

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

Carolina Small Business Development Fund

Years Ended June 30, 2020 and 2019

Audited Financial Statements, Supplementary Information, and Compliance Reports

Carolina Small Business Development Fund

Years Ended June 30, 2020 and 2019

Audited Financial Statements

Independent Auditors' Report 1
Statements of Financial Position 3
Statement of Activities (2020)..... 4
Statement of Activities (2019)..... 5
Statement of Functional Expenses (2020) 6
Statement of Functional Expenses (2019) 7
Statements of Cash Flows 8
Notes to Financial Statements 9

Supplementary Information

Schedule of Federal and State Awards29
Notes to Schedule of Federal and State Awards.....30

Compliance Reports

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*32
Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control Over Compliance Required by the Uniform Guidance34
Schedule of Findings and Questioned Costs35
Summary Schedule of Prior Audit Findings.....38



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carolina Small Business Development Fund as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As discussed in note A to the financial statements, Carolina Small Business Development Fund adopted FASB Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and FASB ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Independent Auditors' Report--Continued

Other Matters

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021, on our consideration of Carolina Small Business Development Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carolina Small Business Development Fund's internal control over financial reporting and compliance.

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

Raleigh, North Carolina
March 31, 2021

Statements of Financial Position

Carolina Small Business Development Fund

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS:		
Operating funds	\$ 4,009,940	\$ 2,174,138
Committed loan support funds - small business lending	<u>7,386,907</u>	<u>7,975,281</u>
Total cash, cash equivalents, and restricted cash equivalents	11,396,847	10,149,419
OTHER COMMITTED SUPPORT FUNDS:		
SEDA - for CDCU lending	145,385	160,200
Mortgage loans - GCCU	<u>132,196</u>	<u>136,265</u>
	277,581	296,465
Less: Reserve on at-risk deposits/mortgage loans	<u>(37,869)</u>	<u>(50,000)</u>
Total other committed support funds	239,712	246,465
LOANS RECEIVABLE:		
Loans - small business lending	28,691,363	29,307,834
Less: Loan loss reserves	<u>(1,722,154)</u>	<u>(2,054,576)</u>
Total loans receivable	26,969,209	27,253,258
OTHER RECEIVABLES:		
Grants receivable	923,178	688,145
Contracts receivable (loans placed on behalf of Rural Center)	542,597	-
Administrative fees receivable	27,669	-
NMTC Leverage Loan	2,135,000	2,135,000
Other	<u>15,066</u>	<u>74,441</u>
Total other receivables	3,643,510	2,897,586
PREPAID EXPENSES	31,834	55,348
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>(280,687)</u>	<u>(254,092)</u>
Total fixed assets	15,856	42,451
TOTAL ASSETS	\$ <u>42,296,968</u>	\$ <u>40,644,527</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 127,183	\$ 75,190
Accrued interest	89,118	82,678
Accrued vacation	92,836	103,820
Deferred support	122,105	31,265
Deferred revenue:		
Durham Small Business Recovery Fund	50,000	-
Emergency Stabiliation Loan Fund (Mecklenburg County)	333,333	-
NC Rapid Recovery Loan Program (Rural Center)	<u>250,000</u>	<u>-</u>
Total deferred revenue	633,333	292,953
Funds held in agency (not yet placed/disbursed):		
Raleigh Small Business COVID-19 Relief Fund	76,957	-
Durham Small Business Recovery Fund	1,000,000	-
Emergency Stabiliation Loan Fund (Mecklenburg County)	1,723,903	-
Mecklenburg County Small Business Loan Program	<u>166,244</u>	<u>-</u>
Total funds held in agency	2,967,104	-
PPP forgivable loan	656,900	-
Notes payable	<u>24,105,399</u>	<u>25,583,241</u>
TOTAL LIABILITIES	28,793,978	25,876,194
NET ASSETS		
Without donor restrictions	8,817,606	10,059,114
With donor restrictions	<u>4,685,384</u>	<u>4,709,219</u>
TOTAL NET ASSETS	13,502,990	14,768,333
TOTAL LIABILITIES AND NET ASSETS	\$ <u>42,296,968</u>	\$ <u>40,644,527</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2020

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

See independent auditors' report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 3,241,728	\$ 3,287,095	\$ 6,528,823
Contributions	6,947		6,947
Special events revenue	162,983		162,983
Dividend income	45,005	120	45,125
Mortgage interest	8,869		8,869
Loan closing/servicing revenue	78,731	2,851	81,582
Premium on sale of SBA CA guarantee loans	96,561		96,561
Repayment of bad debt	34,002		34,002
Business loan interest	1,770,453	198,932	1,969,385
Origination fees	100,105	7,390	107,495
Membership fees	5,000		5,000
Other income	2,198		2,198
Net assets released from restrictions due to satisfaction of:			
Purpose restrictions	1,355,605	(1,355,605)	-
Time restrictions	71,965	(71,965)	-
	<u>6,980,152</u>	<u>2,068,818</u>	<u>9,048,970</u>
TOTAL SUPPORT, REVENUES, AND OTHER INCOME			
EXPENSES:			
Program services	6,778,650		6,778,650
Support services:			
Management and general	1,374,780		1,374,780
Fundraising	79,577		79,577
Total support services	<u>1,454,357</u>	<u>-</u>	<u>1,454,357</u>
	<u>8,233,007</u>	<u>-</u>	<u>8,233,007</u>
TOTAL EXPENSES			
	<u>(1,252,855)</u>	<u>2,068,818</u>	<u>815,963</u>
CHANGE IN NET ASSETS			
Net assets, beginning of year	<u>11,311,969</u>	<u>2,640,401</u>	<u>13,952,370</u>
	<u>\$ 10,059,114</u>	<u>\$ 4,709,219</u>	<u>\$ 14,768,333</u>
NET ASSETS, END OF YEAR			

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2020

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

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2019

	Program Services	Support Services	Total
	<u> </u>	<u> </u>	<u> </u>
PERSONNEL:			
Salaries	\$ 2,016,618	\$ 590,155	\$ 2,606,773
Employee benefits	270,914	80,923	351,837
Payroll taxes	157,621	47,081	204,702
Total personnel	<u>2,445,153</u>	<u>718,159</u>	<u>3,163,312</u>
OTHER EXPENSES:			
Interest expense	865,018		865,018
Marketing and newsletter	28,742	8,108	36,850
Bank fees	20,214		20,214
Telephone	57,742	16,284	74,026
Professional fees	112,789	31,812	144,601
Contract services	559,242	354,535	913,777
Subscriptions, sponsorships and dues	47,017	13,265	60,282
Staff travel	157,655	44,465	202,120
Seminars, conferences, and workshops	59,191	10,446	69,637
Board meeting expenses	4,992	2,349	7,341
Office supplies and expenses	28,861	7,671	36,532
Printing and copying	10,287	2,901	13,188
Software	76,568	16,145	92,713
Office occupancy	163,870	46,220	210,090
Insurance and bonding	30,753	8,676	39,429
Postage	8,742	2,466	11,208
Provision for losses on loans	1,643,959		1,643,959
Loan servicing fees	140,976	39,762	180,738
Legal expenses	96,406	27,193	123,599
Staff development	48,781	13,760	62,541
Fundraising expense		79,577	79,577
Grant repayment	134,245		134,245
Total other expenses	<u>4,296,050</u>	<u>725,635</u>	<u>5,021,685</u>
Total operating expenses before depreciation	6,741,203	1,443,794	8,184,997
Depreciation	<u>37,447</u>	<u>10,563</u>	<u>48,010</u>
TOTAL EXPENSES	<u><u>\$ 6,778,650</u></u>	<u><u>\$ 1,454,357</u></u>	<u><u>\$ 8,233,007</u></u>

See independent auditors' report and notes to financial statements.

Statements of Cash Flows

Carolina Small Business Development Fund

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (1,265,343)	\$ 815,963
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,595	48,010
Provision for losses on loans	1,098,114	1,643,959
Interest expense added to borrowings	-	9,745
Changes in operating assets and liabilities:		
Grants receivable	(235,033)	33
Other receivables	(510,891)	(1,746)
Prepaid expenses	23,514	17,595
Accounts payable and accrued expenses	47,449	62,433
Deferred support	90,840	31,265
Deferred revenue	633,333	-
Funds held in agency	2,967,104	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,875,682</u>	<u>2,627,257</u>
INVESTING ACTIVITIES		
Decrease in other committed support funds	18,884	15,225
Small business loans funded	(5,494,457)	(8,139,734)
Principal payments received on small business loans	4,668,261	7,046,955
Funding of NMTC Leverage Loan	-	(2,135,000)
Purchases of fixed assets	-	(5,982)
NET CASH USED IN INVESTING ACTIVITIES	<u>(807,312)</u>	<u>(3,218,536)</u>
FINANCING ACTIVITIES		
Proceeds from PPP forgivable loan	656,900	-
Proceeds from other borrowings	450,000	3,575,000
Principal payments on borrowings	(1,927,842)	(1,856,996)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(820,942)</u>	<u>1,718,004</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS	1,247,428	1,126,725
Cash, cash equivalents, and restricted cash equivalents , beginning of year	<u>10,149,419</u>	<u>9,022,694</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, END OF YEAR	<u>\$ 11,396,847</u>	<u>\$ 10,149,419</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 569,261	\$ 772,595
NONCASH INVESTING AND FINANCING ACTIVITIES		
Charge-offs against loan loss reserves:		
Uncollectible loans	\$ 1,442,667	\$ 1,994,025

See independent auditors' report and notes to financial statements.

Carolina Small Business Development Fund

Years Ended June 30, 2020 and 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Adoption of New Accounting Standards: During fiscal 2020, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies how an entity determines whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and whether a contribution should be considered conditional. As required by ASU 2018-08, the Organization applied the requirements on a modified prospective basis to agreements that either were not complete at July 1, 2019, or were entered into after July 1, 2019. The adoption of ASU 2018-08 resulted in no changes to support and revenue recognized for the year ended June 30, 2020.

During fiscal 2020, the Organization also adopted FASB ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. The standard was effective for fiscal years beginning after December 15, 2018, and was applied using a retrospective transition method to each period presented.

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>2020</u>	<u>2019</u>
Operating reserves	\$ 1,700,222	\$ 3,101,367
Board-designated:		
Contingency reserve*	-	-
Small business lending	6,861,816	6,668,831
At-risk deposits/mortgage loans	239,712	246,465
Property and equipment, net	<u>15,856</u>	<u>42,451</u>
Total net assets without donor restrictions	<u>\$ 8,817,606</u>	<u>\$ 10,059,114</u>

* The Board voted on January 10, 2020, to remove its designation on net assets held in the Organization’s contingency reserve. The resolution was retroactive to June 30, 2019. The Board also agreed to discontinue the transfer of \$150,000 annually to the Board-designated reserve. Net assets of \$1,104,585, held previously in the contingency reserve, are included in operating reserves at June 30, 2019.

Carolina Small Business Development Fund

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

Net Assets With Donor Restrictions: These net assets are subject to restrictions imposed by donors and grantors. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that require resources to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions. At June 30, 2020 and 2019, the Organization has no net assets with donor restrictions that require resources to be maintained in perpetuity.

Cash, Cash Equivalents, and Restricted Cash Equivalents: *Operating funds* at June 30, 2020 and 2019 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, 2020 and 2019 consist of \$300,000 held in a bank certificate of deposit that collateralizes certain bank debt.

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

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

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

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

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

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

Carolina Small Business Development Fund

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

Recognition of Support: The Organization evaluates contributions, grants, and contracts to determine whether the transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred, or (2) a contribution. If determined to be an exchange transaction, revenue is recognized in accordance with ASC Topic 605. 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. A state award of \$2,500,000 was fully expended (or committed) and was recorded directly to support without donor restrictions for the year ended June 30, 2019.

Grants Receivable: Grants receivable at June 30, 2020, consists primarily of amounts due from federal and state agencies and financial institutions. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are unsecured and are expected to be collected within a year.

Recognition of Revenues: Revenues are derived primarily from the Organization's small business lending program and from contracts to administer grant and loan programs on behalf of others. Revenues are recognized in the period earned. Amounts received in advance are included in *deferred revenue*. Refer also to *Note J--Administration of Loan and Grant Programs/Funds Held in Agency*.

Contracts Receivable: Contracts receivable at June 30, 2020, consists of amounts due from a nonprofit organization. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are unsecured and are expected to be collected within a year.

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 to two businesses serving low-income communities. For its participation as an Intermediary CDE, Carolina Small Business is designated to receive exit fees of \$205,875, unless otherwise defined by agreement, on or about October 31, 2025.

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

Carolina Small Business Development Fund

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

PPP Forgivable Loan: The Organization has elected to account for amounts received under the Paycheck Protection Program (PPP) forgivable loan program as a liability until the loan is forgiven or repaid. Management expects the loan to be forgiven in fiscal 2021. Refer also to *Note L--Commitments and Contingencies* as pertains to *COVID-19*.

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

Fair Value of Financial Instruments: The carrying values of cash equivalents, grants and contracts receivable, payables, and accrued expenses are considered to approximate the fair values of such at June 30, 2020 and 2019, due to the short-term maturity of these financial instruments. Other committed support funds are carried at fair value as further described in *Note I--Fair Value Measurements*. Loans receivable are carried at face value, less loan loss reserves. Notes payable are carried at face value. Carolina Small Business makes and receives loans with stated interest rates that are consistent with community development market rates. Therefore, management believes the net carrying values of loans receivable and notes payable approximate the fair values of these financial instruments.

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

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

Reclassifications: Certain amounts previously reported in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

Future Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2019, as deferred by ASU 2020-05. Management has not yet selected a transition method and is currently evaluating the effect that the standard will have on future financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required 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, with certain practical expedients available. The Organization is currently evaluating the impact of the adoption of this ASU on future financial statements.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

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

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>2020</u>	<u>2019</u>
Operating funds	\$ 4,009,940	\$ 2,174,138
Grants, contracts, and administrative fees receivable	1,493,444	688,145
Other receivables	15,066	74,441
Less: Funds held in agency	(2,967,104)	-
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>\$ 2,251,346</u>	<u>\$ 2,636,724</u>

In August 2020, the Organization obtained a \$500,000 bank line of credit to be used for working capital. At the date the financial statements were available to be issued, no borrowings had 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 \$9,550,000 at June 30, 2020, though the Organization has incurred no loss as a result of such.

Investment Risk: The Organization took early withdrawals of approximately \$251,000, \$494,000, and \$500,000 against certificates of deposit in October 2019, December 2019, and May 2020, respectively. Proceeds from these early withdrawals provided the Organization with cash for operating expenses given the State’s delayed, and still pending, approval of the 2019-2020 State Budget. The Organization paid penalties of approximately \$6,800 on the early withdrawals. Refer also to *Note I--Fair Value Measurements*.

Credit Risk: At June 30, 2020, loans receivable includes \$5,175,836 (18.0%) due from five borrowers, which includes loans of \$1,700,000 (5.9%) and \$1,450,000 (5.1%) due from two borrowers. Certain of these loans receivable due from one borrower (totaling approximately \$407,000) were charged off against loan loss reserves as of December 31, 2020. No other loans receivable from the aforementioned five borrowers were past due at June 30, 2020 or subsequent thereto. At June 30, 2020, grants receivable includes \$368,702 due from a state agency under a disaster recovery loan program. At the date on which the financial statements were available to be issued, approximately \$325,000 of this receivable remains outstanding. The program was recently reassigned to a new state agency to administer. Management understands that grant payments were delayed due to this transition, but are expected to be forthcoming. Grants receivable at June 30, 2020 also includes \$336,494 due from a state agency under a pass through of federal CARES Act funds. The amount due was received in October 2020.

Carolina Small Business Development Fund

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

Support Risk: Carolina Small Business was appropriated \$2,500,000 by the North Carolina General Assembly to provide small business loans and financial training to start-ups and existing businesses and lending services to community-based organizations for the fiscal year ended June 30, 2019. This appropriation represented approximately 28% of the Organization’s total support and revenues for fiscal 2019. Due to the North Carolina General Assembly not approving a yearly budget, the Organization has not received any appropriated unrestricted funds for fiscal 2020 and fiscal 2021 from the State. The Organization has maintained sufficient working capital by reducing costs (related primarily to staffing), taking early withdrawals against certificates of deposit, obtaining more favorable repayment terms from lenders, and securing additional sources of support and revenue, including significant COVID-19 relief funds. Certain grantors also released restrictions on funds, making the support available for general operations. Refer also to *Note L--Commitments and Contingencies* as pertains to *Management’s Evaluation of Going Concern*.

NOTE D--LOANS RECEIVABLE / LOAN LOSS RESERVES

Loans receivable of \$28,691,363 (including 361 loans) and \$29,307,834 (including 414 loans) at June 30, 2020 and 2019, respectively, are due from small businesses in underserved communities throughout North Carolina. Outstanding loans at June 30, 2020 have terms ranging from one to twenty years and bear interest at rates ranging from 0% to 11.5%. 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, 2020:

<u>Years Ending June 30</u>	
2021	\$ 5,746,821
2022	3,580,871
2023	4,771,070
2024	2,895,799
2025	3,790,514
Thereafter	<u>7,906,288</u>
	<u>\$ 28,691,363</u>

Charge-Offs: Charge-offs of \$1,442,667 and \$1,994,025 were taken against loans receivable for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, are recorded net of a provision for losses on loans of \$1,722,154 (6.0%) and \$2,054,576 (7.0%), respectively, based on management’s estimates of inherent and probable credit losses. Management’s estimates are based largely on assessed risk ratings and the significance of nonperforming, past due, and restructured loans.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

At June 30, 2020, loans receivable of \$3,078,750 (10.73%) are due under nonperforming loans, including \$176,061 considered delinquent (90 days or more past due and still accruing) and \$2,902,689 in nonaccrual status. At June 30, 2019, loans receivable of \$3,379,840 (11.53%) are due under nonperforming loans, including \$148,713 considered delinquent (90 days or more past due and still accruing) and \$3,231,127 in nonaccrual status.

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

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

<u>Risk Rating</u>	<u>Loan Balance</u>	<u>31 – 60 Days</u>	<u>61 – 89 Days</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Troubled Debt Restructures</u>
<i>June 30, 2020</i>						
Pass	\$ 23,774,703	\$ 270,515	\$ 260,799	\$ 17,332	\$ 548,646	\$ 125,031
Watch	1,492,731	132,932	218,346	130,237	481,515	482,858
Classified	<u>3,423,929</u>	<u>31,839</u>	<u>241,477</u>	<u>2,148,229</u>	<u>2,421,545</u>	<u>1,374,115</u>
	<u>\$ 28,691,363</u>	<u>\$ 435,286</u>	<u>\$ 720,622</u>	<u>\$ 2,295,798</u>	<u>\$ 3,451,706</u>	<u>\$ 1,982,004</u>
<i>June 30, 2019</i>						
Pass	\$ 23,806,042	\$ 70,513	\$ 109,854	\$ 302,510	\$ 482,877	\$ 73,188
Watch	1,103,416	34,988	122,746	270,245	427,979	-
Classified	<u>4,398,376</u>	<u>96,627</u>	<u>186,977</u>	<u>2,286,164</u>	<u>2,569,768</u>	<u>1,458,342</u>
	<u>\$ 29,307,834</u>	<u>\$ 202,128</u>	<u>\$ 419,577</u>	<u>\$ 2,858,919</u>	<u>\$ 3,480,624</u>	<u>\$ 1,531,530</u>

The general characteristics for each risk rating are as follows:

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

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

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

Significant Estimate: Carolina Small Business has recognized a provision for losses on loans at June 30, 2020 and 2019, 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.

Carolina Small Business Development Fund

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

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 \$1,264,788 at June 30, 2020, bear interest at rates ranging from 5% to 8.5%, and are recorded net of a funded reserve for losses of \$120,701 (9.5% of outstanding loans). The program requires the Organization to maintain funded reserves of at least 6.0% of outstanding loans. Charge-offs of \$118,838 and \$245,490 were made during the years ended June 30, 2020 and 2019, respectively. Loans receivable of \$183,973 have payments over 60 days past due at June 30, 2020. 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 \$201,710 at June 30, 2020, bear interest at rates ranging from 7% to 10.25%, and are recorded net of a funded reserve for losses of \$61,266 (30.4% of outstanding loans). The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Charge-offs of \$25,533 and \$112,108 were made during the years ended June 30, 2020 and 2019, respectively. None of the loans receivable have payments over 60 days past due at June 30, 2020. 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 \$659,578 at June 30, 2020, bear interest at rates ranging from 5% to 8.5%, and are recorded net of a funded reserve for losses of \$50,208 (7.6% of outstanding loans). The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Charge-offs of \$24,657 and \$105,919 were made for the years ended June 30, 2020 and 2019, respectively. Loans receivable of \$106,241 have payments over 60 days past due at June 30, 2020. 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 7(a) loan guaranties up to 85% for loans of \$250,000 or less. Approximately \$8,296,303 of the Organization's loans receivable at June 30, 2020, 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 \$118,268 at June 30, 2020.

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 year ended June 30, 2020. The Organization is required to fund reserves of at least 3% of the guarantee on loans sold which approximates \$91,500. Carolina Small Business held \$285,731 in a PNC-funded loan loss account at June 30, 2020, satisfying both the 5% (in preceding paragraph) and 3% reserve requirements.

Carolina Small Business has requested SBA to repurchase five loans during fiscal 2020 for the total amount of \$384,141. No such requests were made in fiscal 2019.

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 \$362,859 of the Organization's loans receivable at June 30, 2020, are guaranteed up to 85% by the Charlotte Community Capital Fund.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

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, 2020, the NC CAP program holds approximately \$221,028 as a credit enhancement reserve for Carolina Small Business loans enrolled in the program. Enrolled loans have outstanding balances of approximately \$1,494,621 in the aggregate at June 30, 2020.

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, 2020	June 30, 2019
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
Capital Bank (formerly Community One Bank)	Monthly beginning February 2019, as amended	3.25%	Monthly beginning Feb. 2019	Dec. 2019	Unsecured	0	541,860
First Horizon Bank (formerly Capital Bank)	Monthly beginning October 2019, deferred for Apr, May, Jun 2020	3.50%	Monthly beginning Oct. 2019	Dec. 2020	Unsecured	503,235	1,000,000
TD Bank	Quarterly beginning June 2019, as amended	5.00%	Monthly	Mar. 2023	Unsecured	372,772	497,772
Woodforest National Bank	\$500,000 due Oct. 2020 and June 2021	3.25%	Monthly	June 2021	Unsecured	1,000,000	1,000,000
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	2.74%	Monthly	Oct. 2021	Unsecured	1,000,000	1,000,000
Appalachian Community Capital	Due in full at maturity	2.00%	Monthly	Dec. 2022	Unsecured	100,000	100,000
USDA RMAP	Monthly	2.00%	Monthly	Aug. 2034	Partially secured by RMRF deposits/loans receivable	425,222	450,439
USDA RMAP	Monthly beginning May 2019	2.00%	Monthly beginning May 2019	Apr. 2037	Partially secured by RMRF deposits/loans receivable	461,180	481,810
Bank of North Carolina	Due in full at maturity	3.00%	Quarterly	Feb. 2022	Partially secured by loans receivable	1,250,000	1,250,000
First National Bank	Due in full at maturity	3.00%	Monthly	Oct. 2022	Unsecured	1,100,000	1,100,000
Annie Casey Foundation	Due in full at maturity	3.00%	Quarterly	Dec. 2022	Unsecured	2,000,000	2,000,000
US SBA ILP	Quarterly	1.00%	Quarterly	Sep. 2031	Partially secured by ILP deposits/loans receivable	653,995	708,874
CNote Group, Inc.	Due in full at maturity	3.60% (variable)	Monthly	Aug. 2020	Unsecured	116,000	116,000
CNote Wisdom Fund	Due in full at maturity	4.50%	Quarterly	July 2024	Unsecured	300,000	0
First Tennessee	Due in full at maturity	2.75%	Quarterly	Jan. 2028	Unsecured	496,562	500,000
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	1,000,000	1,000,000

*as amended subsequently.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

Creditor	Principal Payments	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2020	June 30, 2019
Bank of America	Annually beginning August 2024	1.00%	Quarterly	Aug. 2026	Unsecured	525,000	525,000
Goldman Sachs	Quarterly beginning January 2018	4.50%	Monthly	Dec. 2022	Partially secured by GS deposits/loans receivable	1,537,980	1,837,151
Opportunity Finance Network	Quarterly beginning December 2019, \$450,000 balloon at maturity*	3.75%	Quarterly	June 2021*	Partially secured by loans receivable	481,085	500,000
Opportunity Finance Network	Quarterly beginning December 2019, \$450,000 balloon at maturity*	3.75%	Quarterly	June 2021*	Partially secured by loans receivable	481,085	495,640
PNC Bank	Rolled into new consolidated note, October 2018	4.00%	Quarterly	Apr. 2021	Unsecured	0	0
PNC Bank--LOC	Due in full at maturity	3.00%	Quarterly	Apr. 2021	Unsecured	1,000,000	1,000,000
PNC Bank--LOC	Rolled into new consolidated note, October 2018	4.00%	Quarterly	Apr. 2021	Partially secured by \$300,000 minimum deposit account	0	0
PNC Bank - new consolidated note	Quarterly beginning January 2019, \$1,456,000 balloon at maturity	4.00%	Quarterly	Apr. 2021	Partially secured by \$300,000 minimum deposit account	1,636,125	1,876,125
USDA IRP	Annually	1.00%	Annually	Nov. 2040	Partially secured by IRP deposits/loans receivable	600,551	626,134
USDA IRP	Annually	1.00%	Annually	May 2030	Partially secured by IRP deposits/loans receivable	202,471	221,637
USDA IRP	Annually beginning September 2019	1.00%	Annually	Sep. 2036	Partially secured by IRP deposits/loans receivable	593,131	625,000
USDA IRP	Annually	1.00%	Annually	Jan. 2046	Partially secured by IRP deposits/loans receivable	294,005	304,799
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
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	0
Total Notes Payable						\$ 24,105,399	\$ 25,583,241

*as amended subsequently.

QALICB=Qualified Active Low-income Community Business

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

Interest expense totaled \$741,057 and \$865,018 for the years ended June 30, 2020 and 2019, respectively.

Principal maturities of notes payable at June 30, 2020 approximate the following, after giving effect to the subsequent modifications noted by an asterisk (*) on the previous two pages:

<u>Years Ending June 30</u>	
2021	\$ 6,346,173
2022	3,388,135
2023	4,448,567
2024	708,855
2025	933,903
Thereafter	<u>8,279,766</u>
	<u>\$ 24,105,399</u>

Available to Borrow for Small Business Lending: At June 30, 2020, loan funds of \$1,000,000 provided under the USDA Intermediary Relending Program are available to be drawn through September 30, 2021, for small business lending in Bladen, Columbus, and Robeson counties. Any amounts drawn hereunder will be subject to interest-only payments at 1.0% for the first 3 years, per the note agreement, with principal and interest payments required for the remaining 27 years of the note term.

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, 2020 and subsequent thereto, or has obtained waivers or acknowledgements from lenders accepting such.

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

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

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

	Years Ended June 30,	
	<u>2020</u>	<u>2019</u>
Small business lending	\$ 276,431	\$ 627,954
Women's Business Center	260,222	260,899
Business services programming	48,452	51,548
Training and technical assistance	377,002	278,234
NC Disaster Recovery Loan Program	433,559	136,970
General operations	<u>476,493</u>	<u>71,965</u>
	<u>\$ 1,872,159</u>	<u>\$ 1,427,570</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>2020</u>	<u>2019</u>
Small business lending	\$ 2,097,606	\$ 1,698,930
Training and technical assistance	316,577	367,076
NC Disaster Recovery Loan Program	2,261,201	2,594,760
Business services programming	-	48,453
General operations	<u>10,000</u>	<u>-</u>
	<u>\$ 4,685,384</u>	<u>\$ 4,709,219</u>

Support from awards for the following remains conditional at June 30, 2020:

Small business lending	\$ 6,418,045
Women's Business Center	385,283
Training and technical assistance	158,679
NC Disaster Recovery Loan Program	<u>2,131,298</u>
	<u>\$ 9,093,305</u>

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

NOTE G--OPERATING LEASES (including subsequent events)

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

The Organization also leases office space for its Western Women's Business Center in Asheville. The annual lease was renewed subsequently and expires in September 2021. The Organization formerly leased space for its Innovation and Entrepreneurship Center in Raleigh. The lease expired on December 31, 2019, and was not renewed.

Rent expense under these operating leases approximated \$154,333 and \$210,090 for the years ended June 30, 2020 and 2019, respectively.

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

<u>Years Ending June 30</u>	
2021	\$ 107,438
2022	150,950
2023	153,076
2024	157,656
2025	162,372
Thereafter	<u>516,080</u>
	<u>\$ 1,247,572</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 \$82,310 and \$100,094 for the years ended June 30, 2020 and 2019, respectively. The plan also provides for discretionary, nonelective employer contributions, though no such contributions were approved for the years ended June 30, 2020 and 2019.

NOTE I--FAIR VALUE MEASUREMENTS

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

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

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

<u>June 30, 2020</u>	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating funds	\$ 822,291	\$ 500,013	\$ 322,278	\$ -
Committed loan support funds	694,425	694,425	-	-
Other committed support funds	239,712	-	145,385	94,327
Loans receivable	28,691,363	-	28,691,363	-
Notes payable	<u>24,105,399</u>	-	<u>24,105,399</u>	-
Total	<u>\$ 54,553,190</u>	<u>\$ 1,194,438</u>	<u>\$ 53,264,425</u>	<u>\$ 94,327</u>
<u>June 30, 2019</u>	<u>Fair Value</u>	(Level 1)	(Level 2)	(Level 3)
Operating funds	\$ 1,569,077	\$ -	\$ 1,569,077	\$ -
Committed loan support funds	2,861,722	2,861,722	-	-
Other committed support funds	258,596	-	160,200	98,396
Loans receivable	29,307,834	-	29,307,834	-
Notes payable	<u>25,583,241</u>	-	<u>25,583,241</u>	-
Total	<u>\$ 59,580,470</u>	<u>\$ 2,861,722</u>	<u>\$ 56,620,352</u>	<u>\$ 98,396</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, 2020, a 5-year certificate of deposit valued at \$322,278 (including accrued interest) bears interest at 1.0% and matures on July 30, 2023. In addition, 5-year share term certificates valued at \$145,385 (in the aggregate) bear interest at 3.0% and mature on April 20, 2025. Certificates held at June 30, 2019, mature at various dates from July 2020 to November 2023 and bear interest at rates ranging from 0.997% to 3.25%. The carrying value of *loans receivable* and *notes payable* approximate the fair values of such based on community development market rates for financial instruments with similar terms and remaining maturities.

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

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

	Year Ended	
	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Beginning balance, beginning of year	\$ 98,396	\$ 102,559
Collections on mortgages purchased from GCCU	<u>(4,069)</u>	<u>(4,163)</u>
Ending balance, end of year	<u>\$ 94,327</u>	<u>\$ 98,396</u>

The Organization reports transfers between levels of the fair value hierarchy, if any, at the end of the reporting period. There were no such transfers at June 30, 2020 and 2019.

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. The Organization recognizes administrative and servicing fees when earned, as defined by the contract. Fees received prior to being earned are included in *deferred revenue*. Advances of loan or grant funds are recorded as a liability until placed or disbursed. Amounts due to the Organization for loans placed or grants disbursed are included in *contracts receivable*. Loan and grant programs administered by Carolina Small Business, many of which originated in response to the COVID-19 pandemic, are summarized as follows.

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. The Organization placed the first loan under the program in January 2020 and recognized administrative fees of \$50,000 for fiscal 2020. Loan funds of \$166,244 received, but not placed, as of June 30, 2020 are recorded as a liability in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$58,756 at June 30, 2020.

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 \$116,667 in fiscal 2020, with \$383,333 included in *deferred revenue* at June 30, 2020. Loan funds of \$1,723,903 received from Mecklenburg County, but not placed as of June 30, 2020, are recorded as a liability in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$3,365,588 at June 30, 2020.

NC Rapid Recovery Loan Program (Rural Center): In March 2020 and May 2020, Carolina Small Business entered into contracts with the Rural Economic Development Center, Inc. (Rural Center), whereby the Organization agreed to participate as lender and servicing agent for loans to small businesses negatively impacted by Hurricane Florence, Hurricane Dorian, or COVID-19. The loans will be funded by grants from the Golden LEAF Foundation to the Rural Center, the term of which currently expires April 1, 2021. Carolina Small Business is entitled to administrative fees of 2% (or 3% for extended program loans) and a portion of interest collected from borrowers, as defined by contract. Loans placed totaling \$542,597 for which the Rural Center had not yet reimbursed the Organization at June 30, 2020, are included in *contracts receivable* in the accompanying financial statements. An advance from the Rural Center of \$250,000, required to be returned at the end of the program, is included in *deferred revenue* at June 30, 2020. Loans receivable, due from borrowers and payable to the Rural Center, totaled \$1,295,195 at June 30, 2020.

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 \$1,257,258 through June 30, 2020, including \$855,400 from the City of Raleigh. Approximately \$76,957 remained undisbursed at June 30, 2020 and is recorded as a liability in the accompanying financial statements. Contributions of \$145,637 was added to the Fund subsequently. All funds were disbursed by December 2020. Carolina Small Business is entitled to administrative fees of \$84,600, of which \$42,300 was recognized in fiscal 2020, as well as transactional fees of \$36,167 as defined by the contract.

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 will be available for loans and Private Funds will be 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

Carolina Small Business Development Fund

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

\$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. At June 30, 2020, Private Funds of \$1,000,000 received, but not disbursed, are recorded as a liability in the accompanying financial statements. Technical assistance fees of \$50,000 received in advance for fiscal 2021 are included in *deferred revenue*. No loans or grants had been placed or disbursed as of June 30, 2020.

Durham Small Business Recovery Fund (Durham County): On June 22, 2020, Durham County voted to commit \$1,000,000 to the Durham Small Business Recovery Fund. The County will provide \$833,333 for loan capital and \$83,333 for administrative fees payable to Carolina Small Business. The contract also provides for technical assistance fees of \$83,334 payable to Carolina Small Business over the course of fiscal 2021 and 2022. No funds were received from the County and no fees were recognized under the contract through June 30, 2020.

RETOOLNC Grant Program (subsequent event): In September 2020, the NC 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. The program provides grants of up to four months of operational expenses for eligible businesses registered with the NC Historically Underutilized Businesses Office, or which share a similar profile to a HUB-certified business. Funding for the program is sourced from Coronavirus Relief Funds of \$12,600,000 awarded to the NC Pandemic Response Office. 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. Carolina Small Business is due to receive up to \$300,000 in administrative fees. Grant funds are required to be disbursed or returned by December 30, 2020. Carolina Small Business received and disbursed approximately \$6,500,000 in grants under this program.

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

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

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

COVID-19: On March 11, 2020, the World Health Organization declared COVID-19 a global health pandemic. The State of North Carolina operated under a "Stay at Home" order from March 27, 2020 to May 8, 2020. The Organization's staff have been working remotely since late-March 2020, and continue to assist small businesses in need of emergency relief funding. COVID-19 relief programs administered by Carolina Small Business on behalf of certain municipalities, a state agency, and a nonprofit organization include the following: (1) Emergency Stabilization Loan Fund (Mecklenburg County) supporting small businesses in Mecklenburg County with loans from \$5,000 to \$35,000; (2) NC Rapid Recovery Loan Program (in participation with the Rural Center) making loans of up to \$50,000 based on the small business's current revenues; (3) Raleigh Small Business COVID-19 Relief Fund providing grants of up to \$10,000 or two months' rent (whichever is less) to storefront businesses with less than 50 employees, located in Raleigh; (4) Durham Small Business Recovery Fund (City of Durham/private investor/Durham County) providing grants to small businesses in Durham with 25 or less full-time employees and

Carolina Small Business Development Fund

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

annual revenues of \$500,000 or less and making loans to small businesses in Durham with 50 or less full-time employees and annual revenues up to \$5,000,000; and (5) RETOOLNC grant program (sourced from Coronavirus Relief Funds awarded to a state agency) providing grants of \$10,000 to \$25,000 to historically underutilized businesses in North Carolina. All businesses receiving assistance must have been adversely impacted by COVID-19.

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

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

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

In September 2020, Carolina Small Business was 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 recognized in fiscal 2020. The grant was fully expended by December 30, 2020.

In March 2021, the Organization applied for a second *forgivable loan* under the Paycheck Protection Program. That application is still pending.

The State of North Carolina continues to operate under Phase Three of its Three Phase re-opening plan and is working to ensure that every North Carolinian has access to a COVID-19 vaccine. The State has recently eased certain restrictions; however, other public health restrictions remain in effect to protect against the spread of the virus. Carolina Small Business employees are expected to continue working remotely until at least May 2021. At the date on which the financial statements were available to be issued, management continues to monitor the situation; however, the impact of COVID-19 on the Organization's operations cannot be reasonably estimated at this time.

Management's Evaluation of Going Concern: As indicated in the financial statements, Carolina Small Business reported deficit changes in net assets without donor restrictions of (\$1,241,508) and (\$1,252,855) for the years ended June 30, 2020 and 2019, respectively. These recurring deficits greatly reduced the Organization's net assets without donor restrictions, resulting in operating reserves of \$1,700,222 at June 30, 2020. Operating funds of \$4,009,940 at June 30, 2020 include \$2,967,104 held in agency on behalf of loan or grant programs administered by the Organization and \$300,000 of restricted deposits collateralizing certain bank borrowings. Notes payable of approximately \$6,346,000 are scheduled to mature in fiscal 2021, with another \$2,000,000 scheduled to mature within one year of the date at which the accompanying financial statements were available to be issued.

Carolina Small Business Development Fund

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

The Organization has historically received an appropriation of State funds to assist with general operating expenses, as well as small business lending. An appropriation of \$2,500,000 represented approximately 28% of the Organization's total support and revenues for fiscal 2019. Due to the North Carolina General Assembly not approving a yearly budget, the Organization has not received any appropriated unrestricted funds for fiscal 2020 and fiscal 2021 from the State. The Governor's proposed budget to the State General Assembly, released on March 25, 2021, includes a recommended appropriation for Carolina Small Business of \$3,000,000 for fiscal 2022 and \$3,000,000 for fiscal 2023. At the date on which the financial statements were available to be issued, the General Assembly has not yet approved biennial budgets for 2019-21 or 2021-23.

These factors create uncertainty as to whether the Organization will be able to meet its obligations when due within twelve months from the date on which the financial statements were available to be issued. Management has considered these factors and has taken the following steps to address these concerns.

Management has secured additional sources of support for general operations, as well as incremental contract revenues. The Organization recognized support of approximately \$1,664,000 from a NC Cares Act grant (included in conditional awards at June 30, 2020) upon the incurrence of qualifying expenses from July 1, 2020 to December 30, 2020. Other grants awarded subsequently include approximately \$462,000 for general operations and approximately \$656,000 for the Women's Business Center and Technical Training and Assistance programs. Contracts with local municipalities, state agencies, and a nonprofit organization for the administration of loan and grant programs are expected to generate fees in excess of \$830,000 in fiscal 2021. Contracts for the administration of loan programs also provide for administrative and/or servicing fees over contract lives ranging from April 2020 to December 2029.

All non-essential costs were eliminated from the Organization's operating budget for fiscal 2021. Management is committed to continuing this practice for fiscal 2022 and beyond. Cost reductions include a conditional abatement of rent for May 2020 to October 2020, negotiated upon extension of the Organization's primary office lease.

Management has obtained expressed intents from two of the Organization's lenders whereby approximately \$3,600,000 of notes payable scheduled to mature within a year after March 31, 2021, the date on which the financial statements were available to be issued, are expected to be extended. Management also expects to receive extended terms on an additional \$750,000 of notes payable based on recently-initiated discussions with two other lenders.

The Organization also has the ability to borrow up to \$500,000 on a bank line of credit. The line was put in place in August 2020 to provide an additional source of working capital. To date, there have been no borrowings on the line.

Management believes these actions will enable the Organization to meet its obligations when due within a year after March 31, 2021, the date on which the financial statements were available to be issued.

Other Commitments and Contingencies: The Organization has committed to repay one-half of principal collected on certain disaster recovery loans. At June 30, 2020, loans receivable of \$1,622,402 are subject to this repayment provision. Principal maturities are scheduled as follows at June 30, 2020: \$136,393 in fiscal 2021; \$92,299 in fiscal 2022; \$89,733 in fiscal 2023; \$69,338 in fiscal 2024; \$56,269 in fiscal 2025; and \$1,178,370 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 \$100,000 were forgiven in fiscal 2020. Loans of \$1,450,000 remain outstanding at June 30, 2020.

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.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE M--SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2021, the date on which the financial statements were available to be issued. All subsequent events for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

SUPPLEMENTARY INFORMATION

Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2020

Grantor/ Pass-through Grantor/ Program Title	CFDA #	Pass-through Entity Identifying Number	Federal Expenditures	State Awards	
				Support	Expenditures
<u>FEDERAL AWARDS:</u>					
<u>U.S. Department of Agriculture, Rural Development:</u>					
<i>Rural Business Development Grant (RBDG):</i>					
Training and technical assistance to micro-borrowers	10.351		\$ 19,450		
<i>Intermediary Relending Program (IRP):</i>					
Loans due to federal agency at beginning of fiscal year	10.767		1,777,569		
<i>Rural Microentrepreneur Assistance Program (RMAP):</i>					
Training and technical assistance to micro-borrowers			41,866		
Loans due to federal agency at beginning of fiscal year			<u>932,249</u>		
	10.870		<u>974,115</u>		
<u>U.S. Department of Housing and Urban Development:</u>					
CDBG--Entitlement Grants Cluster/ <i>Community Development Block Grant Program for Entitlement Communities:</i>					
<u>City of Asheville, North Carolina:</u>					
<i>Opportunity Asheville: WWBC - Business Training and Access to Capital in the City of Asheville</i>					
	14.218	FY 2019-20	90,960		
<i>Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii:</i>					
<u>North Carolina Department of Commerce:</u>					
<i>CDBG Business Recovery Assistance Program:</i>					
Small business lending			100,000		
Program expenses		CDBG-DR	<u>1,904</u>		
	14.228	17-R-3002	<u>101,904</u>		
<u>U.S. Department of the Treasury:</u>					
North Carolina Pandemic Recovery Office:					
<i>COVID-19: Coronavirus Relief Fund</i>					
	21.019	Agreement 73-00	336,494		
<u>U.S. Small Business Administration:</u>					
<i>COVID-19: Economic Injury Disaster Loan</i>					
	59.008		150,000		
<i>Women's Business Ownership Assistance:</i>					
SBAHQ-16-W-0005/0003			24,653		
SBAHQ-16-W-0005/0004			107,822		
COVID-19: SBAHQ20C0183--CARES Act			<u>2,000</u>		
	59.043		<u>134,475</u>		
<i>Prime Technical Assistance</i>	59.050		123,120		
<i>Intermediary Loan Program (ILP):</i>					
Loans due to federal agency at beginning of fiscal year	59.062		<u>708,874</u>		
TOTAL FEDERAL EXPENDITURES			\$ <u>4,416,961</u>		
<u>STATE AWARDS:</u>					
<u>State of North Carolina Appropriation under The Disaster Recovery Act of 2016:</u>					
The Golden Leaf Foundation:					
<i>North Carolina Disaster Recovery Loan Program:</i>					
Small business lending (advance refunded)			\$ (54,278)	\$ -	
Program expenses			-	-	
		FY2017-149	<u>(54,278)</u>	<u>0</u>	
TOTAL STATE AWARDS			\$ <u>(54,278)</u>	\$ <u>-</u>	

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

Notes to Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2020

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, 2020. 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*, 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, 2020 consists of:

<u>CFDA #</u>	<u>Program Name</u>	<u>Outstanding Balance June 30, 2020</u>
10.767	USDA IRP	\$ 1,690,158
10.870	USDA RMAP	886,402
59.008	US SBA EIDL	150,000
59.062	US SBA ILP	653,995

Loans receivable from borrowers of approximately \$8,296,303 at June 30, 2020, are guaranteed (up to 75% or 85%) under the SBA Community Advantage Pilot Loan Program.

Loans receivable from borrowers of approximately \$362,859 at June 30, 2020, are guaranteed (up to 85%) under the Charlotte Community Capital Fund Program.

Loans receivable from borrowers of approximately \$1,494,621 at June 30, 2020, are guaranteed (up to 7%) under the NC Capital Access Program.

NOTE D--INDIRECT COST RATE

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

COMPLIANCE REPORTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, 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 March 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carolina Small Business Development Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Carolina Small Business Development Fund's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Board of Directors
Carolina Small Business Development Fund
Page Two

Carolina Small Business Development Fund's Response to Findings

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

Purpose of this Report

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

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

Raleigh, North Carolina
March 31, 2021



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

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

Report on Compliance for Each Major Federal Program

We have audited Carolina Small Business Development Fund's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *OMB Compliance Supplement Addendum* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Carolina Small Business Development Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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

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

Raleigh, North Carolina
March 31, 2021

Schedule of Findings and Questioned Costs

Carolina Small Business Development Fund

Year Ended June 30, 2020

Section I - Summary of Auditors' Results

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal award programs:

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

Noncompliance material to major federal award programs? yes no

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

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

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Program Name</u>
10.767	USDA <i>Intermediary Relending Program</i>
21.019	US Department of the Treasury, <i>Coronavirus Relief Fund</i>

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

Auditee qualified as low-risk auditee? yes no

Carolina Small Business Development Fund

Year Ended June 30, 2020

Section II - Financial Statement Findings

Finding 2020-001: Community Advantage Guaranteed Loans

Criteria: The Organization participates in the Community Advantage (CA) government-guaranteed lending program offered by the U.S. Small Business Administration (SBA). Specific factors that must be considered when originating and servicing CA loans are found in SBA SOP 50 10, the CA Participation Guide, and SOP 50 57, as well as the CSBDF Community Advantage Lending Policy and the CSBDF Liquidation Policy.

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

Context: We judgmentally selected forty loan files for review, sixteen of which are guaranteed under the Community Advantage program. We noted correspondence in three of the CA loan files requesting that SBA repurchase the loans, as well as related correspondence from SBA regarding missing documentation and the Organization's failure to follow certain required liquidation steps.

Cause: The *Condition* noted above pertains to loans originated in October 2015, August 2017, and January 2018. CSBDF has updated its policies and procedures in recent years to more specifically address the requirements of the CA program.

Effect: The SBA is considering the Organization's request to repurchase the three CA loans referenced above. It is unclear as to whether the SBA will fund the guaranteed portions in full (approximately \$360,000) or a lesser amount net of *repairs*.

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

Views of responsible officials and planned corrective actions: Management recognizes the importance of adhering to the SBA Community Advantage Standard Operational Procedures and prudent lending practices. CSBDF's internal Community Advantage Lending Policy and credit underwriting documents were updated and approved by the Board in December 2020. Additionally, CSBDF recently hired a Loan Operations Director who has several years of experience in underwriting and portfolio maintenance specific to the SBA Community Advantage Program. CSBDF is actively recruiting for a Portfolio Manager and Loan Servicer and expect to have the roles filled by April 30, 2021.

Schedule of Findings and Questioned Costs--Continued

Carolina Small Business Development Fund

Section III - Federal Award Findings and Questioned Costs

There were no such findings to report.



Summary Schedule of Prior Audit Findings

Current Audit Period: Year Ended June 30, 2020

Financial Statement Findings

Finding 2019-001: Loan File Maintenance and Servicing

Condition: We noted numerous instances in which loan files were missing updated financial information from the borrower. Often, the same loan files lacked documentation of approvals of the initial loan and/or loan modifications.

Recommendation: We recommended the Organization re-emphasize the importance of maintaining loan files in accordance with its Loan Policies and Procedures, as well as with other requirements imposed by providers and guaranteeing entities. 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. We also encouraged management to consider whether staffing levels are appropriate given the increased size and complexity of the Organization's loan portfolio.

Current Status: Management successfully implemented a new credit memorandum, revised loan checklists, and loan approval practices during the year. The use of Salesforce for automated loan approvals was implemented during the year and continues to be enhanced and improved. Our relationship management process continues to be implemented as we build our Business Solutions team. Management recently hired a Loan Operations Director who has several years of CDFI loan portfolio management, project management, and loan underwriting experience. Management also continues to assess staffing needs and is in the process of recruiting employees with experience in loan collections, loan servicing, and loan underwriting.

Finding 2019-002: Failure to Obtain Receipts for Credit Card Charges

Condition: We noted numerous charges on credit card statements for which no supporting receipts were available.

Recommendation: We understood the Organization subsequently implemented SAP Concur, travel and expense management software. Employee business expenses and related receipts are now tracked and submitted electronically on a monthly basis. We commended management's efforts to facilitate expense reporting by employees, but we also encouraged the Organization to more strictly enforce its credit card policies. Cardholders who continue to submit receipts on a delayed basis, or who fail to submit receipts, should be subject to the revocation of credit card privileges.

Current Status: Management has implemented SAP Concur expense and invoicing software. All receipts are tracked and submitted electronically. The credit card expense report cannot be submitted until all receipts are attached. In response to the finding, the credit card policy was updated to require extra levels of authorization and stricter policies. If cardholders fail to comply with the Organization's policy, their credit card privileges are revoked.