $21,782 as of September 30, 2016 and 2015, respectively, exclusively represents client deposits - under a federally matched savings program - into a designated account for specific purpose, such as homeownership, education or business start-up, etc. These funds, which are restricted from use by EDG, are due in full on demand or upon the client's satisfaction of the program goals. Accordingly, a corresponding liability is shown on the Balance Sheets. Clients are being assisted in exiting the IDA program as funding of the program has ended, and new client deposits are not permitted.

J—NOTES PAYABLE

Notes payable consist of the following:

	2016	2015
Notes payable to U.S. Small Business Administration originating on December 11, 2009, in the amount of $750,000 at .50%, maturing December 11, 2019.	$225,554	$309,439

	2016	2015
J—NOTES PAYABLE (continued) Notes payable to U.S. Small Business Administration originating on February 2, 2010, in the amount of $250,000 at 1.125%, maturing February 2, 2020.	97,950	125,897
Capital One National Association originating on August 14, 2014, in the amount of $750,000 at 2.00% Maturing July 01, 2019. Interest is payable quarterly commencing October 1, 2014. Principal is due in full at loan maturity.	$750,000	$750,000
Notes payable to U.S. Small Business Administration originating on May 5, 2014, in the amount of $450,000 at 0.00% in the first 12 months and interest rate of .025% starting in month 13. Maturing May 5, 2024, with principal due in the entirety at maturity.	379,755	429,309
Notes payable to U.S. Small Business Administration originating on March 30, 2012, in the amount of $400,000 at 1.250%, maturing March 30, 2022. Effective October 1, 2014, the interest has been reduced to 0.00%.	244,445	288,889
Notes payable to U.S. Small Business Administration originating on March 30, 2012, in the amount of $400,000 at 1.250%, maturing March 30, 2022. Effective October 1, 2014, the interest rate has been reduced to 0.00%.	244,445	288,889
Notes payable to U.S. Small Business Administration originating on March 30, 2012, in the amount of $250,000 at 1.250%, now at 0.00%, maturing March 30, 2022.	152,778	180,556
Notes payable to U.S. Small Business Administration originating on May 3, 2013, in the amount of $800,000 with interest rate currently of 0.00%, maturing May 3, 2023.	600,000	688,889
Note payable to U.S. Small Business Administration originating on November 19, 2014, and maturing November 11, 2024, in the amount of $800,000 at 0.00% for months 1 -12 provided that the average microloan funded is not greater than $10,000 if the average microloan funded is greater than $10,000 interest will then be 0.38%.	726,962	800,000
Note payable to U.S. Small Business Administration originating on July 26, 2016, and maturing July 26, 2026, in the amount of $1,200,000 at 0.00% for months 1 -12 provided that the average microloan funded is not greater than $10,000 if the average microloan funded is greater than $10,000 interest will then be 1.25% minus a buy down of 1.25% for an accrual rate of 0.00.	1,200,000	

	2016	2015
J—NOTES PAYABLE (continued)		
Interest payments on the SBA loans begin on the 13th month from date of loan origination. Interest accrued during the first twelve months is divided into 108 equal installments and added to the calculated payments of principal and interest during the thirteenth through the one-hundred twentieth month of the note unless the note is prepaid, in which case, all interest accrued would be payable in full at time of principal payoff. The notes are secured by a first lien and security interest in all monies in microloan revolving fund accounts, monies restricted in loan loss reserves fund accounts, and all microloan notes receivable outstanding.		
The original unsecured note payable to PNC Bank, NA at 2.75% per annum, payable quarterly is dated August 24, 2011, was due and payable in full on September 1, 2016, along with any accrued interest on the outstanding principal. The Note contains a prepayment cost recovery provision requiring a payment to PNC Bank, NA equal to the losses incurred by PNC Bank, NA as a result of any prepayments. On December 15, 2015, the original note was refinanced with an increased funding level of $100,000 resulting in a refinanced note of $600,000 at 3% with interest payments starting on March 18, 2016. The note matures on December 18, 2020, at which time the entire loan principal will be due.	$ 600,000	$ 500,000
Total notes payable	5,221,889	4,361,868
Notes payable—current maturities	(459,888)	(941,628)
Notes payable—net of current maturities	$4,762,001	$3,420,240

Maturities of notes payable are as follows:

2017	459,888
2018	547,547
2019	1,874,705
2020	459,037
2021 and thereafter	1,880,712

K—FAIR VALUE MEASUREMENT

The following table sets forth by level, within the fair value hierarchy, EDG's financial instruments at fair value as of year-end:

	2016			
	Level 1	Level 2	Level 3	Total Value
Money market funds	$ 0	$0	$0	$ 0 -

	2015			
	Level 1	Level 2	Level 3	Total Value
Money market funds	$0	$0	$0	$0 -

L—EQUITY EQUIVALENT INVESTMENT

EDG has three outstanding amounts under equity equivalent securities agreements--one with the United States Department of the Treasury (Treasury), and two with Wells Fargo Community Investment Holdings (Wells Fargo). These securities are subordinated and junior in right of payment, as to principal, interest and premium, to all claims against EDG and possess attributes of corporate stock but do not constitute a class of stock or represent any equity ownership. These obligations are not secured by the assets of EDG. The securities have not been registered under the securities Act of 1933, as amended, or the securities laws of any state.

The principal sum of $320,000 associated with the Treasury agreement is due in full on September 29, 2019, along with all accrued interest on any outstanding principal on that date. However, EDG may elect to extend the Maturity date to September 20, 2021, with a 90 day notice of such election. Interest of 2% is payable quarterly in arrears on January 1, April 1, July 1, and October 1, of each year until the 8th year anniversary of the original issue date, which is September 20, 2011. Beginning with the 33rd quarterly interest payment period of the 8th year anniversary and thereafter, interest is payable at 9%.

The principal sum of $250,000, associated with the first Wells Fargo agreement, entered into on December 14, 2012, is due in full on December 14, 2022, along with all accrued interest on any outstanding principal on that date. Interest of 2% is payable quarterly in arrears on the 15th day of the month after the end of each calendar quarter following the Disbursement Date. Unless EDG delivers to Wells Fargo within thirty days prior to the maturity date a written request, not to extend, the maturity date will automatically extend for two years beyond the maturity date. During the extended period quarterly principal payments shall be made in eight equal amounts of $31,250 commencing March 15, 2023, with a final payment being made on December 14, 2024. During the extended period interest payments will continue at the rate above on the balance outstanding from time to time.

L—EQUITY EQUIVALENT INVESTMENT (continued)

The principal sum of $200,000, associated with the second Wells Fargo agreement, entered into on December 7, 2015, is due in full on December 7, 2025, along with all accrued interest on any outstanding principal on that date. Interest of 2% is payable quarterly in arrears on the 15th day of the month after the end of each calendar quarter following the Disbursement Date. Unless EDG delivers to Wells Fargo within thirty days prior to the maturity date a written request, not to extend, the maturity date will automatically extend for two years beyond the maturity date. During the extended period quarterly principal payments shall be made in eight equal amounts of $25,000 commencing April 1, 2026, with a final payment being made on December 14, 2027. During the extended period interest payments will continue at the rate above on the balance outstanding from time to time.

M—EMPLOYEE BENEFIT PLAN

EDG maintains an IRC 403 (b) Tax Deferred Annuity Plan for its employees. Employees are eligible to participate on the first entry date on or following completion of one year of service. EDG makes discretionary contributions to the plan on an annual basis. Employees may elect to contribute, pursuant to a salary reduction agreement, a percentage of annual compensation not to exceed the limits of IRC sections 403 (b), 402 (g) and 415. Contributions are invested in individual flexible premium deferred annuity contracts issued by an insurance company. Contributions for the year ended September 30, 2016, and 2015, were $58,114 and $73,620, respectively.

N—COMMITMENTS AND CONTINGENCIES

Grants and loans require the fulfillment of certain conditions set forth in the underlying agreements. Failure to fulfill or comply with the conditions could result in the return of funds to the grantor or lender and the termination of the funding agreements. Although this is a possibility, EDG's Board of Directors consider the possibility remote, since by accepting the funds, they have accommodated the objectives of EDG to the provisions of the grants and loans.

Amounts received under grant agreements are subject to audit and adjustments by the funding agency. Any disallowed cost, including amounts already collected, may constitute a liability for EDG. The amounts, if any, of expenditures, which may be disallowed by the funding agency, are recorded at the time that such amounts can be reasonably determined, normally upon notification of the agency. No such adjustments were made during the 2015, fiscal year.

In the ordinary course of business, EDG is subject to litigation for which it carries professional and general liability coverage. The insurance program is designed to provide protection to EDG from such liabilities on a claims-made basis. Professional liability claims may be asserted arising from services provided to clients in the past. Management is unaware of any claims against EDG.

O—UNCERTAIN TAX POSITIONS

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, EDG may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of EDG and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2016, and 2015.

EDG files its form 990 in the U.S. federal jurisdiction and the Department of Taxation for the State of Virginia. EDG is generally no longer subject to examination by the Internal Revenue Service for years before 2012.

P—CONCENTRATIONS

Credit Risk Arising from Cash Deposits in Excess of Insured Limits
EDG maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 in each ownership category. At September 30, 2016, and 2015, EDG's uninsured cash balances total $7,258,592 and $6,320,379, respectively. EDG has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents due to the creditworthiness of the financial institutions.

Revenues During 2016, and 2015, EDG derived approximately 51% and 49%, respectively, of its support from agreements with various U.S. federal government agencies. Additionally 98% and 86% of its grants receivable relate to agreements with the Federal government in 2016, and 2015, fiscal years, respectively. A significant variation in the level of this support, if this were to occur, would have a material effect on EDG's programs and activities.

Q—RECLASSIFICATION

Certain account balances have been reclassified to make the prior year statements comparable to the current year.

R—RELATED PARTIES

EDG earned rental commissions of $17,359 and $17,511 in 2016, and 2015, respectively, under an operating lease agreement with Highland Holdings, LLC whose sole member is the Ethiopian Community Development Council, Inc. The President of EDG also functions as the President of ECDC and as an ex-officio member of the Board of Directors of both entities. The Senior Vice President of ECDC also serves as an ex-officio member of the Board of Directors of both entities.

R—RELATED PARTIES (continued)

EDG has executed and operates under a ‘management agreement’ with ECDC, which requires EDG to reimburse ECDC for certain shared expenses, including those incurred by virtue of both entities conducting business within the same premises. Management fees incurred and paid under the agreement totaled $74,638 in both fiscal years 2016, and 2015.

On March 15, 2012, in the normal course of its activities, EDG made available a micro loan to a start-up entity in the amount of $31,099.72. The subject entity is wholly controlled by the spouse of a member of the senior management team of EDG. The related party note was fully paid off in fiscal 2016; while in 2015 the unpaid balance stood at $13,968.17.

Under a loan agreement dated May 14, 2015, EDG made available to ECDC a loan of $150,000. The repayment terms of the note has been extended and modified during which time interest only payments at the rate of 6% per annum are made. The loan is fully funded from the general funds of EDG. At September 30, 2016 and 2015, the note balance is $150,000.

S—SUBSEQUENT EVENTS

EDG’s management has evaluated the events that have occurred subsequent to September 30, 2016, through February 14, 2017, the date that the financial statements were available to be issued.

Management has determined no events have occurred during this period that require adjustment to or disclosure in the financial statements. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

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INDEPENDENT AUDITORS' 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

The Board of Directors
ECDC Enterprise Development Group
Arlington, VA

We have audited the financial statements of the ECDC Enterprise Development Group (EDG) as of and for the year ended September 30, 2016, and have issued our report thereon dated February 14, 2017. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered EDG's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EDG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EDG's internal control over financial reporting.

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 EDG's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, others within EDG, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Largo, MD
February 14, 2017

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INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH UNITED STATES OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A-133

The Board of Directors
ECDC Enterprise Development Group
Arlington, VA

Compliance

We have audited the compliance of ECDC Enterprise Development Group (EDG) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of EDG's major federal programs for the year ended September 30, 2016. EDG's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of EDG's management. Our responsibility is to express an opinion on EDG's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about EDG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of EDG's compliance with those requirements.

In our opinion, EDG complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Internal Control Over Compliance

Management of EDG is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered EDG's internal control over compliance with the requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of EDG's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within EDG, the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Largo, MD
February 14, 2017

SUPPLEMENTARY INFORMATION

ECDC ENTERPRISE DEVELOPMENT GROUP

Schedule of Expenditure of Federal Awards

For the Year Ended September 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal Catalog of Federal Domestic Assistance Number/ Contract Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Direct programs		
Administration for Children and Families—Office of Refugee Resettlement		
Micro-Enterprise Opportunities	93.576	$ 242,982
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		242,982
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass-through programs		
Arlington County, Commonwealth of Virginia—Community Development Block Grant program (microenterprise loan program, small business rent assistance program, business incubator program)	14.218	42,743
Fairfax County —Community Development Block Grant program	14.218	37,500
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		80,243
U.S. DEPARTMENT OF THE TREASURY		
Community Development Financial Institution	21.020	215,000
Small Business Lending Fund	21.020	218,000
TOTAL U.S. DEPARTMENT OF THE TREASURY		433,000
U.S. SMALL BUSINESS ADMINISTRATION		
Microloan Technical Assistance program	59.046	443,141
Microloan program	73-4279	1,450,319
TOTAL U.S. SMALL BUSINESS ADMINISTRATION		1,893,460
Total Expenditures of Federal Awards		$ 2,649,685

The accompanying notes are an integral part of this schedule.

Notes to Schedule of Expenditure of Federal Awards

For the Year Ended September 30, 2016

A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The accompanying Schedule of Expenditures of Federal Awards (the Schedule) present a summary of the financial activities of the ECDC Enterprise Development Group (EDG) for the year ended September 30, 2016, which have been funded by the federal government. The Schedule has been prepared on the accrual basis of accounting, except for federal award expenditures by sub-recipients, and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-122, "*Cost Principles for Non-Profit Organizations*," (OMB A-122) and include all expenditures of federal awards, direct and pass-through, received by EDG from federal and state grantor agencies. Federal awards are deemed to be expended by EDG when the funds are disbursed to sub-recipients, regardless of when the sub-recipients expend the federal funds. For purposes of the Schedule, federal awards include all federal financial assistance entered into directly between the federal government and EDG and federal funds awarded to EDG by a prime recipient pursuant to federal financial assistance agreements.

The information in the Schedule is presented in accordance with the requirements of the OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of EDG's basic financial statements. Because the Schedule presents only federal expenditure activities of EDG, they are not intended to and do not present the financial position, changes in net assets or cash flows of EDG as a whole.

Expenditures consist of direct and indirect costs. Under cost principles embodied in OMB A-122, certain types of expenditures are not allowable or are limited as to reimbursement.

B—FRINGE BENEFITS AND INDIRECT COSTS

EDG recovers fringe benefits and indirect costs associated with federal award programs pursuant to provisional rates negotiated with EDG's cognizant agency, the U.S. Department of Health and Human Services. These rates were effective from October 1, 2013 until amended and were unchanged from the period October 1, 2012 through September 30, 2013. During fiscal 2016 EDG had a provisional fringe benefit rate of 36.1% based on direct salaries and a provisional indirect cost rate of 26.7% based on modified total direct costs.

ECDC ENTERPRISE DEVELOPMENT GROUP

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2016

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified that are not considered to be material weakness? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Significant deficiencies identified that are not considered to be material weakness? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

Major programs: (1) **CFDA:** 73.4279 **Name:** Microloan program;

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? Yes

The accompanying notes are an integral part of this schedule.

ECDC ENTERPRISE DEVELOPMENT GROUP

Schedule of Functional Expenses

For the Year Ended September 30, 2016

	PROGRAM SERVICES			
	Micro-Enterprise Development	Total	General and Administrative	Grand Total
Salary	$ 464,708	$ 464,708	$ 90,034	$ 554,742
Fringe benefits	167,890	167,890	32,503	200,393
Interest	55,594	55,594		55,594
Bad debts	16,342	16,342		16,342
Licenses and taxes		-	599	599
Maintenance		-		-
Depreciation			248	248
Meetings, conferences and seminars	9,539	9,539	391	9,930
Postage and shipping	1,315	1,315	40	1,355
Printing	1,395	1,395	636	2,031
Professional fees	27,011	27,011	34,405	61,416
Outreach and advertsing	10,597	10,597	366	10,963
Subscriptions and membership dues	-	-	2,095	2,095
Supplies	8,501	8,501	264	8,765
Client assistance	-	-		-
Telephone, internet, network	1,915	1,915	158	2,073
Technology	-	-	1,894	1,894
Travel	1,611	1,611	1,153	2,764
Management fees	-	-	74,638	74,638
Total	$ 766,418	$ 766,418	$ 239,424	$ 1,005,842

ECDC ENTERPRISE DEVELOPMENT GROUP

Schedule of Functional Expenses

For the Year Ended September 30, 2015

	Micro-enterprise development	Total	General and Administrative	Grand Total
Salary	$ 400,655	$ 400,655	$ 186,310	$ 586,965
Fringe benefits	144,636	144,636	67,258	211,894
Interest	44,180	44,180		44,180
Bad debts	3,415	3,415		3,415
Licenses and taxes		-	500	500
Maintenance		-	380	380
Depreciation			248	248
Meetings, conferences and seminars	1,881	1,881	3,554	5,435
Postage and shipping	2,402	2,402	-	2,402
Printing	1,133	1,133	-	1,133
Professional fees	20,320	20,320	13,428	33,748
Outreach and advertsing	7,959	7,959	320	8,279
Subscriptions and membership dues	63	63	1,200	1,263
Supplies	8,800	8,800	1,298	10,098
Client assistance	9,000	9,000		9,000
Telephone, internet, network	1,687	1,687		1,687
Technology	1,586	1,586	175	1,761
Travel	774	774	2,280	3,054
Management fees	-	-	74,638	74,638
Total	$ 648,491	$ 648,491	$ 351,589	$ 1,000,080