

**Audited Financial Statements,
Supplementary Information,
and Compliance Reports**

Carolina Small Business Development Fund

Years Ended June 30, 2021 and 2020

Audited Financial Statements, Supplementary Information, and Compliance Reports

Carolina Small Business Development Fund

Years Ended June 30, 2021 and 2020

Audited Financial Statements

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Independent Auditors' Report

Board of Directors
Carolina Small Business Development Fund
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 Carolina Small Business Development Fund as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of ASU 2014-09

As discussed in Note A to the financial statements, Carolina Small Business Development Fund adopted FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Independent Auditors' Report--Continued

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2021, on our consideration of Carolina Small Business Development Fund'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 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 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 Carolina Small Business Development Fund's internal control over financial reporting and compliance.

Romeo, Wiggins & Company, C.L.P.

Raleigh, North Carolina
December 21, 2021

Statements of Financial Position

Carolina Small Business Development Fund

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS:		
Operating funds	\$ 4,142,278	\$ 4,009,940
Committed loan support funds - small business lending	<u>11,389,737</u>	<u>7,386,907</u>
Total cash, cash equivalents, and restricted cash equivalents	15,532,015	11,396,847
OTHER COMMITTED SUPPORT FUNDS:		
SEDA - for CDCU lending	138,872	145,385
Mortgage loans - GCCU	<u>127,786</u>	<u>132,196</u>
	266,658	277,581
Less: Reserve on at-risk deposits/mortgage loans	<u>(37,869)</u>	<u>(37,869)</u>
Total other committed support funds	228,789	239,712
LOANS RECEIVABLE:		
Loans - small business lending	22,396,436	28,691,363
Less: Loan loss reserves	<u>(2,115,715)</u>	<u>(1,722,154)</u>
Total loans receivable	20,280,721	26,969,209
OTHER RECEIVABLES:		
Grants receivable	335,487	923,178
Contracts receivable (loans placed on behalf of Rural Center)	-	542,597
Administrative fees receivable	2,221	27,669
NMTC Leverage Loan	2,135,000	2,135,000
Other	<u>104,193</u>	<u>15,066</u>
Total other receivables	2,576,901	3,643,510
PREPAID EXPENSES	47,108	31,834
FIXED ASSETS:		
Leasehold improvements	3,508	3,508
Equipment and computers	211,176	211,176
Furniture and fixtures	<u>81,859</u>	<u>81,859</u>
	296,543	296,543
Less: Allowance for depreciation	<u>(290,892)</u>	<u>(280,687)</u>
Total fixed assets	5,651	15,856
TOTAL ASSETS	\$ <u>38,671,185</u>	\$ <u>42,296,968</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 41,174	\$ 127,183
Accrued interest	31,121	89,118
Accrued vacation	80,864	92,836
Deferred support	-	122,105
Deferred revenue:		
Durham Small Business Recovery Fund	-	50,000
Emergency Stabilization Loan Fund (Mecklenburg County)	-	333,333
NC Rapid Recovery Loan Program (Rural Center)	<u>-</u>	<u>250,000</u>
Total deferred revenue	-	633,333
Funds held in agency (not yet placed/disbursed):		
Raleigh Small Business COVID-19 Relief Fund	-	76,957
Durham Small Business Recovery Fund	1,178,601	1,000,000
Emergency Stabilization Loan Fund (Mecklenburg County)	438,070	1,723,903
Mecklenburg County Small Business Loan Program	179,783	166,244
NC Rapid Recovery Loan Program (Rural Center)	<u>7,086</u>	<u>-</u>
Total funds held in agency	1,803,540	2,967,104
PPP forgivable loan	656,900	656,900
Notes payable	<u>21,741,218</u>	<u>24,105,399</u>
TOTAL LIABILITIES	24,354,817	28,793,978
NET ASSETS		
Without donor restrictions	8,396,608	8,817,606
With donor restrictions	<u>5,919,760</u>	<u>4,685,384</u>
TOTAL NET ASSETS	14,316,368	13,502,990
TOTAL LIABILITIES AND NET ASSETS	\$ <u>38,671,185</u>	\$ <u>42,296,968</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 94,227	\$ 2,995,003	\$ 3,089,230
COVID-19 financial assistance	14,415	1,936,505	1,950,920
Contributions	3,746		3,746
Special events revenue	70,868		70,868
Administrative fees	782,360		782,360
Dividend income	11,821	158	11,979
Mortgage interest	6,837		6,837
Loan closing/servicing revenue	57,571	1,897	59,468
Repayment of bad debt	267,526		267,526
Business loan interest	1,544,639	195,569	1,740,208
Origination fees	6,600		6,600
Membership fees			-
Other income	2,538		2,538
Net assets released from restrictions due to satisfaction of:			
Purpose restrictions	3,784,756	(3,784,756)	-
Time restrictions	110,000	(110,000)	-
	<u>6,757,904</u>	<u>1,234,376</u>	<u>7,992,280</u>
TOTAL SUPPORT, REVENUES, AND OTHER INCOME			
EXPENSES:			
Program services	6,078,876		6,078,876
Support services:			
Management and general	1,090,139		1,090,139
Fundraising	9,887		9,887
Total support services	<u>1,100,026</u>	<u>-</u>	<u>1,100,026</u>
	<u>7,178,902</u>	<u>-</u>	<u>7,178,902</u>
TOTAL EXPENSES			
CHANGE IN NET ASSETS	(420,998)	1,234,376	813,378
Net assets, beginning of year	<u>8,817,606</u>	<u>4,685,384</u>	<u>13,502,990</u>
NET ASSETS, END OF YEAR	<u>\$ 8,396,608</u>	<u>\$ 5,919,760</u>	<u>\$ 14,316,368</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 1,363,766	\$ 1,637,959	\$ 3,001,725
Contributions	3,338		3,338
Special events revenue	67,629		67,629
Administrative fees	461,196		461,196
Dividend income	40,365	144	40,509
Mortgage interest	9,817		9,817
Loan closing/servicing revenue	107,490	2,357	109,847
Repayment of bad debt	75,845		75,845
Business loan interest	1,597,692	207,864	1,805,556
Origination fees	64,538		64,538
Membership fees	7,500		7,500
Other income	18,343		18,343
Net assets released from restrictions due to satisfaction of:			
Purpose restrictions	1,822,159	(1,822,159)	-
Time restrictions	50,000	(50,000)	-
TOTAL SUPPORT, REVENUES, AND OTHER INCOME	5,689,678	(23,835)	5,665,843
EXPENSES:			
Program services	5,561,481		5,561,481
Support services:			
Management and general	1,304,825		1,304,825
Fundraising	64,880		64,880
Total support services	1,369,705	-	1,369,705
TOTAL EXPENSES	6,931,186	-	6,931,186
CHANGE IN NET ASSETS	(1,241,508)	(23,835)	(1,265,343)
Net assets, beginning of year	10,059,114	4,709,219	14,768,333
NET ASSETS, END OF YEAR	\$ 8,817,606	\$ 4,685,384	\$ 13,502,990

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2021

	Program Services	Support Services	Total
	<u> </u>	<u> </u>	<u> </u>
PERSONNEL:			
Salaries	\$ 1,229,443	\$ 635,974	\$ 1,865,417
Employee benefits	200,919	60,015	260,934
Payroll taxes	112,132	33,494	145,626
Total personnel	<u>1,542,494</u>	<u>729,483</u>	<u>2,271,977</u>
OTHER EXPENSES:			
Interest expense	603,484		603,484
Marketing and newsletter	33,170	8,293	41,463
Bank fees	26,277		26,277
Telephone	35,237	9,939	45,176
Professional fees	130,164	36,713	166,877
Contract services	594,368	167,642	762,010
Subscriptions, sponsorships and dues	30,738	8,670	39,408
Staff travel	4,382	1,236	5,618
Seminars, conferences, and workshops	37,481	6,614	44,095
Board meeting expenses			-
Office supplies and expenses	31,048	8,253	39,301
Printing and copying	2,308	651	2,959
Software	113,127	23,171	136,298
Office occupancy	100,764	28,421	129,185
Insurance and bonding	32,795	9,250	42,045
Postage	2,783	785	3,568
Provision for losses on loans	1,434,971		1,434,971
Loan servicing fees	37,790	10,659	48,449
Legal expenses	116,620	32,893	149,513
Staff development	18,509	5,221	23,730
Fundraising expense		9,887	9,887
Grant repayment	86,813		86,813
Grants	<u>1,055,594</u>		<u>1,055,594</u>
Total other expenses	<u>4,528,423</u>	<u>368,298</u>	<u>4,896,721</u>
Total operating expenses before depreciation	6,070,917	1,097,781	7,168,698
Depreciation	<u>7,959</u>	<u>2,245</u>	<u>10,204</u>
TOTAL EXPENSES	<u>\$ 6,078,876</u>	<u>\$ 1,100,026</u>	<u>\$ 7,178,902</u>

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2020

	Program Services	Support Services	Total
PERSONNEL:			
Salaries	\$ 1,731,038	\$ 800,951	\$ 2,531,989
Employee benefits	250,529	74,833	325,362
Payroll taxes	153,155	45,748	198,903
Total personnel	<u>2,134,722</u>	<u>921,532</u>	<u>3,056,254</u>
OTHER EXPENSES:			
Interest expense	741,057		741,057
Marketing and newsletter	22,899	6,458	29,357
Bank fees	33,075		33,075
Telephone	57,354	16,177	73,531
Professional fees	110,654	31,210	141,864
Contract services	451,213	127,265	578,478
Subscriptions, sponsorships and dues	21,381	6,030	27,411
Staff travel	65,180	18,384	83,564
Seminars, conferences, and workshops	28,591	5,046	33,637
Board meeting expenses	2,041	960	3,001
Office supplies and expenses	27,817	7,395	35,212
Printing and copying	6,271	1,769	8,040
Software	110,855	22,705	133,560
Office occupancy	120,380	33,953	154,333
Insurance and bonding	21,665	6,111	27,776
Postage	7,004	1,976	8,980
Provision for losses on loans	1,098,114		1,098,114
Loan servicing fees	118,754	33,495	152,249
Legal expenses	175,172	49,408	224,580
Staff development	32,260	9,100	41,360
Fundraising expense		64,880	64,880
Grant repayment	154,278		154,278
Total other expenses	<u>3,406,015</u>	<u>442,322</u>	<u>3,848,337</u>
Total operating expenses before depreciation	5,540,737	1,363,854	6,904,591
Depreciation	<u>20,744</u>	<u>5,851</u>	<u>26,595</u>
TOTAL EXPENSES	<u>\$ 5,561,481</u>	<u>\$ 1,369,705</u>	<u>\$ 6,931,186</u>

See independent auditors' report and notes to financial statements.

Statements of Cash Flows

Carolina Small Business Development Fund

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 813,378	\$ (1,265,343)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,204	26,595
Provision for losses on loans	1,434,971	1,098,114
Changes in operating assets and liabilities:		
Grants receivable	587,691	(235,033)
Other receivables	478,918	(510,891)
Prepaid expenses	(15,274)	23,514
Accounts payable and accrued expenses	(155,978)	47,449
Deferred support	(122,105)	90,840
Deferred revenue	(633,333)	633,333
Funds held in agency	(1,163,564)	2,967,104
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,234,908</u>	<u>2,875,682</u>
INVESTING ACTIVITIES		
Decrease in other committed support funds	10,923	18,884
Small business loans funded	(623,705)	(5,494,457)
Principal payments received on small business loans	5,877,223	4,668,261
Purchases of fixed assets	-	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>5,264,441</u>	<u>(807,312)</u>
FINANCING ACTIVITIES		
Proceeds from PPP forgivable loan	-	656,900
Proceeds from other borrowings	1,000,000	450,000
Principal payments on borrowings	(3,364,181)	(1,927,842)
NET CASH USED IN FINANCING ACTIVITIES	<u>(2,364,181)</u>	<u>(820,942)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS	4,135,168	1,247,428
Cash, cash equivalents, and restricted cash equivalents, beginning of year	<u>11,396,847</u>	<u>10,149,419</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, END OF YEAR	<u>\$ 15,532,015</u>	<u>\$ 11,396,847</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 661,481	\$ 734,617
NONCASH INVESTING AND FINANCING ACTIVITIES		
Charge-offs against loan loss reserves:		
Uncollectible loans	\$ 1,041,410	\$ 1,442,667

See independent auditors' report and notes to financial statements.

Notes to Financial Statements

Carolina Small Business Development Fund

Years Ended June 30, 2021 and 2020

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization: Carolina Small Business Development Fund (the Organization/Carolina Small Business/formerly known as The Support Center) is a statewide nonprofit and certified Community Development Financial Institution. The Organization's mission is to foster economic development in underserved communities by providing capital, business services, and policy research to support small businesses.

In 2010, Carolina Small Business launched its Small Business Revolving Loan Fund Program (SBRLF), targeting underserved communities and populations that find it difficult to access capital. The Organization also provides financial training and technical assistance to start-ups and existing businesses and lending services to community-based organizations.

Carolina Small Business is the sole member of Carolina Capital Impact, Inc., a 501(c)3 nonprofit entity formed in March 2017. The subsidiary has no holdings and no activity to date.

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting.

Adoption of ASU 2014-09: Effective July 1, 2020, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method of transition. The core principle of the guidance in ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The Organization applied the requirements of the standard to agreements that either were not complete at July 1, 2020, or were entered into after July 1, 2020. The adoption of ASU 2014-09 resulted in no significant changes in the way the Organization recognizes revenue; therefore, no cumulative effect adjustment was required as of July 1, 2020. The presentation and disclosures of revenue have been enhanced as required by the standard.

Display of Net Assets by Class: The Organization's net assets have been grouped into the following classes:

Net Assets Without Donor Restrictions: These net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's net assets without donor restrictions include Board-designated net assets as detailed below. Board-designated net assets are not available to cover operating expenses, including budget shortfalls, unless specifically approved by the Board. Net assets without donor restrictions consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Operating reserves	\$ 1,301,586	\$ 1,700,222
Board-designated:		
Small business lending	6,860,582	6,861,816
At-risk deposits/mortgage loans	228,789	239,712
Property and equipment, net	<u>5,651</u>	<u>15,856</u>
Total net assets without donor restrictions	<u>\$ 8,396,608</u>	<u>\$ 8,817,606</u>

Carolina Small Business Development Fund

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

Net Assets With Donor Restrictions: These net assets are subject to restrictions imposed by donors and grantors. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that require resources to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions. At June 30, 2021 and 2020, the Organization has no net assets with donor restrictions that require resources to be maintained in perpetuity.

Cash, Cash Equivalents, and Restricted Cash Equivalents: *Operating funds* at June 30, 2021 and 2020 consist of amounts held in bank (credit union) checking and money market (savings/master share) accounts, as well as certificates of deposit (share term certificates) with minimal penalties for early withdrawal. Restricted cash equivalents at June 30, 2021 and 2020 consist of \$300,000 held in a bank certificate of deposit that collateralizes certain bank debt.

Committed loan support funds are available for small business lending, and may be subject to certain restrictions of the donor or creditor agency. These funds are largely held in checking accounts with various banks, but also include deposits in money market accounts (master share accounts) with banks (credit unions).

Refer also to *Note C--Significant Concentrations*.

Other Committed Support Funds: Other committed support funds include SEDA deposits held in a share term certificate and amounts due under mortgages purchased from Generations Community Credit Union (now, part of Self-Help Credit Union). The share term certificate is carried at face value plus accrued earnings thereon. Other committed support funds are recorded net of an allowance for losses on at-risk funds.

Loans Receivable: Carolina Small Business originates, processes, and underwrites loan applications and funds, and holds and services small business loans in portfolio. Terms and rates of loans vary depending upon the borrower's capital requirements and management's assessment of risk. Loans are placed on non-accrual status if 90 days past due and not in the process of collection. Loans are secured by the borrower; however, the realizable value of the borrower's collateral is generally dependent upon the operating results of the borrower's small business. Loans may also be secured under guaranteed loan programs and may be sold in the secondary market. Refer also to *Note D--Loans Receivable/Loan Loss Reserves*.

Loan Loss Reserves: Carolina Small Business provides a provision for losses on loans sufficient to cover estimated credit losses inherent in the loan portfolio, as well as a provision for losses on loans identified as impaired. Funded loan loss reserves are also maintained in compliance with specific funding or program guidelines.

Management utilizes historical losses and loss migration in estimating credit losses in the performing loan portfolio. Historical losses are adjusted for any qualitative or environmental factors that may cause estimated losses to differ from historical loss experience. Non-performing loans are individually evaluated for impairment and specific reserves allocated to cover any estimated impairment. Refer also to *Note D--Loans Receivable/Loan Loss Reserves*.

Carolina Small Business Development Fund

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

Recognition of Support: The Organization evaluates contributions, grants, and contracts to determine whether the transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred, or (2) a contribution. If determined to be an exchange transaction, revenue is recognized in accordance with ASC Topic 606. If the transfer of assets is determined to be a contribution, the Organization evaluates whether the contribution is conditional based on whether the agreement includes both (1) one or more barriers that must be overcome and (2) either a right of return of assets transferred or a right of release from the donor's obligation to transfer assets. Grants and contributions requiring a match are considered conditional until the match is satisfied, wholly or in part, as defined by agreement. Cost-reimbursement grants are considered conditional until qualifying expenditures are incurred. Support from loan assistance programs is generally recognized upon closing of the funded loans or upon incurrence of other qualifying expenditures. Event sponsorships are considered conditional until the event is held. Amounts received in advance of conditions being met are included in deferred support in the statement of financial position. Support from unconditional grants and contributions is recognized as an increase in either net assets without donor restrictions or net assets with donor restrictions, based on the absence or presence of any donor-imposed restrictions.

Grants Receivable: Grants receivable at June 30, 2021, consists primarily of amounts due from federal and state agencies and financial institutions. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are unsecured and are expected to be collected within a year.

Recognition of Revenues: Revenues are derived primarily from the Organization's small business lending program and from contracts to administer grant and loan programs on behalf of others. Revenues are recognized when performance obligations in an exchange transaction are satisfied. Revenue from service contracts is recognized as services are provided in an amount that reflects the consideration the Organization expects to be entitled to receive in exchange for those services. Amounts collected in advance are included in deferred revenue. Refer also to *Note J--Administration of Loan and Grant Programs/Funds Held in Agency*.

Contracts Receivable: Contracts receivable at June 30, 2020, consists of amounts due from a nonprofit organization. The receivable was collected in full in fiscal 2021.

NMTC Leverage Loan: On August 1, 2018, Carolina Small Business agreed to participate as an Intermediary Community Development Entity (CDE) in a collaborative effort to increase investment in low-income communities, while providing investors access to certain New Market Tax Credits (NMTC) allocated by the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI). Carolina Small Business extended a Leverage Loan of \$2,135,000 to a member of the investment group. The Leverage Loan (receivable) requires quarterly interest payments at 5% per annum, with principal due upon maturity on October 31, 2025. The Leverage Loan is collateralized by the borrower's interest in an investee of the investment group, as defined by agreement. Carolina Small Business also entered into promissory notes totaling \$3,050,000 with members of the investment group. The notes payable of \$3,050,000 require quarterly interest payments at 3.5%, with principal due upon maturity on October 31, 2025. Carolina Small Business, in turn, committed loans of \$1,350,000 and \$1,700,000, respectively, to two businesses serving low-income communities. For its participation as an Intermediary CDE, Carolina Small Business is designated to receive exit fees of \$205,875, unless otherwise defined by agreement, on or about October 31, 2025.

Fixed Assets: Fixed assets are recorded at cost at the date of purchase or at fair market value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, contributions of fixed assets are recorded as without donor restrictions. Depreciation is computed over the estimated useful lives of the respective assets on a straight-line basis. Fixed asset purchases greater than \$2,500 are capitalized, with purchases below that threshold expensed as incurred.

Carolina Small Business Development Fund

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

PPP Forgivable Loan: The Organization has elected to account for amounts received under the Paycheck Protection Program (PPP) forgivable loan program as a liability until the loan is forgiven or repaid. Management expects the loan to be forgiven in fiscal 2022. Refer also to *Note L--Commitments and Contingencies* as pertains to *COVID-19*.

Tax Status: Carolina Small Business Development Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law, except on net income, if any, derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization qualifies for the charitable contributions deduction under Section 170(b)(1)(A)(vi) and, therefore, has been qualified as an organization that is not a private foundation under Section 509(a)(2).

Fair Value of Financial Instruments: The carrying values of cash equivalents, grants and contracts receivable, payables, and accrued expenses are considered to approximate the fair values of such at June 30, 2021 and 2020, due to the short-term maturity of these financial instruments. Other committed support funds are carried at fair value as further described in *Note I--Fair Value Measurements*. Loans receivable are carried at face value, less loan loss reserves. Notes payable are carried at face value. Carolina Small Business makes and receives loans with stated interest rates that are consistent with community development market rates. Therefore, management believes the net carrying values of loans receivable and notes payable approximate the fair values of these financial instruments.

Functional Allocation of Expenses: The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly thereto. Certain indirect expenses are allocated to programs based on estimated usage and/or benefit.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from these estimates. Refer also to *Note D--Loans Receivable/Loan Loss Reserves* as pertains to a significant estimate.

Future Pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021, as deferred by ASU 2020-05. The standard provides for a modified retrospective transition approach for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Entities are also allowed to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets, with certain practical expedients available. The Organization is currently evaluating the impact of the adoption of this ASU on future financial statements.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The update introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing incurred loss methodology. The standard will be effective for fiscal years beginning after December 15, 2022, as deferred by ASU 2019-10. Management is currently evaluating the impact of the adoption of this ASU on future financial statements.

NOTE B--AVAILABILITY AND LIQUIDITY OF ASSETS (including a subsequent event)

The following reflects the Organization’s financial assets that are available for general expenditures within one year of the statement of financial position date (June 30):

	<u>2021</u>	<u>2020</u>
Operating funds	\$ 4,142,278	\$ 4,009,940
Grants, contracts, and administrative fees receivable	337,708	1,493,444
Other receivables	104,193	15,066
Less: Funds held in agency/in operating funds	(1,178,601)	(1,076,957)
Less: Minimum cash balance required by lender	<u>(300,000)</u>	<u>(300,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,105,578</u>	<u>\$ 4,141,493</u>

In August 2020, the Organization obtained a \$500,000 bank line of credit to be used for working capital. To date, no borrowings have been taken against the line of credit.

On November 18, 2021, North Carolina passed a biennial budget that includes an appropriation for Carolina Small Business Development Fund of \$3,500,000 for each of the years ending June 30, 2022 and 2023. Refer also to *Note C--Significant Concentrations* as pertains to *Support Risk*.

NOTE C--SIGNIFICANT CONCENTRATIONS (including subsequent events)

Deposit Risk: Carolina Small Business maintains operating deposits and other support funds at various financial institutions, the financial condition and credit ratings of which are monitored by the Organization’s management on an ongoing basis. Deposit accounts are eligible for up to \$250,000 of insurance coverage per bank (credit union) provided by the Federal Deposit Insurance Corporation (National Credit Union Administration). Deposits in excess of federally insured limits approximated \$13,590,000 at June 30, 2021, though the Organization has incurred no loss as a result of such.

Credit Risk: At June 30, 2021, loans receivable includes \$4,658,451 (20.80%) due from five borrowers, which includes loans of \$1,700,000 (7.59%) and \$1,450,000 (6.47%) due from two borrowers. No loans receivable from the aforementioned five borrowers were past due at June 30, 2021 or subsequent thereto. At June 30, 2021, grants receivable includes approximately \$282,000 due from a federal agency. At the date on which the financial statements were available to be issued, approximately \$237,000 of this receivable remains outstanding.

Carolina Small Business Development Fund

NOTE C--SIGNIFICANT CONCENTRATIONS (including subsequent events) -- Continued

Support Risk (including a State Appropriation): Approximately 64% and 53% of the Organization's support and revenues for the years ended June 30, 2021 and 2020, respectively, were derived from grants and financial assistance awards. Approximately \$2,000,000 of financial assistance recognized in fiscal 2021 is specific to the COVID-19 pandemic.

On November 18, 2021, North Carolina passed a biennial budget that includes an appropriation for Carolina Small Business Development Fund of \$3,500,000 for each of the years ending June 30, 2022 and 2023. These funds will be available for small business lending (approximately \$600,000 annually) and for providing financial training to start-ups and existing businesses and lending services to community-based organizations.

NOTE D--LOANS RECEIVABLE / LOAN LOSS RESERVES

Loans receivable of \$22,396,436 (including 279 loans) and \$28,691,363 (including 361 loans) at June 30, 2021 and 2020, respectively, are due from small businesses in underserved communities throughout North Carolina. Outstanding loans at June 30, 2021 have terms ranging from one to twenty years and bear interest at rates ranging from 0% to 14.75%. Refer also to *Note L--Commitments and Contingencies* as pertains to no-interest forgivable loans.

Principal maturities of loans receivable approximate the following at June 30, 2021:

<u>Years Ending June 30</u>	
2022	\$ 5,022,606
2023	4,823,762
2024	2,570,789
2025	3,145,359
2026	2,762,262
Thereafter	<u>4,071,658</u>
	<u>\$ 22,396,436</u>

Charge-Offs: Charge-offs of \$1,041,410 and \$1,442,667 were taken against loans receivable for the years ended June 30, 2021 and 2020, respectively. Loans are charged-off when all or a portion of the loan balance is deemed uncollectible.

Loan Loss Reserves: Loans receivable at June 30, 2021 and 2020, are recorded net of a provision for losses on loans of \$2,115,715 (9.4%) and \$1,722,154 (6.0%), respectively, based on management's estimates of inherent and probable credit losses. Management's estimates are based largely on assessed risk ratings and the significance of nonperforming, past due, and restructured loans.

At June 30, 2021, loans receivable of \$1,993,839 (8.90%) are due under nonperforming loans, including \$147,233 considered delinquent (90 days or more past due and still accruing) and \$1,846,606 in nonaccrual status. At June 30, 2020, loans receivable of \$3,078,750 (10.73%) are due under nonperforming loans, including \$176,061 considered delinquent (90 days or more past due and still accruing) and \$2,902,689 in nonaccrual status.

A loan is placed on non-accrual status when the loan approaches 90 days past due, when it becomes likely the borrower cannot or will not make scheduled principal or interest payments, when full repayment of principal and interest is not expected, foreclosure action is initiated, or when the loan evidences loss characteristics.

Carolina Small Business Development Fund

NOTE D--LOANS RECEIVABLE / LOAN LOSS RESERVES -- Continued

Other credit risk factors for the loan portfolio are summarized below:

<u>Risk Rating</u>	<u>Loan Balance</u>	<u>31 – 60 Days</u>	<u>61 – 89 Days</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Troubled Debt Restructures</u>
<i>June 30, 2021</i>						
Pass	\$ 19,657,532	\$ 207,562	\$ 55,567	\$ 77,951	\$ 341,080	\$ 990,148
Watch	419,206	36,693	67,719	69,282	173,694	274,770
Classified	<u>2,319,698</u>	<u>227,108</u>	<u>182,281</u>	<u>1,637,917</u>	<u>2,047,306</u>	<u>645,950</u>
	<u>\$ 22,396,436</u>	<u>\$ 471,363</u>	<u>\$ 305,567</u>	<u>\$ 1,785,150</u>	<u>\$ 2,562,080</u>	<u>\$ 1,910,868</u>
<i>June 30, 2020</i>						
Pass	\$ 23,774,703	\$ 270,515	\$ 260,799	\$ 17,332	\$ 548,646	\$ 125,031
Watch	1,492,731	132,932	218,346	130,237	481,515	482,858
Classified	<u>3,423,929</u>	<u>31,839</u>	<u>241,477</u>	<u>2,148,229</u>	<u>2,421,545</u>	<u>1,374,115</u>
	<u>\$ 28,691,363</u>	<u>\$ 435,286</u>	<u>\$ 720,622</u>	<u>\$ 2,295,798</u>	<u>\$ 3,451,706</u>	<u>\$ 1,982,004</u>

The general characteristics for each risk rating are as follows:

Pass—Loans meeting Carolina Small Business’s normal underwriting criteria, including loans with more than average credit risk. Business is able to sustain normal, temporary setbacks, but may not be strong enough to sustain major setbacks. Borrower may be highly or fully leveraged. Only one reliable repayment source may exist.

Watch—Loans not posing an immediate credit risk, but the borrower may have a deteriorated situation or setback that will likely improve. Recent trends in the borrower’s operations and/or financial situation warrant close attention. Loans require more than normal supervision and attention from the lender.

Classified—Loans having a high probability of payment default, or they have other well-defined weaknesses that put at risk the possibility of the debt being fully repaid or liquidated. Classified loans are generally characterized by current or projected operational losses, inadequate debt service coverage, insufficient liquidity, or limited capital. Unless the deficiencies are corrected or remedied, these loans will probably result in some loss. Loans assigned to this risk rating require extensive monitoring.

Significant Estimate: Carolina Small Business has recognized a provision for losses on loans at June 30, 2021 and 2020, based on management’s best estimate of uncollectible loans. Management believes that loan loss reserves adequately provide for potential losses; however, it is at least reasonably possible that management’s estimate of potential losses may change significantly in the near term.

Federal Loan Programs: Carolina Small Business receives support and/or financing for small business lending under several federal programs. Lending activity under these programs is summarized as follows.

USDA–Intermediary Relending Program (IRP). Loans receivable of \$979,077 at June 30, 2021, bear interest at rates ranging from 5% to 8.5%. The program requires the Organization to maintain funded reserves of at least 6.0% of outstanding loans. Funded reserves approximate \$120,714 (12.3%) at June 30, 2021. Charge-offs of \$183,973 and \$118,838 were made during the years ended June 30, 2021 and 2020, respectively. None of the loans receivable have payments over 60 days past due at June 30, 2021. Refer to *Note E--Notes Payable* as pertains to pay-back of the loan funds.

Carolina Small Business Development Fund

NOTE D--LOANS RECEIVABLE / LOAN LOSS RESERVES -- Continued

USDA--Rural Micro-entrepreneur Assistance Program (RMAP). Loans receivable of \$82,699 at June 30, 2021, bear interest at rates ranging from 7.5% to 9.75%. The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Funded reserves approximate \$61,281 (74.1%) at June 30, 2021. Charge-offs of \$0 and \$25,533 were made during the years ended June 30, 2021 and 2020, respectively. Loans receivable of \$4,503 have payments over 60 days past due at June 30, 2021. Refer also to *Note E--Notes Payable* as pertains to pay-back of the loan funds.

SBA Intermediary Lending Pilot (ILP) Program. Loans receivable of \$477,555 at June 30, 2021, bear interest at rates ranging from 5% to 8.75%. The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Funded reserves approximate \$50,213 (10.5%) at June 30, 2021. Charge-offs of \$64,038 and \$24,657 were made for the years ended June 30, 2021 and 2020, respectively. Loans receivable of \$35,900 have payments over 60 days past due at June 30, 2021. Refer also to *Note E--Notes Payable* as pertains to pay-back of the loan funds.

Guaranteed Loan Programs: Carolina Small Business participates in certain guaranteed loan programs in order to provide long-term financing to small business concerns that would otherwise not be available.

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 (a) loan guaranties up to 85% for loans of \$250,000 or less. Approximately \$5,952,623 of the Organization's loans receivable at June 30, 2021, are guaranteed up to 75% or 85% by the CA program. The CA program requires the Organization to fund reserves of at least 5% of the unguaranteed portion of the CA loan portfolio, which approximates \$95,637 at June 30, 2021.

CA-guaranteed loans of \$2,543,386 were sold at a premium of \$96,561 in the secondary market during the year ended June 30, 2019. No such sales occurred during the years ended June 30, 2021 and 2020. The Organization is required to fund reserves of at least 3% of the guarantee on loans sold which approximates \$74,459. Carolina Small Business held \$285,876 in a PNC-funded loan loss account at June 30, 2021, satisfying both the 5% (in preceding paragraph) and 3% reserve requirements.

In fiscal 2020, the Organization requested that SBA repurchase five loans, the guaranteed portions of which totaled \$384,141. At June 30, 2021, the Organization had received \$63,037 against this request. No such requests were made in fiscal 2021.

Charlotte Community Capital Fund Program (CCCF) is a program to provide financing to small businesses within the Charlotte, North Carolina region that show promise, but do not meet one or more of participating lenders' normal underwriting criteria. CCCF provides participating lenders access to loan guaranties up to 85% for loans of \$150,000 or less. Approximately \$261,771 of the Organization's loans receivable at June 30, 2021, are guaranteed up to 85% by the Charlotte Community Capital Fund.

North Carolina Capital Access Program (NC CAP) is a program run by NC Rural Center, and available to partner lenders in all 100 North Carolina counties. Under the NC CAP program, the borrower and the lender contribute a total of two to seven percent of the loan amount, and the NC Rural Center matches this amount dollar-for-dollar. These funds grow to create a reserve account that each participating lender may use to offset losses on enrolled loans, thus helping offset the lender's risk. At June 30, 2021, the NC CAP program holds approximately \$234,233 as a credit enhancement reserve for Carolina Small Business loans enrolled in the program. Enrolled loans have outstanding balances of approximately \$810,610 in the aggregate at June 30, 2021.

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE (including subsequent events)

Notes payable consist of the following:

Creditor	Principal Payments	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2021	June 30, 2020
First Bank	Due in full at maturity	2.00%	Monthly	Dec. 2026	Unsecured	\$ 250,000	\$ 250,000
Mercy Investment Services	Due in full at maturity, as extended	3.50%	Quarterly	May 2024	Unsecured	500,000	500,000
First Horizon Bank (formerly Capital Bank)	Monthly beginning October 2019, deferred for Apr, May, Jun 2020	3.50%	Monthly beginning Oct. 2019	Dec. 2020	Unsecured	0	503,235
TD Bank	Quarterly beginning June 2019, as amended	5.00%	Monthly	Mar. 2023	Unsecured	247,772	372,772
Woodforest National Bank	\$500,000 due Oct. 2020 and Dec. 2021, as amended	3.35%	Monthly	Dec. 2021	Unsecured	500,000	1,000,000
CDFI Community Investment Fund, LLC. (formerly Woodforest National Bank)	Due in full at maturity	3.00%	Monthly	Dec. 2027	Unsecured	525,000	525,000
Appalachian Community Capital	Due in full at maturity	2.73%*	Monthly	Sept. 2027*	Unsecured	500,000	1,000,000
Appalachian Community Capital	Due in full at maturity	2.00%	Monthly	Oct. 2022	Unsecured	100,000	100,000
USDA RMAP	Monthly	2.00%	Monthly	Nov. 2034	Partially secured by RMRF deposits/loans receivable	398,795	425,222
USDA RMAP	Monthly beginning May 2019	2.00%	Monthly beginning May 2019	Apr. 2037	Partially secured by RMRF deposits/loans receivable	436,583	461,180
Pinnacle Bank (formerly Bank of North Carolina)	Due in full at maturity	3.00%	Quarterly	Feb. 2022	Partially secured by loans receivable	1,250,000	1,250,000
First National Bank	Due in full at maturity	3.00%	Monthly	Oct. 2022	Unsecured	1,100,000	1,100,000
Annie Casey Foundation	Due in full at maturity	3.00%	Quarterly	Dec. 2022	Unsecured	2,000,000	2,000,000
US SBA ILP	Quarterly	1.00%	Quarterly	Sep. 2031	Partially secured by ILP deposits/loans receivable	598,565	653,995
CNote Group, Inc.	Due in full at maturity	3.60% (variable)	Monthly	Aug. 2020	Unsecured	0	116,000
CNote Wisdom Fund	Due in full at maturity	4.50%	Quarterly	July 2024	Unsecured	300,000	300,000
First Tennessee	Due in full at maturity	2.75%	Quarterly	Jan. 2028	Unsecured	496,562	496,562
Wells Fargo	Quarterly beginning April 2026	2.00%	Quarterly	Apr. 2028	Unsecured	1,000,000	1,000,000
Wells Fargo	Quarterly beginning May 2024	2.00%	Quarterly	May 2026	Unsecured	500,000	500,000
Bank of America	Annually beginning December 2020	3.25%	Quarterly	Dec. 2022	Partially secured by Borrower's title and interest in End Loans	750,000	1,000,000

*as amended subsequently.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE (including subsequent events)--Continued

Creditor	Principal Payments	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2021	June 30, 2020
Bank of America	Annually beginning August 2024	1.00%	Quarterly	Aug. 2026	Secured by specific loans receivable	525,000	525,000
Goldman Sachs	Quarterly beginning January 2018	4.50%	Monthly	Dec. 2022	Partially secured by GS deposits/loans receivable	639,244	1,537,980
Opportunity Finance Network	Due in full at maturity*	2.00%*	Quarterly	July 2026*	Unsecured*	463,132	481,085
Opportunity Finance Network	Due in full at maturity*	2.00%*	Quarterly	July 2026*	Unsecured*	463,132	481,085
PNC Bank--LOC	Due in full at maturity	3.00%	Quarterly	Oct 2021*	Unsecured	1,000,000	1,000,000
PNC Bank - new consolidated note	Quarterly beginning January 2019, \$1,456,000 balloon at maturity	4.00%	Quarterly	Sept 2021*	Partially secured by \$300,000 minimum deposit account	1,396,125	1,636,125
USDA IRP	Annually	1.00%	Annually	Nov. 2040	Partially secured by IRP deposits/loans receivable	574,713	600,551
USDA IRP	Annually	1.00%	Annually	May 2030	Partially secured by IRP deposits/loans receivable	183,116	202,471
USDA IRP	Annually beginning September 2019	1.00%	Annually	Sep. 2036	Partially secured by IRP deposits/loans receivable	560,376	593,131
USDA IRP	Annually	1.00%	Annually	Jan. 2046	Partially secured by IRP deposits/loans receivable	283,103	294,005
NMTC-PNC	Due in full at maturity	3.50%	Quarterly	Oct. 2025	Secured by QALICB loans receivable and underlying collateral	2,135,000	2,135,000
NMTC-PNC	Due in full at maturity	3.50%	Quarterly	Oct. 2025	Secured by QALICB loans receivable and underlying collateral	915,000	915,000
Spectrum Communications Indemnity Inc.	Due in full at maturity	2.50%	Semi-Annually	April 2026	Unsecured	1,000,000	0
SBA EIDL	Monthly beginning June 2021	2.75%	Monthly beginning June 2021	June 2050	Secured by interest in all tangible and intangible personal property	150,000	150,000
Total Notes Payable						\$ 21,741,218	\$ 24,105,399

*as amended subsequently.

QALICB=Qualified Active Low-income Community Business

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE (including subsequent events) -- Continued

Interest expense totaled \$603,484 and \$741,057 for the years ended June 30, 2021 and 2020, respectively.

Principal maturities of notes payable at June 30, 2021 approximate the following, after giving effect to the subsequent modifications noted by an asterisk (*) on the previous two pages:

<u>Years Ending June 30</u>	
2022	\$ 5,090,277
2023	4,303,079
2024	708,855
2025	933,903
2026	4,691,481
Thereafter	<u>6,013,623</u>
	<u>\$ 21,741,218</u>

Financial Covenants/Ratios: Certain of the preceding notes payable require the Organization to comply with various financial covenants and ratios over the terms of the related notes. The Organization met these commitments at June 30, 2021 and subsequent thereto, or has obtained waivers or acknowledgements from lenders accepting such.

Bank Line of Credit: In August 2020, the Organization obtained a \$500,000 bank line of credit to be used for working capital. The line requires monthly interest-only payments, with principal due on or before the first anniversary date, unless automatically renewed. The Organization is required to maintain a depository account with the bank and to maintain a \$500,000 minimum balance in the account as long as any obligations are outstanding on the line. At the date the financial statements were available to be issued, no borrowings had been taken against the line of credit.

Available to Borrow for Small Business Lending (including a subsequent event): At June 30, 2021, loan funds of \$1,000,000 provided under the USDA Intermediary Relending Program were available to be drawn through September 30, 2021, for small business lending in Bladen, Columbus, and Robeson counties. The Organization elected to have these funds de-obligated as of December 1, 2021.

Other Subsequent Events: In July 2021, the Organization obtained a \$1,000,000 bank note that was used to pay off and consolidate two loans totaling \$926,264, with the remainder of funds to be used for working capital. The note requires quarterly interest-only payments at a rate of 2%, with the principal balance due June 2026.

In November 2021, the Organization obtained a \$2,000,000 loan that will be used solely for the purpose of refinancing lender capital and supporting small business lending activities. The note requires quarterly interest-only payments at a rate of 3.25%, with the principal balance due September 2026.

In November 2021, the Organization paid off three notes having an aggregate balance of \$1,387,016. A \$500,000 note was scheduled to mature in December 2021. The other two notes required quarterly/monthly payments of principal/interest, respectively, and required interest ranging from 4.5% to 5.0%.

At the date the financial statements were available to be issued, renewals for two notes that matured in October and September 2021 and had outstanding principal balances of \$2,396,125 in the aggregate at June 30, 2021, have been forwarded to bank underwriters and are expected to close by December 31, 2021. Management understands that the renewals will have a minimum term of two years and are expected to bear interest at a fixed rate between 3.0% and 3.5%. Management also expects to receive extended terms on a \$1,250,000 note payable maturing in February 2022, based on recently-initiated discussions with the lender bank.

Management believes the aforementioned new loans and loan modifications will enable the Organization to meet its obligations on notes payable when due within a year after the date on which the financial statements were available to be issued.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE F--NET ASSETS WITH DONOR RESTRICTIONS / CONDITIONAL AWARDS

Net assets with donor restrictions were released from restrictions upon satisfaction of donor-imposed purpose and/or time restrictions as follows:

	Years Ended June 30,	
	<u>2021</u>	<u>2020</u>
Small business lending	\$ 2,851,861	\$ 276,431
Women's Business Center	390,386	260,222
Business services programming	-	48,452
Training and technical assistance	480,696	377,002
NC Disaster Recovery Loan Program	61,813	433,559
General operations	<u>110,000</u>	<u>476,493</u>
	<u>\$ 3,894,756</u>	<u>\$ 1,872,159</u>

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
Small business lending	\$ 3,472,838	\$ 2,097,606
Training and technical assistance	61,161	316,577
NC Disaster Recovery Loan Program	2,199,388	2,261,201
Women's Business Center	186,373	-
Business services programming	-	-
General operations	<u>-</u>	<u>10,000</u>
	<u>\$ 5,919,760</u>	<u>\$ 4,685,384</u>

Support from awards for the following remains conditional at June 30, 2021:

Small business lending	\$ 33,319
Women's Business Center	45,819
Training and technical assistance	<u>69,471</u>
	<u>\$ 148,609</u>

No amounts pertaining to conditional awards are included in the accompanying financial statements.

NOTE G--OPERATING LEASES (including a subsequent event)

The Organization leases its primary office space in Raleigh under an operating lease scheduled to expire in April 2028. The lease requires minimum rentals plus pro rata payments for common area maintenance. The lease, as amended in April 2020, provides for the conditional abatement of rent from May 2020 to October 2020. The lease may be extended for one five-year period with base rent at fair market value.

The Organization also leases office space for its Western Women's Business Center in Asheville. The annual lease expires in September 2021, and was subsequently extended until September 30, 2022.

Rent expense under these operating leases approximated \$129,185 and \$154,333 for the years ended June 30, 2021 and 2020, respectively.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE G--OPERATING LEASES (including a subsequent event)--Continued

Future minimum rentals for leases having an initial term of one year or more, including effects of subsequent renewals, are as follows:

<u>Years Ending June 30,</u>	
2022	\$ 150,950
2023	153,076
2024	157,656
2025	162,372
2026	167,252
Thereafter	<u>348,828</u>
	<u>\$ 1,140,134</u>

NOTE H--EMPLOYEE BENEFIT PLAN

Carolina Small Business sponsors a 401(k) retirement plan. Employees are eligible to participate after attaining age 21 and completing one month of service. The Organization makes Safe Harbor matching contributions at the rate of 100% of a participant's elective deferrals up to 5% of the participant's Compensation for the plan year. Employer matching contributions totaled \$59,800 and \$82,310 for the years ended June 30, 2021 and 2020, respectively. The plan also provides for discretionary, nonelective employer contributions, though no such contributions were approved for the years ended June 30, 2021 and 2020.

NOTE I--FAIR VALUE MEASUREMENTS

Carolina Small Business applies U.S. generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value of financial instruments. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

The following represents assets and liabilities measured (and carried) at fair value on a recurring basis by Carolina Small Business:

<u>June 30, 2021</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Operating funds	\$ 826,514	\$ 501,013	\$ 325,501	\$ -
Committed loan support funds	1,196,558	1,196,558	-	-
Other committed support funds	228,789	-	138,872	89,917
Loans receivable	22,396,436	-	22,396,436	-
Notes payable	<u>21,741,218</u>	-	<u>21,741,218</u>	-
Total	<u>\$ 46,389,515</u>	<u>\$ 1,697,571</u>	<u>\$ 44,602,027</u>	<u>\$ 89,917</u>

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE I--FAIR VALUE MEASUREMENTS -- Continued

<u>June 30, 2020</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Operating funds	\$ 822,291	\$ 500,013	\$ 322,278	\$ -
Committed loan support funds	694,425	694,425	-	-
Other committed support funds	239,712	-	145,385	94,327
Loans receivable	28,691,363	-	28,691,363	-
Notes payable	<u>24,105,399</u>	-	<u>24,105,399</u>	-
Total	<u>\$ 54,553,190</u>	<u>\$ 1,194,438</u>	<u>\$ 53,264,425</u>	<u>\$ 94,327</u>

Level 1: Operating funds and committed loan support funds include holdings in money market and money market share accounts, the carrying value of which approximates the fair value.

Level 2: Operating funds and other committed support funds include holdings in share term certificates and certificates of deposit, the carrying values of which approximate the fair values based on current market rates for financial instruments of similar size and remaining maturities. At June 30, 2021, a 5-year certificate of deposit valued at \$325,501 (including accrued interest) bears interest at 1.0% and matures on July 30, 2023. In addition, 5-year share term certificates valued at \$138,873 (in the aggregate) bear interest at 3.0% and mature on January 22, 2026. Certificates held at June 30, 2020, mature at various dates from July 2020 to April 2025 and bear interest at rates ranging from 0.01% to 3%. The carrying value of *loans receivable* and *notes payable* approximate the fair values of such based on community development market rates for financial instruments with similar terms and remaining maturities.

Level 3: Other committed support funds include mortgages purchased from GCCU, the fair value of which approximates principal due from borrowers, less a loan loss reserve. Given the delinquent status of these loans when purchased from GCCU and the lack of comparable market data for properties similar to those securing these mortgages, management considers the fair value of these outstanding mortgages to be based on Level 3 inputs.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3):

	<u>Year Ended</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Beginning balance, beginning of year	\$ 94,327	\$ 98,396
Collections on mortgages purchased from GCCU	<u>(4,410)</u>	<u>(4,069)</u>
Ending balance, end of year	<u>\$ 89,917</u>	<u>\$ 94,327</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Carolina Small Business believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a significantly different fair value measurement at the reporting date.

Carolina Small Business Development Fund

NOTE J--ADMINISTRATION OF LOAN AND GRANT PROGRAMS/FUNDS HELD IN AGENCY

Carolina Small Business began administering certain loan and grant programs in fiscal 2020 on behalf of certain municipalities and a nonprofit organization. Loans placed and grants disbursed on behalf of these programs are not reflected in the accompanying financial statements. The Organization is required to follow standard and commercially reasonable collection practices on all delinquent loans but will not be required to repay any loans deemed uncollectible. The Organization recognizes administrative and servicing fees when earned, as defined by the contract. Fees received prior to being earned are included in *deferred revenue*. Advances of loan or grant funds are recorded as a liability until placed or disbursed. Amounts due to the Organization for loans placed or grants disbursed are included in *contracts receivable*. Loan and grant programs administered by Carolina Small Business, many of which originated in response to the COVID-19 pandemic, are summarized as follows.

Mecklenburg County Small Business Loan Program: The Organization entered into a 5-year contract with Mecklenburg County, effective June 1, 2019, to provide lending services to qualified small and start-up businesses in Mecklenburg County. The contract includes an option to renew for one 3-year term. The County has committed to provide loan capital of \$2,750,000 to fund loans of up to \$75,000. Carolina Small Business will receive administrative fees to perform trainings and technical assistance for the program not-to-exceed \$500,000, plus monthly servicing fees, over the 5-year contract term. Administrative fees are payable in quarterly payments of \$25,000. The Organization placed the first loan under the program in January 2020 and recognized administrative fees of \$50,000 for fiscal 2020. Administrative fees of \$75,000 and servicing fees of \$414 were recognized for fiscal 2021. Loan funds of \$179,783 received, but not placed as of June 30, 2021, are recorded as a liability in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$48,491 at June 30, 2021.

Emergency Stabilization Loan Fund (Mecklenburg County): In April 2020, Carolina Small Business entered into a 10-year contract to provide lending services to small businesses located in Mecklenburg County. The County has committed to provide loan capital of \$5,000,000. The Organization will receive administrative fees not-to-exceed \$500,000, as well as administrative fees to perform trainings and technical assistance for the program not-to-exceed \$500,000, plus servicing fees, over the contract term. Administrative fees of \$500,000 were received in April 2020 for April to December 2020, with \$500,000 payable ratably over the remainder of the contract term. The Organization recognized administrative fees of \$383,333 and \$116,667 in fiscal 2021 and 2020, respectively, and \$25,385 of servicing fees in fiscal 2021. Loan funds of \$438,070 received from Mecklenburg County, but not placed as of June 30, 2021, are recorded as a liability in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$4,664,057 at June 30, 2021.

NC Rapid Recovery Loan Program (Rural Center): In March 2020 and May 2020, Carolina Small Business entered into contracts with the Rural Economic Development Center, Inc. (Rural Center), whereby the Organization agreed to participate as lender and servicing agent for loans to small businesses negatively impacted by Hurricane Florence, Hurricane Dorian, or COVID-19. The loans will be funded by grants from the Golden LEAF Foundation to the Rural Center, the term of which expired April 1, 2021. Carolina Small Business is entitled to administrative fees of 2% (or 3% for extended program loans) and a portion of interest collected from borrowers, as defined by contract. Loans receivable, due from borrowers and payable to the Rural Center, totaled \$1,478,485 at June 30, 2021.

Raleigh Small Business COVID-19 Relief Fund (City of Raleigh): In May 2020, Carolina Small Business entered into a contract with the City of Raleigh for the establishment of the Raleigh Small Business COVID-19 Relief Fund. The City committed \$855,400 to the Fund to provide financial assistance and support to small businesses located within the City of Raleigh. The Organization is responsible for administering the program, including seeking contributions to support the efforts of the Fund. Contributions to the Fund totaled \$1,402,895 through December 31, 2020, including \$855,400 from the City of Raleigh. All funds were disbursed by December 2020. Administrative fees of \$42,300 were recognized in fiscal 2021 and 2020. Transactional fees of \$36,167, as defined by the contract, were also recognized in fiscal 2020.

Carolina Small Business Development Fund

NOTE J--ADMINISTRATION OF LOAN AND GRANT PROGRAMS/FUNDS HELD IN AGENCY -- Continued

Durham Small Business Recovery Fund (City of Durham, including subsequent events): On June 11, 2020, Carolina Small Business entered into a contract with the City of Durham whereby the Organization agreed to administer and seek contributions for the Durham Small Business Recovery Fund. The City of Durham has committed \$1,000,000 in Public Funds and another source has committed \$1,000,000 in Private Funds. Public Funds are available for loans and Private Funds are available for grants, both of which are intended to help preserve eligible small businesses within the City of Durham that have been impacted by the COVID-19 pandemic. The loans are non-revolving and will be repaid to the City of Durham upon collection. The grants will not be repaid. Carolina Small Business received and recognized fund creation fees of \$200,000 in June 2020. The contract also provides for technical assistance fees of \$100,000 payable to the Organization in two equal payments on July 15, 2020 and July 15, 2021, as well as certain servicing and transactional fees. All grant funds were disbursed by October 2021. Technical assistance fees of \$50,000 were recognized in fiscal 2021, with \$50,000 to be recognized in fiscal 2022. Loan funds of \$276,435 received from the City of Durham, but not placed as of June 30, 2021, as well as principal and interest repayments of \$68,833 (net of fees), are recorded as a liability in the accompanying financial statements. Loans receivable, due from the borrowers and payable to the City of Durham, totaled \$663,208 at June 30, 2021.

Durham Small Business Recovery Fund (Durham County): On June 22, 2020, Durham County voted to commit \$1,000,000 to the Durham Small Business Recovery Fund. The County will provide \$833,333 for loan capital and \$83,333 for administrative fees payable to Carolina Small Business. The contract also provides for technical assistance fees of \$83,334 payable to Carolina Small Business over the course of fiscal 2021 and 2022. Administrative and technical assistance fees of \$125,000 were recognized in fiscal 2021. Loan funds of \$833,333, received from Durham County, but not placed as of June 30, 2021, are recorded as a liability in the accompanying financial statements. No loans were placed using County funds in fiscal 2021 or subsequently.

RETOOLNC Grant Program (including subsequent events): In September 2020, the North Carolina Department of Administration, Office for Historically Underutilized Businesses (NCHUB) partnered with Carolina Small Business Development Fund and the North Carolina Institute of Economic Development to administer the RETOOLNC Grant Program. Funding for the program is sourced from Coronavirus Relief Funds of \$12,600,000 awarded to the North Carolina Pandemic Recovery Office. The program provides grants of up to four months of operational expenses for eligible businesses registered with the NCHUB or which share a similar profile to a HUB-certified business. These grant funds are intended to aid small historically underutilized businesses in North Carolina to make pivotal changes to meet industry needs during the coronavirus pandemic. Grant funds were required to be disbursed or returned by December 30, 2020. Carolina Small Business received and disbursed approximately \$6,500,000 in grants under this program and received \$76,022 in administrative fees.

Subsequent Event: An additional \$8,000,000 was appropriated to the Department of Administration for the RETOOLNC grant program to provide additional funds to assist State-certified, minority-owned, and women-owned businesses in their recovery from the economic impacts of COVID-19. In July 2021, Carolina Small Business received additional funding of \$3,800,000 for program grants. All grant funds were disbursed subsequently. The Organization is entitled to up to 5% of administrative fees.

Refer also to *Note L--Commitments and Contingencies* as pertains to *COVID-19*.

Carolina Small Business Development Fund

NOTE K--RELATED PARTY TRANSACTION

In July 2018, the Organization extended a loan of \$1,700,000 to EMP Commercial, LLC, owned by Eagle Market Streets Development Corporation (Eagle Market Streets, hereafter) and Mountain Housing Opportunities, Inc. (Mountain Housing). The loan requires 87 monthly interest-only payments (at approximately 3.50%), with principal due in full on October 31, 2025. All loan documents, including unlimited guarantees on the loan, were signed by both Eagle Market Streets and Mountain Housing. The signer on behalf of Eagle Market Streets was its President/Manager, who also served as the Vice Chair for the Organization's Board of Directors. The Vice Chair abstained from voting when the Board approved the loan to EMP Commercial, LLC.

NOTE L--COMMITMENTS AND CONTINGENCIES (including subsequent events)

COVID-19: On March 11, 2020, the World Health Organization declared COVID-19 a global health pandemic. The State of North Carolina operated under a "Stay at Home" order from March 27, 2020 to May 8, 2020. The Organization's staff have been working remotely since late-March 2020, and continue to assist small businesses in need of emergency relief funding. COVID-19 relief programs administered by Carolina Small Business on behalf of certain municipalities, a state agency, and a nonprofit organization include the following: (1) Emergency Stabilization Loan Fund (Mecklenburg County) supporting small businesses in Mecklenburg County with loans up to but not more than \$35,000; (2) NC Rapid Recovery Loan Program (in participation with the Rural Center) making loans of up to \$250,000 based on the small business's current revenues; (3) Raleigh Small Business COVID-19 Relief Fund providing grants of up to \$10,000 or two months' rent (whichever is less) to storefront businesses with less than 50 employees, located in Raleigh; (4) Durham Small Business Recovery Fund (City of Durham/private investor/Durham County) providing grants to small businesses in Durham with 25 or less full-time employees and annual revenues of \$500,000 or less and making loans to small businesses in Durham with 50 or less full-time employees and annual revenues up to \$5,000,000; and (5) RETOOLNC grant program (sourced from Coronavirus Relief Funds awarded to a state agency) providing grants of \$10,000 to \$25,000 to historically underutilized businesses in North Carolina. All businesses receiving assistance must have been adversely impacted by COVID-19.

Certain of the Organization's existing borrowers were (and are) eligible for certain loan deferrals or modifications during the COVID-19 pandemic. Payments are automatically deferred by the CARES Act (*Coronavirus Aid, Relief, and Economy Security Act*) for borrowers that have a loan guaranteed by the U.S. Small Business Administration. For borrowers with SBA loan guarantees, the SBA made payments on qualifying loans to Carolina Small Business for the duration of the deferral period.

In order to continue assisting small businesses during the pandemic, the Organization applied for, and was awarded, a forgivable loan under the Paycheck Protection Program (PPP), a program administered through the U.S. Small Business Administration (SBA) and created with the enactment of the CARES Act. The Organization received loan proceeds of \$656,900 on May 14, 2020, and applied for forgiveness of the loan in May 2021. Management expects the loan to be forgiven based on the Organization's use of the proceeds to fund eligible payroll and other qualifying expenses within 24 weeks of receipt. Per program guidelines, any portion of a loan that is not eligible for forgiveness will bear interest at 1.0%, with payments of interest deferred until the SBA determines the amount of the loan that will be forgiven and pays that amount to the lender. Thereafter, the note will require monthly payments of principal and interest over the remainder of the two-year term, unless the lender agrees to an extended maturity period. PPP loans are unsecured.

In June 2020, the Organization received an SBA EIDL (Economic Injury Disaster Loan) loan of \$150,000, interest and principal are repayable over thirty years from the date of the promissory note, beginning twelve months from the date of the note. The Organization also received an EIDL advance of \$10,000 that is not repayable.

The SBA also awarded the Organization a CARES Act grant of \$275,000 for its Women's Business Center. The grant has a term of May 1, 2020 to April 30, 2022, as extended.

Carolina Small Business Development Fund

NOTE L--COMMITMENTS AND CONTINGENCIES (including subsequent events) -- Continued

Carolina Small Business was also awarded a \$2,000,000 grant by the North Carolina Pandemic Recovery Office (a pass-through of federal CARES Act funds) to be used for business advisory services to and deploying capital to small businesses in North Carolina to assist those businesses with losses due to a disruption of services resulting from the COVID-19 pandemic. The grant covers qualifying expenses incurred from March 1, 2020 to December 30, 2020, with expenditures of \$336,494 incurred and support recognized in fiscal 2020. The grant was fully expended by December 30, 2020, with support of \$1,663,506 recognized in fiscal 2021.

At the date on which the financial statements were available to be issued, the State of North Carolina is working to ensure that every North Carolinian has access to a COVID-19 vaccine. The Organization's employees continue to work primarily from home, but expect to return to the office in January 2022. Management continues to monitor the situation; however, the impact of COVID-19 on the Organization's operations cannot be reasonably estimated at this time.

Other Commitments and Contingencies: The Organization has committed to repay one-half of principal collected on certain disaster recovery loans. At June 30, 2021, loans receivable of \$1,498,775 are subject to this repayment provision. Principal maturities are scheduled as follows at June 30, 2021: \$104,864 in fiscal 2022; \$89,788 in fiscal 2023; \$69,361 in fiscal 2024; \$56,269 in fiscal 2025; \$993,596 in fiscal 2026; and \$184,896 thereafter.

The Organization participates in a forgivable disaster loan program whereby one-third of no-interest loan principal is forgiven at the end of years one, two, and three if certain requirements are met. If not forgiven, repayment of these loans is due in full as defined by agreement within the three-year term. No loans were forgiven in fiscal 2021. Loans totaling \$100,000 were forgiven in fiscal 2020. Loans of \$1,450,000 remain outstanding at June 30, 2021.

Financial assistance from various awarding agencies is subject to special audit. Such audits could result in claims against Carolina Small Business for disallowed costs or noncompliance with grantor restrictions. Management is aware of no disallowable costs or other instances of noncompliance with grantor restrictions that may have a direct and material effect on the accompanying financial statements. Consequently, no provision has been made for liabilities, if any, that may arise from special audits by grantor agencies.

NOTE M--SUBSEQUENT EVENTS (not otherwise disclosed)

Carolina Small Business was subsequently awarded a \$1,826,265 grant by the Community Development Financial Institutions Rapid Response Program to be used for financial products and services, development services, loan loss reserves, and operating expenses (not to exceed the greater of \$200,000 or 15% of the award). The grant has a two-year performance period starting June 15, 2021 and ending June 30, 2023. An advance of \$1,000,000 was received by the Organization in August 2021.

Management has evaluated subsequent events through December 21, 2021, the date on which the financial statements were available to be issued. No further adjustments to or disclosures in the financial statements are considered necessary.

SUPPLEMENTARY INFORMATION

Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2021

Grantor/ Pass-through Grantor/ Program Title	CFDA #	Pass-through Entity Identifying Number	Federal Expenditures	State Awards	
				Support	Expenditures
<u>FEDERAL AWARDS:</u>					
<u>U.S. Department of Agriculture, Rural Development:</u>					
<i>Rural Business Development Grant (RBDG):</i>					
Training and technical assistance to micro-borrowers	10.351		\$ 2,375		
<i>Intermediary Relending Program (IRP):</i>					
Loans due to federal agency at beginning of fiscal year	10.767		1,690,158		
<i>Rural Microentrepreneur Assistance Program (RMAP):</i>					
Training and technical assistance to micro-borrowers			23,417		
Loans due to federal agency at beginning of fiscal year			<u>886,402</u>		
	10.870		<u>909,819</u>		
<u>U.S. Department of Housing and Urban Development:</u>					
<i>CDBG--Entitlement Grants Cluster/Community Development Block Grant Program for Entitlement Communities:</i>					
<i>City of Asheville, North Carolina:</i>					
<i>Opportunity Asheville: WWBC - Business Training and Access to Capital in the City of Asheville</i>	14.218	FY 2020-21	120,000		
<u>U.S. Department of the Treasury:</u>					
<i>North Carolina Pandemic Recovery Office:</i>					
<i>COVID-19: Coronavirus Relief Fund</i>	21.019	Agreement 73-00	1,663,506		
<u>U.S. Small Business Administration:</u>					
<i>COVID-19: Economic Injury Disaster Loan, due to federal agency at beginning of fiscal year</i>					
	59.008		150,000		
<i>Women's Business Ownership Assistance:</i>					
SBAHQ-16-W-0005/0005			44,579		
SBAHQ20W0032			104,181		
<i>COVID-19: SBAHQ20C0183--CARES Act</i>			<u>86,626</u>		
	59.043		<u>235,386</u>		
<i>Prime Technical Assistance</i>	59.050		3,827		
<i>Intermediary Loan Program (ILP):</i>					
Loans due to federal agency at beginning of fiscal year	59.062		<u>653,995</u>		
TOTAL FEDERAL EXPENDITURES			\$ <u>5,429,066</u>		
<u>STATE AWARDS:</u>					
<u>State of North Carolina Appropriation under The Disaster Recovery Act of 2016:</u>					
<i>The Golden LEAF Foundation:</i>					
<i>North Carolina Disaster Recovery Loan Program:</i>					
Small business lending (advance refunded)			\$ (61,813)	\$ -	
Program expenses			-	-	
		FY2017-149	<u>(61,813)</u>	<u>-</u>	
TOTAL STATE AWARDS			\$ <u>(61,813)</u>	\$ <u>-</u>	

See independent auditors' report as pertains to supplementary information and notes to schedule of federal and state awards.

Notes to Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2021

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of federal and state awards (the Schedule) includes the federal and state grant activity of Carolina Small Business Development Fund for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and U.S. Department of the Treasury's guidance and FAQs published in the *Federal Register*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C--FEDERAL LOAN / LOAN GUARANTEE PROGRAMS

The following federal loan programs are administered by the Organization, with balances and transactions relating to these programs included in the Organization's basic financial statements. Loans outstanding at the beginning of the fiscal year and loans taken during the fiscal year are included in the federal expenditures presented in the Schedule. The balance of loans due to the federal agencies at June 30, 2021 consists of:

<u>CFDA #</u>	<u>Program Name</u>	<u>Outstanding Balance June 30, 2021</u>
10.767	USDA IRP	\$ 1,601,308
10.870	USDA RMAP	835,378
59.008	US SBA EIDL	150,000
59.062	US SBA ILP	598,565

Loans receivable from borrowers of approximately \$5,952,623 at June 30, 2021, are guaranteed (up to 75% or 85%) under the SBA Community Advantage Pilot Loan Program.

Loans receivable from borrowers of approximately \$261,771 at June 30, 2021, are guaranteed (up to 85%) under the Charlotte Community Capital Fund Program.

Loans receivable from borrowers of approximately \$810,610 at June 30, 2021, are guaranteed (up to 7%) under the NC Capital Access Program.

NOTE D--INDIRECT COST RATE

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

COMPLIANCE REPORTS



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*

Board of Directors
Carolina Small Business Development Fund
Raleigh, 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 Carolina Small Business Development Fund (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, 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 December 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carolina Small Business Development Fund'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Carolina Small Business Development Fund'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.

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carolina Small Business Development Fund'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*.

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*--Continued

Carolina Small Business Development Fund's Response to Findings

Carolina Small Business Development Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Carolina Small Business Development Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
December 21, 2021



Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance

Board of Directors
Carolina Small Business Development Fund
Raleigh, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Carolina Small Business Development Fund's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Carolina Small Business Development Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Carolina Small Business Development Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, Carolina Small Business Development Fund 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 June 30, 2021.

Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance--Continued

Report on Internal Control Over Compliance

Management of Carolina Small Business Development Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Carolina Small Business Development Fund's internal control over compliance.

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

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

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

Rameo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
December 21, 2021

Schedule of Findings and Questioned Costs

Carolina Small Business Development Fund

Year Ended June 30, 2021

Section I - Summary of Auditors' Results

Type of auditors' report issued on financial statements: *Unmodified*

Internal control over financial reporting:

- ◆ Material weakness(es) identified? yes no
 - ◆ Significant deficiency (ies) identified? yes none reported
- Finding 2021-001: Loan File Maintenance and Servicing**

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal award programs:

- ◆ Material weakness(es) identified? yes no
- ◆ Significant deficiency (ies) identified? yes none reported

Noncompliance material to major federal award programs? yes no

Type of auditors' report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Program Name</u>
21.019	US Department of the Treasury, <i>Coronavirus Relief Fund</i>
59.062	US SBA, <i>Intermediary Loan Program</i>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs--Continued

Carolina Small Business Development Fund

Year Ended June 30, 2021

Section II - Financial Statement Findings

Finding 2021-001: Loan File Maintenance and Servicing (Significant Deficiency)

Criteria: The Organization administers its small business lending program in accordance with Board-approved Loan Policies and Procedures. Funds for small business lending are provided by various federal and state agencies, financial institutions, and foundations, in the form of grants or loan funds. The Organization also participates in various credit enhancement programs, including the U.S. Small Business Administration's Community Advantage (SBA CA) program. Providers and guaranteeing entities may impose additional requirements on the placement and servicing of loans. To effectively administer its small business lending program, the Organization requires that a loan file be maintained for each loan. The file is required to include, among other things, an application package, completed credit memo or loan transmittal, pre-closing site visits, approvals for loans and loan modifications, executed loan and security agreements, updated financial information from borrowers, and documentation of collection efforts on past due loans.

Condition: The Organization requires that updated financial information be obtained annually from borrowers with loans of \$75,000 or greater. We noted numerous instances in which these loan files were missing the updated financial information from borrowers.

Context: We reviewed 25 loan files that were judgmentally selected from the June 30, 2021 Loan Portfolio. Of these 25 loans, 18 are greater than \$75,000. Of the 18 loans, 6 are also SBA CA loans. We noted 14 instances (including 5 SBA CA loans) in which the files for the loans over \$75,000 were missing updated financial information from borrowers.

Cause: During fiscal 2021, the Organization assisted a myriad of small businesses by administering various COVID-19 grant/loan programs. This assistance was time-sensitive and required additional marketing and monitoring efforts from staff. Transitions in key personnel during fiscal 2021 imposed additional time constraints on the small business lending team.

Effect: The Organization failed to obtain updated financial information from borrowers as required by its Loan Policies and Procedures.

Recommendation: We recommend the Organization re-emphasize the importance of maintaining updated financial information from borrowers as required by its Loan Policies and Procedures. Roles and responsibilities for maintaining, monitoring, and servicing loan files should be clearly defined to ensure that files contain all required documentation and are updated on a timely basis.

Views of responsible officials and planned corrective actions: Management recognizes the importance of updating loan files for active loans with updated financial information. During December 2021, the Organization launched an online borrower portal that we believe will assist us in enhanced management of the loan portfolio. This includes an ability to send mass communications through the portal with a request for updated financial information from borrowers. We expect to reach out to borrowers through the portal beginning January 2022 with reminder communications for updated financial information to be submitted when available. We have also assigned segments of our borrowing base to each of our Business Solutions Officers who are tasked with following up directly with certain borrowers to collect information. We believe that our receipt of updated financial information from borrowers will improve dramatically with these enhancements.

Schedule of Findings and Questioned Costs--Continued

Carolina Small Business Development Fund

Section III - Federal Award Findings and Questioned Costs

There were no such findings to report.



Summary Schedule of Prior Audit Findings

Current Audit Period: Year Ended June 30, 2021

Financial Statement Findings

Finding 2020-001: Community Advantage Guaranteed Loans

Condition: During our review of loan files, we noted a few instances in which written communications from the SBA inquired about missing documents or insufficient follow-up on past due loans, as required by SBA SOP 50 57 2 7(a).

Recommendation: We recommended the Organization re-emphasize the importance of adhering to its Community Advantage Lending Policy and Liquidation Policy in order to preserve the full benefit of the guarantee provided by the SBA's Community Advantage program. Management should also consider whether additional training may be beneficial to members of the lending team.

Current Status: Management updated the Organization's internal Community Advantage Lending Policy and credit underwriting documents were approved by the Board in December 2020. Additionally, during fiscal 2021, the Organization hired a Loan Operations Director and a Business Solutions Director, both of whom have several years of experience in the SBA Community Advantage Program.