

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

Carolina Small Business Development Fund

Years Ended June 30, 2022 and 2021

Audited Financial Statements, Supplementary Information, and Compliance Reports

Carolina Small Business Development Fund

Years Ended June 30, 2022 and 2021

Audited Financial Statements

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Carolina Small Business Development Fund as of June 30, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Carolina Small Business Development Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Carolina Small Business Development Fund's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report--Continued

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

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

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Carolina Small Business Development Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carolina Small Business Development Fund's internal control over financial reporting and compliance.

Romeo, Wiggins & Company, LLP.

Raleigh, North Carolina
December 12, 2022

Statements of Financial Position

Carolina Small Business Development Fund

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS:		
Operating funds	\$ 10,674,765	\$ 4,142,278
Committed loan support funds - small business lending	11,973,056	11,389,737
Total cash, cash equivalents, and restricted cash equivalents	<u>22,647,821</u>	<u>15,532,015</u>
OTHER COMMITTED SUPPORT FUNDS:		
SEDA - for CDCU lending	138,872	138,872
Mortgage loans - GCCU	<u>123,086</u>	<u>127,786</u>
	261,958	266,658
Less: Reserve on at-risk deposits/mortgage loans	<u>(37,869)</u>	<u>(37,869)</u>
Total other committed support funds	<u>224,089</u>	<u>228,789</u>
LOANS RECEIVABLE:		
Loans - small business lending	16,896,875	22,396,436
Less: Loan loss reserves	<u>(1,305,447)</u>	<u>(2,115,715)</u>
Total loans receivable	<u>15,591,428</u>	<u>20,280,721</u>
OTHER RECEIVABLES:		
Grants receivable	2,091,149	335,487
Administrative fees receivable	-	2,221
NMTC Leverage Loan	2,135,000	2,135,000
Other	<u>37,180</u>	<u>104,193</u>
Total other receivables	<u>4,263,329</u>	<u>2,576,901</u>
PREPAID EXPENSES	87,330	47,108
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>(294,241)</u>	<u>(290,892)</u>
Total fixed assets	<u>2,302</u>	<u>5,651</u>
TOTAL ASSETS	\$ <u>42,816,299</u>	\$ <u>38,671,185</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 66,240	\$ 41,174
Accrued interest	33,837	31,121
Accrued vacation	85,849	80,864
Deferred support	238,196	-
Deferred revenue	138,850	-
Funds held in agency (not yet placed/disbursed):		
RETOOLNC Grant Program (NCHUB)	8,206,044	-
Durham Small Business Recovery Fund	960,418	1,178,601
Emergency Stabilization Loan Fund (Mecklenburg County)	149,367	438,070
Mecklenburg County Small Business Loan Program	(67,869)	179,783
NC Rapid Recovery Loan Program (Rural Center)	<u>11,085</u>	<u>7,086</u>
Total funds held in agency	<u>9,259,045</u>	<u>1,803,540</u>
PPP forgivable loan	-	656,900
Notes payable	<u>18,532,515</u>	<u>21,741,218</u>
TOTAL LIABILITIES	28,354,532	24,354,817
NET ASSETS		
Without donor restrictions	12,120,465	8,396,608
With donor restrictions	<u>2,341,302</u>	<u>5,919,760</u>
TOTAL NET ASSETS	<u>14,461,767</u>	<u>14,316,368</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>42,816,299</u>	\$ <u>38,671,185</u>

See independent auditor's report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 89,252	\$ 2,339,334	\$ 2,428,586
Income from forgiveness of PPP loan	656,900		656,900
Other COVID-19 financial assistance		1,016,871	1,016,871
Contributions	4,415		4,415
Special events revenue	61,750		61,750
Administrative fees	469,598		469,598
Dividend income	10,697	190	10,887
Mortgage interest	6,440		6,440
Loan closing/servicing revenue	99,453	1,338	100,791
Repayment of bad debt	375,543		375,543
Business loan interest	1,216,223	61,584	1,277,807
Origination fees	13,566		13,566
Other income	70		70
Net assets released from restrictions due to satisfaction of purpose and/or time restrictions	<u>6,997,775</u>	<u>(6,997,775)</u>	<u>-</u>
TOTAL SUPPORT, REVENUES, AND OTHER INCOME	10,001,682	(3,578,458)	6,423,224
EXPENSES:			
Program services	5,156,694		5,156,694
Support services:			
Management and general	1,114,557		1,114,557
Fundraising	<u>6,574</u>		<u>6,574</u>
Total support services	<u>1,121,131</u>	<u>-</u>	<u>1,121,131</u>
TOTAL EXPENSES	<u>6,277,825</u>	<u>-</u>	<u>6,277,825</u>
CHANGE IN NET ASSETS	3,723,857	(3,578,458)	145,399
Net assets, beginning of year	<u>8,396,608</u>	<u>5,919,760</u>	<u>14,316,368</u>
NET ASSETS, END OF YEAR	<u><u>\$ 12,120,465</u></u>	<u><u>\$ 2,341,302</u></u>	<u><u>\$ 14,461,767</u></u>

See independent auditor's 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
Other income	2,538		2,538
Net assets released from restrictions due to satisfaction of purpose and/or time restrictions	<u>3,894,756</u>	<u>(3,894,756)</u>	<u>-</u>
TOTAL SUPPORT, REVENUES, AND OTHER INCOME	6,757,904	1,234,376	7,992,280
EXPENSES:			
Program services	6,078,876		6,078,876
Support services:			
Management and general	1,090,139		1,090,139
Fundraising	<u>9,887</u>		<u>9,887</u>
Total support services	<u>1,100,026</u>	<u>-</u>	<u>1,100,026</u>
TOTAL EXPENSES	<u>7,178,902</u>	<u>-</u>	<u>7,178,902</u>
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 auditor's report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2022

	Program Services	Support Services	Total
PERSONNEL:			
Salaries	\$ 1,508,441	\$ 669,608	\$ 2,178,049
Employee benefits	208,608	62,311	270,919
Payroll taxes	134,572	40,197	174,769
Total personnel	<u>1,851,621</u>	<u>772,116</u>	<u>2,623,737</u>
OTHER EXPENSES:			
Interest expense	580,217		580,217
Marketing and newsletter	16,959	4,240	21,199
Bank fees	14,023		14,023
Telephone	35,103	9,901	45,004
Professional fees	123,333	34,786	158,119
Contract services	413,114	116,519	529,633
Subscriptions, sponsorships and dues	27,422	7,735	35,157
Staff travel	38,709	10,918	49,627
Seminars, conferences, and workshops	35,098	6,194	41,292
Board meeting expenses	6	3	9
Office supplies and expenses	61,436	16,331	77,767
Printing and copying	5,723	1,614	7,337
Software	110,067	22,544	132,611
Office occupancy	133,247	37,582	170,829
Insurance and bonding	39,035	11,010	50,045
Postage	2,672	754	3,426
Provision for losses on loans	289,639		289,639
Forgiveness of CDBG loans receivable	900,000		900,000
Loan servicing fees	42,502	11,988	54,490
Legal expenses	158,037	44,574	202,611
Staff development	16,436	4,636	21,072
Fundraising expense		6,574	6,574
Grant repayment	230,683		230,683
Grants	29,000		29,000
Miscellaneous		375	375
Total other expenses	<u>3,302,461</u>	<u>348,278</u>	<u>3,650,739</u>
Total operating expenses before depreciation	5,154,082	1,120,394	6,274,476
Depreciation	<u>2,612</u>	<u>737</u>	<u>3,349</u>
TOTAL EXPENSES	<u>\$ 5,156,694</u>	<u>\$ 1,121,131</u>	<u>\$ 6,277,825</u>

See independent auditor's 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 auditor's report and notes to financial statements.

Statements of Cash Flows

Carolina Small Business Development Fund

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 145,399	\$ 813,378
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,349	10,204
Provision for losses on loans	289,639	1,434,971
Forgiveness of CDBG loans receivable	900,000	-
Forgiveness of PPP loan payable	(656,900)	-
Interest expense added to note principal	29,510	-
Changes in operating assets and liabilities:		
Grants receivable	(1,755,662)	587,691
Other receivables	69,234	478,918
Prepaid expenses	(40,222)	(15,274)
Accounts payable and accrued expenses	32,768	(155,978)
Deferred support	238,196	(122,105)
Deferred revenue	138,850	(633,333)
Funds held in agency	<u>7,455,504</u>	<u>(1,163,564)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,849,665	1,234,908
INVESTING ACTIVITIES		
Decrease in other committed support funds	4,700	10,923
Small business loans funded	(999,700)	(623,705)
Principal payments received on small business loans	4,499,354	5,877,223
Purchases of fixed assets	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,504,354</u>	<u>5,264,441</u>
FINANCING ACTIVITIES		
Proceeds from borrowings	2,073,735	1,000,000
Principal payments on borrowings	<u>(5,311,948)</u>	<u>(3,364,181)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(3,238,213)</u>	<u>(2,364,181)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS	7,115,806	4,135,168
Cash, cash equivalents, and restricted cash equivalents, beginning of year	<u>15,532,015</u>	<u>11,396,847</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,647,821</u>	<u>\$ 15,532,015</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 547,991	\$ 661,481
NONCASH INVESTING AND FINANCING ACTIVITIES		
Charge-offs against loan loss reserves:		
Uncollectible loans	\$ 1,099,907	\$ 1,041,410

See independent auditor's report and notes to financial statements.

Carolina Small Business Development Fund

Years Ended June 30, 2022 and 2021

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.

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>2022</u>	<u>2021</u>
Operating reserves	\$ 5,036,508	\$ 1,301,586
Board-designated:		
Small business lending	6,857,566	6,860,582
At-risk deposits/mortgage loans	224,089	228,789
Property and equipment, net	<u>2,302</u>	<u>5,651</u>
Total net assets without donor restrictions	<u>\$ 12,120,465</u>	<u>\$ 8,396,608</u>

The only other limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its formation documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

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, 2022 and 2021, the Organization has no net assets with donor restrictions that require resources to be maintained in perpetuity. Refer also to *Note F--Net Assets With Donor Restrictions / Conditional Awards*.

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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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. On May 17, 2022, the Organization received a notice of forgiveness from the U.S. Small Business Administration (SBA) for the full loan amount. Loan proceeds of \$656,900 is included as revenue in the accompanying statement of activities for the year ended June 30, 2022.

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*.

Cash, Cash Equivalents, and Restricted Cash Equivalents: *Operating funds* at June 30, 2022 and 2021 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, 2022 and 2021 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*.

Carolina Small Business Development Fund

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

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*.

Grants Receivable: Grants receivable at June 30, 2022, consists primarily of amounts due from federal and state agencies. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible based on contractual terms with the various agencies. Receivables are recorded at net realizable value, are unsecured, and are due within a year.

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

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 had no unrelated business income for the years ended June 30, 2022 and 2021, and management is aware of no uncertain tax positions. 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 receivable, payables, and accrued expenses are considered to approximate the fair values of such at June 30, 2022 and 2021, 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 between program and support services. Expenses that can be identified as a program or support service are allocated directly thereto. Certain indirect expenses are allocated to program and support services 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 periods. 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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, including interim periods within those fiscal years, as most recently 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. Management is currently evaluating the impact that the adoption of this standard will have on future financial statements.

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 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.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE B--AVAILABILITY AND LIQUIDITY OF ASSETS

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>2022</u>	<u>2021</u>
Operating funds	\$ 10,674,765	\$ 4,142,278
Grants, contracts, and administrative fees receivable	2,091,149	337,708
Other receivables	37,180	104,193
Less: Funds held in agency/in operating funds	(8,206,044)	(1,178,601)
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>\$ 4,297,050</u>	<u>\$ 3,105,578</u>

The Organization's conditional awards at June 30, 2022, include approximately \$4,962,111 available for general operations. All eligible expenditures must be incurred or obligated by December 31, 2024 and expended by December 31, 2026.

The Organization also has a \$500,000 bank line of credit that may be used for working capital. To date, no borrowings have been taken against the line of credit.

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 \$20,934,000 at June 30, 2022, though the Organization has incurred no loss as a result of such.

Credit Risk: At June 30, 2022, loans receivable includes \$1,700,000 (10.1%) and \$829,612 (4.9%) due from two borrowers. No amounts due from these borrowers were past due at June 30, 2022 or subsequent thereto. At June 30, 2022, grants receivable includes approximately \$1,927,889 (92.2%) due from a state agency, all of which was collected subsequently.

Support Risk (including a State Appropriation): Approximately 64% and 63% of the Organization's support and revenues for the years ended June 30, 2022 and 2021, respectively, were derived from grants and financial assistance awards.

On November 18, 2021, North Carolina passed a biennial budget that includes an appropriation of \$7,000,000 for Carolina Small Business Development Fund for small business loans, financial training to start-ups, and lending services to community-based organizations. The Organization's grant with the North Carolina Department of Commerce has an effective date of March 3, 2021, and identifies the source of funds as federal Coronavirus State Fiscal Recovery Funds (SFRF), authorized by the American Rescue Plan Act. The Organization requested reimbursement for eligible expenditures through June 30, 2022 of \$1,927,889, all of which were incurred in fiscal 2022. The remaining support under the award will be recognized in the period(s) that qualifying expenditures are incurred. All eligible expenditures must be incurred or obligated by December 31, 2024 and expended by December 31, 2026.

Carolina Small Business Development Fund

NOTE D--LOANS RECEIVABLE / LOAN LOSS RESERVES

Loans receivable of \$16,896,875 (including 196 loans) and \$22,396,436 (including 279 loans) at June 30, 2022 and 2021, respectively, are due from small businesses in underserved communities throughout North Carolina. Outstanding loans at June 30, 2022 have terms ranging from one to twenty years and bear interest at rates ranging from 0% to 10.80%. 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, 2022:

<u>Years Ending June 30</u>	
2023	\$ 4,428,063
2024	2,508,990
2025	1,393,204
2026	3,882,142
2027	1,086,699
Thereafter	<u>3,597,777</u>
	<u>\$ 16,896,875</u>

Charge-Offs: Charge-offs of \$1,099,907 and \$1,041,410 were taken against loans receivable for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, are recorded net of a provision for losses on loans of \$1,305,447 (7.7%) and \$2,115,715 (9.4%), 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. The changes in the loan loss reserves are as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 2,115,715	\$ 1,722,154
Provision charged to expense	289,639	1,434,971
Amounts charged off	<u>(1,099,907)</u>	<u>(1,041,410)</u>
Balance, ending	<u>\$ 1,305,447</u>	<u>\$ 2,115,715</u>

Loan Modifications: The Organization considers the modification of loan terms a viable solution to assist a borrower to repay the loan obligation. The modification may or may not have credit risk implications. Most of the loans modified by the Organization are experiencing a heightened risk of default or loss and may have already reached a defaulted status, including delinquency, maturity, business closure, or bankruptcy. These modifications may include payment forbearance and extension of maturity, reduced payments and extension, and interest rate reductions to a rate below market for new debt with similar risk. When CSBDF, for legal or economic reasons related to the borrower's financial difficulties grants a concession, such modification may be considered a troubled debt restructuring (TDR). The borrower does not have to be in default at the time of the modification.

At June 30, 2022, loans receivable of \$1,031,388 (6.1%) are due under nonperforming loans, including \$157,959 considered delinquent (90 days or more past due and still accruing) and \$873,429 in nonaccrual status. At June 30, 2021, loans receivable of \$1,993,839 (8.9%) 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.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

A loan is placed on non-accrual status when the loan exceeds 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, the Organization may pursue the liquidation of the collateral pledged as part of the loan agreement, and/or pursue the borrowers and/or guarantors via a judgment to be obtained through the state court system. These actions may also be initiated if the Organization determines the risk of loss is heightened with a loan.

Credit Quality Indicators: The Organization uses internal risk ratings to monitor the likelihood of losses resulting from loans receivable. The Organization categorizes loans receivable into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, and credit documentation, among other factors. The Organization analyzes loans individually by classifying the loans receivable as to credit risk.

The credit risk factors, delineated by the number of days past due and by the loans designated as Troubled Debt Restructures, 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, 2022</i>						
Pass	\$ 14,610,123	\$ -	\$ -	\$ -	\$ -	\$ 813,047
Watch	809,055	156,708	-	157,959	314,667	325,258
Classified	<u>1,477,697</u>	<u>178,949</u>	<u>-</u>	<u>702,253</u>	<u>881,202</u>	<u>583,035</u>
	<u>\$ 16,896,875</u>	<u>\$ 335,657</u>	<u>\$ -</u>	<u>\$ 860,212</u>	<u>\$ 1,195,869</u>	<u>\$ 1,721,340</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>

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, or temporary, 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.

Carolina Small Business Development Fund

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

Significant Estimate: Carolina Small Business has recognized a provision for losses on loans at June 30, 2022 and 2021, 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 \$691,091 and \$979,077 at June 30, 2022 and 2021, respectively, 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 \$120,726 (17.5%) at June 30, 2022. Charge-offs of \$0 and \$183,973 were made for the years ended June 30, 2022 and 2021, respectively. No loans have payments over 60 days past due at June 30, 2022. Refer to *Note E--Notes Payable* as pertains to pay-back of the loan funds.

USDA-Rural Micro-entrepreneur Assistance Program (RMAP). Loans receivable of \$44,008 and \$82,699 at June 30, 2022 and 2021, respectively, bear interest at rates ranging from 7.5% to 9.5%. The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Funded reserves approximate \$61,287 (139.3%) at June 30, 2022. No charge-offs were made during the years ended June 30, 2022 and 2021. No loans have payments over 60 days past due at June 30, 2022. 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 \$358,259 and \$477,555 at June 30, 2022 and 2021, respectively, 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 \$50,218 (14%) at June 30, 2022. Charge-offs of \$0 and \$64,038 were made for the years ended June 30, 2022 and 2021, respectively. No loans have payments over 60 days past due at June 30, 2022. 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 guarantees up to 85% for loans of \$350,000 or less (up from \$250,000 or less prior to April 2022). Approximately \$4,715,504 of the Organization's loans receivable at June 30, 2022 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 \$74,795 at June 30, 2022.

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, 2022 and 2021. The Organization is required to fund reserves of at least 3% of the guarantee on loans sold which approximates \$52,341 at June 30, 2022. Carolina Small Business held \$285,961 in a PNC-funded loan loss account at June 30, 2022, satisfying both the 5% (in preceding paragraph) and 3% reserve requirements.

Carolina Small Business Development Fund

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

In fiscal 2020, the Organization requested that SBA repurchase five loans, the guaranteed portions of which totaled \$384,141. The Organization received \$0 and \$63,037 against this request during the years ended June 30, 2022 and 2021, respectively. No such requests were made in fiscal 2021 or 2022.

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 \$99,819 of the Organization's loans receivable at June 30, 2022 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, 2022, 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 \$448,574 in the aggregate at June 30, 2022.

Notes to Financial Statements--Continued

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, 2022	June 30, 2021
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
TD Bank	Quarterly beginning June 2019, as amended	5.00%	Monthly	Mar. 2023	Unsecured	0	247,772
Woodforest National Bank	\$500,000 due Oct. 2020 and Dec. 2021, as amended	3.35%	Monthly	Dec. 2021	Unsecured	0	500,000
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	Sep. 2027	Unsecured	500,000	500,000
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	373,216	398,795
USDA RMAP	Monthly beginning May 2019	2.00%	Monthly beginning May 2019	Apr. 2037	Partially secured by RMRF deposits/loans receivable	412,381	436,583
Pinnacle Bank (formerly Bank of North Carolina)	Due in full at maturity	3.00%	Quarterly	Feb. 2027	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	0	2,000,000
US SBA ILP	Quarterly	1.00%	Quarterly	Sep. 2031	Partially secured by ILP deposits/loans receivable	542,579	598,565
CNote Wisdom Fund	Due in full at maturity	4.50%	Quarterly	July 2024	Unsecured	0	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	500,000	750,000

* paid in full subsequently upon maturity.

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, 2022	June 30, 2021
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	0	639,244
Opportunity Finance Network	Due in full at maturity	2.00%	Quarterly	June 2021	Unsecured	0	463,132
Opportunity Finance Network	Due in full at maturity	2.00%	Quarterly	June 2021	Unsecured	0	463,132
Opportunity Finance Network	Due in full at maturity	2.00%	Quarterly	July 2026	Unsecured	1,000,000	0
PNC Bank--LOC	Due in full at maturity	3.00%	Quarterly	Oct 2021	Unsecured	0	1,000,000
PNC Bank - new consolidated note	Due in full at maturity, as amended February 2022	3.25%	Quarterly	Dec. 2024	Partially secured by \$300,000 minimum deposit account	1,216,125	1,396,125
USDA IRP	Annually	1.00%	Annually	Nov. 2040	Partially secured by IRP deposits/loans receivable	548,050	574,713
USDA IRP	Annually	1.00%	Annually	May 2030	Partially secured by IRP deposits/loans receivable	163,566	183,116
USDA IRP	Annually beginning September 2019	1.00%	Annually	Sep. 2036	Partially secured by IRP deposits/loans receivable	528,434	560,376
USDA IRP	Annually	1.00%	Annually	Jan. 2046	Partially secured by IRP deposits/loans receivable	272,092	283,103
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	Apr. 2026	Unsecured	1,029,510	1,000,000
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
Olamina Fund	Due in full at maturity	3.25%	Quarterly beginning December 2021	Sep. 2026	Unsecured	2,000,000	0
Total Notes Payable						\$ 18,532,515	\$ 21,741,218

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 \$580,217 and \$603,484 for the years ended June 30, 2022 and 2021, respectively.

Principal maturities of notes payable at June 30, 2022 approximate the following:

<u>Years Ending June 30</u>	
2023	\$ 1,902,265
2024	704,875
2025	1,846,151
2026	4,717,221
2027	5,388,566
Thereafter	<u>3,973,437</u>
	<u>\$ 18,532,515</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, 2022 and subsequent thereto, or has obtained 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 if needed. Any draws on the line require 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: 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.

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:

	<u>Years Ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
Small business lending	\$ 3,284,900	\$ 2,851,861
Women's Business Center	500,945	390,386
Training and technical assistance	3,358	480,696
NC Disaster Recovery Loan Program	1,280,683	61,813
General operations	<u>1,927,889</u>	<u>110,000</u>
	<u>\$ 6,997,775</u>	<u>\$ 3,894,756</u>

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

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

	<u>2022</u>	<u>2021</u>
Small business lending	\$ 1,289,597	\$ 3,472,838
Women's Business Center	133,000	186,373
Training and technical assistance	-	61,161
NC Disaster Recovery Loan Program	<u>918,705</u>	<u>2,199,388</u>
	<u>\$ 2,341,302</u>	<u>\$ 5,919,760</u>

Support from awards for the following remains conditional at June 30, 2022:

Small business lending	\$ 948,036
Women's Business Center	423,901
General operations	<u>4,962,111</u>
	<u>\$ 6,334,048</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. Base rent expense approximated \$148,635 and \$97,134 for the years ended June 30, 2022 and 2021, respectively.

The Organization also leases office space for its Western Women's Business Center in Asheville. The annual lease expired in September 2022, and was subsequently extended until August 31, 2023.

In April 2022, the Organization entered into a license agreement for space at the Asheville Mall Shopping Center for its Western Women's Business Center. The agreement has a term of April 2022 through June 30, 2023.

Rent expense under operating leases approximated \$170,829 and \$129,185 for the years ended June 30, 2022 and 2021, respectively.

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

<u>Years Ending June 30,</u>	
2023	\$ 184,444
2024	158,290
2025	162,373
2026	167,249
2027	172,265
Thereafter	<u>147,575</u>
	<u>\$ 992,196</u>

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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 \$80,567 and \$59,800 for the years ended June 30, 2022 and 2021, respectively. The plan also provides for discretionary, nonelective employer contributions, though no such contributions were approved for the years ended June 30, 2022 and 2021.

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:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2022</u>	<u>Fair Value</u>			
Operating funds	\$ 834,828	\$ 501,063	\$ 333,765	\$ -
Committed loan support funds	1,197,739	1,197,739	-	-
Other committed support funds	224,089	-	138,872	85,217
Loans receivable	16,896,875	-	16,896,875	-
Notes payable	<u>18,532,515</u>	<u>-</u>	<u>18,532,515</u>	<u>-</u>
Total	<u>\$ 37,686,046</u>	<u>\$ 1,698,802</u>	<u>\$ 35,902,027</u>	<u>\$ 85,217</u>
<u>June 30, 2021</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(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>-</u>	<u>21,741,218</u>	<u>-</u>
Total	<u>\$ 46,389,515</u>	<u>\$ 1,697,571</u>	<u>\$ 44,602,027</u>	<u>\$ 89,917</u>

Carolina Small Business Development Fund

NOTE I--FAIR VALUE MEASUREMENTS -- Continued

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, 2022, Level 2 financial instruments include the following term certificates: a 5-year certificate of deposit valued at \$328,761 (including accrued interest), with interest at 1.0%, maturing in July 2023; a 2-year certificate of deposit valued at \$5,004, with interest at 0.15%, maturing in December 2023; and 5-year share term certificates valued at \$138,872 (in the aggregate), with interest at 3.0%, maturing in January 2026. The carrying value of *loans receivable* and *notes payable* approximates the fair value 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):

	Year Ended	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Beginning balance, beginning of year	\$ 89,917	\$ 94,327
Collections on mortgages purchased from GCCU	<u>(4,700)</u>	<u>(4,410)</u>
Ending balance, end of year	<u>\$ 85,217</u>	<u>\$ 89,917</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.

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. 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. 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 administrative fees receivable. Loan and grant programs administered by Carolina Small Business, many of which originated in response to the COVID-19 pandemic, are summarized herein.

Carolina Small Business Development Fund

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

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. Administrative fees of \$100,000 and \$75,000 and servicing fees of \$1,828 and \$414 were recognized for fiscal 2022 and 2021, respectively. Loan funds of \$67,869 placed in excess of funds advanced as of June 30, 2022, are recorded as a negative liability in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$772,198 and \$48,491 at June 30, 2022 and 2021, respectively.

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 \$55,556 and \$333,333 in fiscal 2022 and 2021, respectively, and \$21,211 and \$25,385 of servicing fees in fiscal 2022 and 2021, respectively. Loan funds of \$149,367 and \$438,070 received from Mecklenburg County, but not placed as of June 30, 2022 and 2021, respectively, are recorded as a liability in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$3,821,665 and \$4,664,057 at June 30, 2022 and 2021, respectively.

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 were funded by grants from the Golden LEAF Foundation to the Rural Center, the term of which expired on April 1, 2021. Carolina Small Business is entitled to administrative fees of 2% and a portion of interest collected from borrowers, as defined by contract. Loans receivable, due from borrowers and payable to the Rural Center, totaled \$1,053,307 and \$1,478,485 at June 30, 2022 and 2021, respectively.

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.

Durham Small Business Recovery Fund (City of Durham): 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

Carolina Small Business Development Fund

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

recognized in fiscal 2022 and 2021. Loan funds of \$120,994 received from the City of Durham, but not placed as of June 30, 2022, as well as principal and interest repayments of \$6,091 (net of fees and repayments), are recorded as a liability in the accompanying financial statements. Loans receivable, due from the borrowers and payable to the City of Durham, totaled \$740,578 and \$663,208 at June 30, 2022 and 2021, respectively.

Durham Small Business Recovery Fund (Durham County) (including subsequent events): 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 \$41,667 and \$125,000 were recognized in fiscal 2022 and 2021, respectively. Loan funds of \$833,333, received from Durham County, but not placed as of June 30, 2022, are recorded as a liability in the accompanying financial statements. Loan funds of approximately \$146,006 were deployed using County funds subsequent to June 30, 2022.

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 \$6,500,000 in grants and received administrative fees of \$77,022 under this program in fiscal 2021.

In July 2021 and December 2021, Carolina Small Business received additional funding of \$4,099,084 to administer for RETOOLNC. Grant funds of \$3,987,859 were disbursed and the Organization received administrative fees of \$111,225. In April 2022, the Organization received an additional \$9,000,000 to be disbursed on behalf of the RETOOLNC Grant Program. The contract provides for contract service fees of \$585,000, with \$250,000 paid upfront and \$335,000 to be paid when all grant funds have been disbursed. Carolina Small Business disbursed approximately \$793,956 in additional grants and recognized \$111,150 of additional administrative fees in fiscal 2022. Grant funds of \$8,206,044 received but not disbursed and administrative fees of \$138,850 received but not earned as of June 30, 2022, are recorded as a liability in the accompanying financial statements. All remaining grant funds were disbursed subsequent to June 30, 2022.

In late-October 2022, Carolina Small Business received additional funding of approximately \$323,900 and \$980,000 for RETOOLNC grants, for which the Organization will receive an administrative fee of \$5,000 and \$20,000, respectively, for disbursing the funds. All grant funds were disbursed by November 30, 2022.

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). 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. The loan requires 87 monthly interest-only payments (at approximately 3.50%), with principal due in full on October 31, 2025. At June 30, 2022, the loan balance is \$1,700,000 and interest payments are being made on a monthly basis.

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 during which only essential service providers were permitted to have their employees continue to work on-site. The Organization's staff worked remotely throughout the pandemic to assist small businesses in need of relief funding.

In fiscal 2022 and 2021, Carolina Small Business administered COVID-19 relief programs on behalf of certain municipalities, a state agency, and a nonprofit organization as described in *Note J* herein.

Certain of the Organization's existing borrowers were eligible for certain loan deferrals or modifications during the COVID-19 pandemic. Payments were 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.

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.

The SBA 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.

In February 2021, Carolina Small Business was awarded a \$1,826,265 reimbursement grant by the Community Development Financial Institutions Rapid Response Program to provide necessary capital for CDFIs to respond to economic challenges created by the COVID-19 pandemic, 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 ending June 30, 2023. Revenue of \$1,016,871 was recognized in fiscal 2022.

In April 2022, the City of Raleigh engaged Carolina Small Business to assist the City in administering the distribution/use of \$5,000,000 of Coronavirus State and Local Fiscal Recovery Funds, authorized by the American Rescue Plan Act of 2021. Carolina Small Business (as the subrecipient) will provide technical assistance and financial support to small businesses located in Raleigh that continue to suffer from the economic consequences of the COVID-19 pandemic. The Organization will also be responsible for administering the Oak City Biz Labs Program for small businesses located in Raleigh. Per the agreement, \$4,200,000 will be available for distribution to eligible businesses over a 24-month period. The Organization will be compensated for administering the funds on a reimbursement basis, not to exceed \$800,000. No services had been provided under the agreement as of June 30, 2022.

Carolina Small Business Development Fund

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

At the date the financial statements were available to be issued, vaccines and boosters for COVID-19 are widely available, yet variants of the virus have emerged. Management continues to monitor the situation closely; however, the impact of COVID-19 and its variants on future 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, 2022 and 2021, loans receivable of \$1,037,409 and \$1,498,775, respectively, are subject to this repayment provision. Principal maturities are scheduled as follows at June 30, 2022: \$75,792 in fiscal 2023; \$87,173 in fiscal 2024; \$56,268 in fiscal 2025; \$633,391 in fiscal 2026; \$62,173 in fiscal 2027; and \$122,612 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. Loans totaling \$900,000 were forgiven in fiscal 2022 and loans totaling \$150,000 were written off in fiscal 2022. No loans were forgiven or written off in fiscal 2021. Loans of \$400,000 and \$1,450,000 remain outstanding at June 30, 2022 and 2021, respectively.

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

Management has evaluated subsequent events through December 12, 2022, 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, 2022

Grantor/ Pass-through Grantor/ Program Title	Assistance Listing #	Pass-through Entity Identifying Number	Federal Expenditures*	State Awards	
				Support	Expenditures
<u>FEDERAL AWARDS:</u>					
<u>U.S. Department of Agriculture, Rural Development:</u>					
<u>Rural Business Development Grant (RBDG):</u>					
Training and technical assistance to micro-borrowers	10.351		\$ 3,358		
<u>Intermediary Relending Program (IRP):</u>					
Loans due to federal agency at beginning of fiscal year	10.767		1,601,308		
<u>Rural Microentrepreneur Assistance Program (RMAP):</u>					
Training and technical assistance to micro-borrowers	10.870		4,678		
Loans due to federal agency at beginning of fiscal year	10.870		<u>835,378</u>		
			<u>840,056</u>		
<u>U.S. Department of Housing and Urban Development:</u>					
<u>CDBG--Entitlement Grants Cluster/Community Development</u>					
<u>Block Grant Program for Entitlement Communities:</u>					
<u>City of Asheville, North Carolina:</u>					
<u>Opportunity Asheville: WWBC - Business Training and Access to Capital in the City of Asheville</u>	14.218	FY 2021-22	97,481		
<u>U.S. Department of the Treasury:</u>					
<u>Coronavirus State and Local Fiscal Recovery Funds</u>					
<u>(authorized by the American Rescue Plan Act)</u>					
<u>State of North Carolina Appropriation:</u>					
<u>COVID-19: State Fiscal Recovery Funds (SFRF)</u>					
<u>N.C. Department of Commerce (disbursing agency):</u>					
Appropriated for small business loans, financial training to start-ups and lending services to community-based organizations.	21.027	Agreement signed Jun. 28, 2022/effective Mar. 3, 2021	1,927,889		
<u>U.S. Department of the Treasury, Community</u>					
<u>Development Financial Institutions Fund:</u>					
<u>COVID-19: CDFI Rapid Response Program (CDFI RRP)</u>	21.024		1,016,871		
<u>U.S. Small Business Administration:</u>					
<u>COVID-19: Economic Injury Disaster Loan:</u>					
Loan due to federal agency at beginning of fiscal year	59.008		150,000		
<u>Women's Business Ownership Assistance:</u>					
SBAHQ20W0032	59.043		121,627		
<u>COVID-19: SBAHQ20C0183--CARES Act</u>	59.043		<u>186,373</u>		
			<u>308,000</u>		
<u>Intermediary Loan Program (ILP):</u>					
Loans due to federal agency at beginning of fiscal year	59.062		<u>598,565</u>		
TOTAL FEDERAL EXPENDITURES			\$ <u>6,543,528</u>		
<u>STATE AWARDS:</u>					
<u>State of North Carolina Appropriation under The Disaster Recovery Act of 2016:</u>					
<u>The Golden LEAF Foundation:</u>					
<u>North Carolina Disaster Recovery Loan Program:</u>					
Small business lending (advance refunded)			\$ (230,683)	\$ -	
Program expenses			-	-	
		FY2017-149	<u>(230,683)</u>	<u>-</u>	
TOTAL STATE AWARDS			\$ <u>(230,683)</u>	\$ -	

* No amounts were passed through to subrecipients.

See independent auditor's 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, 2022

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, 2022. 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, 2022 consists of:

<u>CFDA #</u>	<u>Program Name</u>	<u>Outstanding Balance June 30, 2022</u>
10.767	USDA IRP	\$ 1,512,142
10.870	USDA RMAP	785,597
59.008	US SBA EIDL	150,000
59.062	US SBA ILP	542,579

Loans receivable from borrowers of approximately \$4,715,504 at June 30, 2022, are guaranteed (up to 75% or 85%) under the SBA Community Advantage Pilot Loan Program.

Loans receivable from borrowers of approximately \$99,819 at June 30, 2022, are guaranteed (up to 85%) under the Charlotte Community Capital Fund Program.

Loans receivable from borrowers of approximately \$448,574 at June 30, 2022, 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 Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2022.

Report on 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 Carolina Small Business Development Fund'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. However, material weaknesses or significant deficiencies may exist that were not identified.

Report 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 Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*--Continued

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 12, 2022



Independent Auditor's 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

Opinion on Each Major Federal Program

We have audited Carolina Small Business Development Fund's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Carolina Small Business Development Fund's major federal programs for the year ended June 30, 2022. Carolina Small Business Development Fund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, 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, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

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

Schedule of Findings and Questioned Costs

Carolina Small Business Development Fund

Year Ended June 30, 2022

Section I - Summary of Auditor's Results

Type of auditor's report issued on financial statements: *Unmodified*

Internal control over financial reporting:

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

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 auditor's 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>
10.870	U.S. Department of Agriculture, <i>Rural Microentrepreneur Assistance Program</i>
21.024	U.S. Department of the Treasury, <i>CDFI Rapid Response Program</i>
21.027	U.S. Department of the Treasury, <i>Coronavirus State and Local Recovery Funds</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, 2022

Section II - Financial Statement Findings

There were no such findings to report.

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, 2022

Financial Statement Findings

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

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.

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.

Current Status: Management incorporated an automated process through our Salesforce platform to ensure updated financial information is requested from borrowers in a timely and consistent manner. The campaign is now set to send requests for financial information at certain times of the year and provides the borrower with the ability to upload the requested information securely. Completion Date: April 2022.