

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

Carolina Small Business Development Fund

Years Ended June 30, 2023 and 2022

Audited Financial Statements, Supplementary Information, and Compliance Reports

Carolina Small Business Development Fund

Years Ended June 30, 2023 and 2022

Audited Financial Statements

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Carolina Small Business Development Fund as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Carolina Small Business Development Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As described in Note A to the financial statements, Carolina Small Business Development Fund adopted FASB Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, and amendments thereto. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report--Continued

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

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

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2023, on our consideration of Carolina Small Business Development Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Carolina Small Business Development Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carolina Small Business Development Fund's internal control over financial reporting and compliance.

Romeo, Wiggin & Company, L.L.P.

Raleigh, North Carolina
December 11, 2023

Statements of Financial Position

Carolina Small Business Development Fund

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS:		
Operating funds	\$ 5,260,253	\$ 10,674,765
Committed loan support funds - small business lending	<u>9,190,529</u>	<u>11,973,056</u>
Total cash, cash equivalents, and restricted cash equivalents	14,450,782	22,647,821
OTHER COMMITTED SUPPORT FUNDS:		
SEDA - for CDCU lending	118,636	138,872
Mortgage loans - GCCU	<u>118,419</u>	<u>123,086</u>
	237,055	261,958
Less: Reserve on at-risk deposits/mortgage loans	<u>(37,869)</u>	<u>(37,869)</u>
Total other committed support funds	199,186	224,089
LOANS RECEIVABLE:		
Loans - small business lending	17,974,188	16,896,875
Less: Loan loss reserves	<u>(1,500,000)</u>	<u>(1,305,447)</u>
Total loans receivable	16,474,188	15,591,428
OTHER RECEIVABLES:		
Grants receivable	550,829	2,091,149
NMTC Leverage Loan	1,762,330	2,135,000
Other	<u>123,060</u>	<u>37,180</u>
Total other receivables	2,436,219	4,263,329
PREPAID EXPENSES		
	72,518	87,330
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>(296,543)</u>	<u>(294,241)</u>
Total fixed assets	-	2,302
Right-of-Use Assets, net:		
Operating leases	<u>739,887</u>	<u>-</u>
TOTAL ASSETS	\$ <u>34,372,780</u>	\$ <u>42,816,299</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 98,761	\$ 66,240
Accrued interest	43,655	33,837
Accrued vacation	125,367	85,849
Deferred support	211,317	238,196
Deferred revenue	15,000	138,850
Funds held in agency (not yet placed/disbursed):		
RETOOLNC Grant Program (NCHUB)	-	8,206,044
Durham Small Business Recovery Fund	451,825	960,418
Emergency Stabilization Loan Fund (Mecklenburg County)	133,544	149,367
Mecklenburg County Small Business Loan Program	182,393	(67,869)
NC Rapid Recovery Loan Program (Rural Center)	<u>14,375</u>	<u>11,085</u>
Total funds held in agency	782,137	9,259,045
Operating lease liabilities	751,351	-
Notes payable	12,213,913	14,760,953
Other liabilities	<u>4,521,563</u>	<u>3,771,562</u>
TOTAL LIABILITIES	18,763,064	28,354,532
NET ASSETS		
Without donor restrictions	14,252,088	12,120,465
With donor restrictions	<u>1,357,628</u>	<u>2,341,302</u>
TOTAL NET ASSETS	<u>15,609,716</u>	<u>14,461,767</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>34,372,780</u>	\$ <u>42,816,299</u>

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

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 35,500	\$ 6,794,584	\$ 6,830,084
COVID-19 financial assistance		809,394	809,394
Program sponsorship	65,500		65,500
Contributions	20,986		20,986
Special events revenue:			
In-kind donations	17,430		17,430
Other	107,872		107,872
Contract administrative fees	1,003,189		1,003,189
Dividend income	70,687	1,687	72,374
Mortgage interest	10,716		10,716
Loan closing/servicing revenue	132,278	1,571	133,849
Repayment of bad debt	216,804		216,804
Business loan interest	1,160,016	50,913	1,210,929
Origination fees	89,237	3,200	92,437
Other income	252		252
Net assets released from restrictions due to satisfaction of purpose and/or time restrictions	8,645,023	(8,645,023)	-
TOTAL SUPPORT, REVENUES, AND OTHER INCOME	11,575,490	(983,674)	10,591,816
EXPENSES:			
Program services	7,818,608		7,818,608
Support services:			
Management and general	1,565,281		1,565,281
Fundraising	59,978		59,978
Total support services	1,625,259	-	1,625,259
TOTAL EXPENSES	9,443,867	-	9,443,867
CHANGE IN NET ASSETS	2,131,623	(983,674)	1,147,949
Net assets, beginning of year	12,120,465	2,341,302	14,461,767
NET ASSETS, END OF YEAR	\$ 14,252,088	\$ 1,357,628	\$ 15,609,716

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

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2022

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

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

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2023

	Program Services	Support Services	Total
PERSONNEL:			
Salaries	\$ 1,976,044	\$ 900,643	\$ 2,876,687
Employee benefits	279,653	127,460	407,113
Payroll taxes	161,020	73,390	234,410
Total personnel	<u>2,416,717</u>	<u>1,101,493</u>	<u>3,518,210</u>
OTHER EXPENSES:			
Interest expense	462,876		462,876
Marketing and newsletter	50,066	12,517	62,583
Bank fees	10,519		10,519
Telephone	26,440	7,457	33,897
Professional fees	88,009	24,823	112,832
Contract services	611,381	172,441	783,822
Subscriptions, sponsorships and dues	43,187	12,181	55,368
Staff travel	116,194	32,773	148,967
Seminars, conferences, and workshops	7,075	1,248	8,323
Board meeting expenses	4,088	1,924	6,012
Office supplies and expenses	67,851	18,036	85,887
Printing and copying	8,245	2,326	10,571
Software	128,678	26,356	155,034
Office occupancy	157,238	44,349	201,587
Insurance and bonding	43,908	12,384	56,292
Postage	2,841	800	3,641
Provision for losses on loans	727,722		727,722
Decrease in CDBG loans receivable:			
Forgiven, based on program guidelines	100,000		100,000
Deemed uncollectible, not eligible for forgiveness	300,000		300,000
Loan servicing fees	35,344	9,969	45,313
Legal expenses	102,366	28,872	131,238
Staff development	25,933	7,314	33,247
Special events (including in-kinds)		47,511	47,511
Other fundraising expense		59,978	59,978
Grant repayment	25,489		25,489
Capacity grants	65,000		65,000
Small business grants	2,189,645		2,189,645
Miscellaneous			-
Total other expenses	<u>5,400,095</u>	<u>523,259</u>	<u>5,923,354</u>
Total operating expenses before depreciation	7,816,812	1,624,752	9,441,564
Depreciation	<u>1,796</u>	<u>507</u>	<u>2,303</u>
TOTAL EXPENSES	<u><u>\$ 7,818,608</u></u>	<u><u>\$ 1,625,259</u></u>	<u><u>\$ 9,443,867</u></u>

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

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2022

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

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

Statements of Cash Flows

Carolina Small Business Development Fund

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,147,949	\$ 145,399
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,303	3,349
Provision for losses on loans	727,722	289,639
Forgiveness/write-off of CDBG loans receivable	400,000	900,000
Forgiveness of PPP loan payable	-	(656,900)
Interest expense added to note principal	21,435	29,510
Changes in operating assets and liabilities:		
Grants receivable	1,540,320	(1,755,662)
Other receivables	(85,880)	69,234
Prepaid expenses	14,812	(40,222)
Right-of-use assets	140,859	-
Accounts payable and accrued expenses	81,856	32,768
Deferred support	(26,879)	238,196
Deferred revenue	(123,850)	138,850
Funds held in agency	(8,476,907)	7,455,504
Operating lease liabilities	(129,395)	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(4,765,655)</u>	<u>6,849,665</u>
INVESTING ACTIVITIES		
Decrease in other committed support funds	24,903	4,700
Small business loans funded	(5,310,020)	(999,700)
Principal payments received on small business loans	3,299,538	4,499,354
Payment received on NMTC Leverage Loan	372,670	-
Purchases of fixed assets	-	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(1,612,909)</u>	<u>3,504,354</u>
FINANCING ACTIVITIES		
Proceeds from borrowings	750,000	2,073,735
Principal payments on borrowings	(2,568,475)	(5,311,948)
NET CASH USED IN FINANCING ACTIVITIES	<u>(1,818,475)</u>	<u>(3,238,213)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS		
	(8,197,039)	7,115,806
Cash, cash equivalents, and restricted cash equivalents, beginning of year	<u>22,647,821</u>	<u>15,532,015</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, END OF YEAR		
	<u>\$ 14,450,782</u>	<u>\$ 22,647,821</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 431,622	\$ 547,991
NONCASH INVESTING AND FINANCING ACTIVITIES		
Charge-offs against loan loss reserves:		
Uncollectible loans	\$ 533,169	\$ 1,099,907
Increase in right-of-use assets and operating lease liabilities	880,746	-

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

Notes to Financial Statements

Carolina Small Business Development Fund

Years Ended June 30, 2023 and 2022

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Adoption of FASB ASU 2016-02: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which replaced existing lease accounting guidance. FASB ASC 842 is intended to provide enhanced transparency and comparability by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. The new guidance requires the Organization to continue to classify leases as either operating or finance leases, with classification affecting the pattern of expense recognition in the statement of activities. In addition, the new standard requires enhanced disclosures with regard to the amount, timing, and uncertainty of cash flows arising from leases.

Carolina Small Business adopted FASB ASC 842 using the optional transition method that allows an organization to initially apply the new lease standard at the adoption date (July 1, 2022 for Carolina Small Business) and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. As a result, reporting for the comparative period presented in the financial statements is in accordance with FASB ASC 840.

The Organization elected to adopt the package of practical expedients available under the transition guidance which allowed for the carryforward of prior conclusions related to: (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, (iii) initial direct costs for existing leases.

Carolina Small Business made an accounting policy election opting not to record leases with an initial term of twelve months or less on the statement of financial position. Related lease payments will instead be recognized in the statement of activities on a straight-line basis over the lease term.

The Organization also elected to use a risk-free discount rate for a comparable lease term, if the rate implicit in the lease is not readily determinable.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

The adoption of FASB ASC 842 resulted in the following impact at July 1, 2022:

Operating lease right-of-use assets	\$ <u>880,746</u>
Assets	\$ <u>880,746</u>
Operating lease liabilities, current portion	\$ 129,395
Operating lease liabilities, noncurrent portion	<u>751,351</u>
Liabilities	880,746
Net Assets	<u>-</u>
Total Liabilities and Net Assets	\$ <u>880,746</u>

The adoption of the standard resulted in a cumulative effect adjustment on net assets of \$0 at July 1, 2022, and it did not have a material impact on the statements of operations, functional expenses, or cash flows for fiscal 2023. Refer also to *Note G--Operating Leases*.

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>2023</u>	<u>2022</u>
Operating reserves	\$ 6,921,436	\$ 5,036,508
Board-designated:		
Small business lending	7,131,466	6,857,566
At-risk deposits/mortgage loans	199,186	224,089
Property and equipment, net	<u>-</u>	<u>2,302</u>
Total net assets without donor restrictions	\$ <u>14,252,088</u>	\$ <u>12,120,465</u>

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

Net Assets With Donor Restrictions: These net assets are subject to restrictions imposed by donors and grantors. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that require resources to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions. At June 30, 2023 and 2022, the Organization has no net assets with donor restrictions that require resources to be maintained in perpetuity. Refer also to *Note F--Net Assets With Donor Restrictions / Conditional Awards*.

Carolina Small Business Development Fund

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

Recognition of Support: The Organization evaluates contributions, grants, and contracts to determine whether the transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred, or (2) a contribution. If determined to be an exchange transaction, revenue is recognized in accordance with ASC Topic 606. If the transfer of assets is determined to be a contribution, the Organization evaluates whether the contribution is conditional based on whether the agreement includes both (1) one or more barriers that must be overcome and (2) either a right of return of assets transferred or a right of release from the donor's obligation to transfer assets. Grants and contributions requiring a match are considered conditional until the match is satisfied, wholly or in part, as defined by agreement. Cost-reimbursement grants are considered conditional until qualifying expenditures are incurred. Support from loan assistance programs is generally recognized upon closing of the funded loans or upon incurrence of other qualifying expenditures. Event sponsorships are considered conditional until the event is held. Amounts received in advance of conditions being met are included in deferred support in the statement of financial position.

Support from unconditional grants and contributions is recognized as an increase in either net assets without donor restrictions or net assets with donor restrictions, based on the absence or presence of any donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Goods and Services: In-kind contributions of goods or facilities are recorded at their estimated fair value on the date of donation. Donated services are recognized as both a revenue and an expense in accordance with FASB ASC 958-605 if the services (a) create nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated services are valued at the estimated fair value of such services or what the Organization would have had to pay for the donated services if such services had been purchased. Donated goods, use of facilities, and services having a fair value of \$3,980, \$2,500, and \$10,950, respectively, were recognized in connection with special events in fiscal 2023.

PPP Forgivable Loan: The Organization has elected to account for amounts received under the Paycheck Protection Program (PPP) forgivable loan program as a liability until the loan is forgiven or repaid. On May 17, 2022, the Organization received a notice of forgiveness from the U.S. Small Business Administration (SBA) for the full loan amount. Loan proceeds of \$656,900 is included as revenue in the accompanying statement of activities for the year ended June 30, 2022.

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

Cash, Cash Equivalents, and Restricted Cash Equivalents: *Operating funds* at June 30, 2023 and 2022 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, 2023 and 2022 consist of \$300,000 held in a bank certificate of deposit that collateralizes certain bank debt.

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

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

Carolina Small Business Development Fund

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

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

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

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

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

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

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

Other Receivables: Other receivables consist primarily of administrative fees due under various state and municipal service contracts. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are recorded at net realizable value, are unsecured, and are due within a year.

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

Right-of-Use Assets/Lease Liabilities (since the adoption of FASB ASC 842): Upon commencement of a lease, the Organization (as lessee) determines its total lease payments required over the lease term (the noncancelable period of the lease and any option periods for which the Organization is reasonably certain to exercise its option). Lease payments generally include the following: fixed payments, less any lease incentives paid or payable to the lessee; variable lease payments that depend on an index or rate; and the exercise price of a reasonably certain option to purchase the underlying asset. The lease liability is recorded at the present value of the lease payments not yet paid. The discount rate is based on the risk-free rate for a comparable lease term, if the rate implicit in the lease is not readily determinable. The related right-of-use (ROU) asset is recorded at cost and generally consists of the following: the amount of the measurement of the initial lease liability; any lease payments made to the lessor at or before the commencement date, minus any lease incentives received; and any initial direct costs incurred by the lessee.

For operating leases, the Organization recognizes a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis (unless another systematic basis is more representative of the benefit pattern). The remeasured right-of-use asset is generally carried at the amount of the remeasured lease liability, adjusted for cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, unamortized lease incentives, unamortized initial direct costs, and any impairment of the ROU asset.

For finance leases, right-of-use assets are recorded net of accumulated amortization, with amortization expense generally recognized on a straight-line basis over the lease term or the estimated useful life of the asset. Interest expense is recognized on the lease liability such that at all points during the lease, the lease liability reflects the present value of all remaining lease payments. The Organization had no finance leases in fiscal 2023 and no capital leases in fiscal 2022.

Tax Status: Carolina Small Business Development Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law, except on net income, if any, derived from unrelated business activities. The Organization had no unrelated business income for the years ended June 30, 2023 and 2022, and management is aware of no uncertain tax positions. The Organization qualifies for the charitable contributions deduction under Section 170(b)(1)(A)(vi) and, therefore, has been qualified as an organization that is not a private foundation under Section 509(a)(2).

Fair Value of Financial Instruments: The carrying values of cash equivalents, grants receivable, payables, and accrued expenses are considered to approximate the fair values of such at June 30, 2023 and 2022, due to the short-term maturity of these financial instruments. Other committed support funds are carried at fair value as further described in *Note I--Fair Value Measurements*. Loans receivable are carried at face value, less loan loss reserves. Notes payable are carried at face value. Carolina Small Business makes and receives loans with stated interest rates that are consistent with community development market rates. Therefore, management believes the net carrying values of loans receivable and notes payable approximate the fair values of these financial instruments.

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

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

Reclassifications: Certain amounts in the accompanying financial statements for fiscal 2022 have been reclassified to conform to the current year presentation.

Carolina Small Business Development Fund

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

Accounting Pronouncement to be Adopted in Fiscal 2024: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The update introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing incurred loss methodology. The standard will be effective for years beginning after December 15, 2022, as deferred by ASU 2019-10. The ASU is effective for Carolina Small Business as of July 1, 2023. 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>2023</u>	<u>2022</u>
Operating funds	\$ 5,260,253	\$ 10,674,765
Grants receivable	550,829	2,091,149
Other receivables	123,060	37,180
Less: Funds held in agency/in operating funds	-	(8,206,044)
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>\$ 5,634,142</u>	<u>\$ 4,297,050</u>

The Organization’s conditional awards at June 30, 2023, include approximately \$1,181,662 available for general operations. Refer also to *Note F--Net Assets with Donor Restrictions/Conditional Awards*.

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 \$12,871,000 at June 30, 2023, though the Organization has incurred no loss as a result of such.

Credit Risk: At June 30, 2023, loans receivable includes \$1,700,000 (9.5%) and \$829,612 (4.6%) due from two borrowers. No amounts due from these borrowers were past due at June 30, 2023 or subsequent thereto. At June 30, 2023, grants receivable includes approximately \$502,097 (91%) due from a state agency, all of which was collected subsequently.

Support Risk (including a State Appropriation): Approximately 65% and 64% of the Organization’s support and revenues for the years ended June 30, 2023 and 2022, respectively, was derived from grants and financial assistance awards.

On November 18, 2021, North Carolina passed a biennial budget that includes an appropriation of \$7,000,000 for Carolina Small Business Development Fund for small business loans, financial training to start-ups, and lending services to community-based organizations. The Organization’s grant with the North Carolina Department of Commerce has an effective date of March 3, 2021, and identifies the source of funds as federal Coronavirus State Fiscal Recovery Funds (SFRF), authorized by the American Rescue Plan Act. All eligible expenditures must be incurred or obligated by December 31, 2024 and expended by December 31, 2026. The Organization recognized

Carolina Small Business Development Fund

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

support of \$4,001,766 and \$1,927,889 in fiscal 2023 and fiscal 2022, respectively, based on the incurrence of eligible expenditures. The remaining support of \$1,070,345 is budgeted for expenditure by December 31, 2023.

On September 20, 2023, North Carolina passed a biennial budget that includes an appropriation of \$7,000,000 for Carolina Small Business Development Fund (\$3,500,000 for fiscal 2024 and \$3,500,000 for fiscal 2025) for financial capital and technical assistance to small business, economic development policy research, and technology and capital costs.

NOTE D--LOANS RECEIVABLE / LOAN LOSS RESERVES

Loans receivable of \$17,974,188 (including 173 loans) and \$16,896,875 (including 196 loans) at June 30, 2023 and 2022, respectively, are due from small businesses in underserved communities throughout North Carolina. Outstanding loans at June 30, 2023 have terms ranging from one to twenty years and bear interest at rates ranging from 2% to 11.25%. 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, 2023:

<u>Years Ending June 30</u>	
2024	\$ 4,205,731
2025	3,539,875
2026	2,609,724
2027	1,717,339
2028	2,548,286
Thereafter	<u>3,353,233</u>
	<u>\$ 17,974,188</u>

Charge-Offs: Charge-offs of \$533,169 and \$1,099,907 were taken against loans receivable for the years ended June 30, 2023 and 2022, respectively. Loans are charged-off when all or a portion of the loan balance is deemed uncollectible. (Refer also to Note L as pertains to write-offs under a forgivable disaster loan program.)

Loan Loss Reserves: Loans receivable at June 30, 2023 and 2022, are recorded net of a provision for losses on loans of \$1,500,000 (8.3%) and \$1,305,447 (7.7%), respectively, based on management's estimates of inherent and probable credit losses. Management's estimates are based largely on assessed risk ratings and the significance of nonperforming, past due, and restructured loans. The changes in the loan loss reserves are as follows for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Balance, beginning	\$ 1,305,447	\$ 2,115,715
Provision charged to expense	727,722	289,639
Amounts charged off	<u>(533,169)</u>	<u>(1,099,907)</u>
Balance, ending	<u>\$ 1,500,000</u>	<u>\$ 1,305,447</u>

Carolina Small Business Development Fund

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

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

At June 30, 2023, loans receivable of \$1,270,294 (7.1%) are due under nonperforming loans, including \$349,377 considered delinquent (90 days or more past due and still accruing) and \$921,547 in nonaccrual status. At June 30, 2022, loans receivable of \$1,031,388 (6.1%) are due under nonperforming loans, including \$157,959 considered delinquent (90 days or more past due and still accruing) and \$873,429 in nonaccrual status.

A loan is placed on non-accrual status when the loan exceeds 90 days past due, when it becomes likely the borrower cannot or will not make scheduled principal or interest payments, when full repayment of principal and interest is not expected, the Organization may pursue the liquidation of the collateral pledged as part of the loan agreement, and/or pursue the borrowers and/or guarantors via a judgment to be obtained through the state court system. These actions may also be initiated if the Organization determines the risk of loss is heightened with a loan.

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

The credit risk factors, delineated by the number of days past due and by the loans designated as Troubled Debt Restructures, for the loan portfolio are summarized below:

<u>Risk Rating</u>	<u>Loan Balance</u>	<u>31 – 60 Days</u>	<u>61 – 89 Days</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Troubled Debt Restructures</u>
<i>June 30, 2023</i>						
Pass	\$ 15,403,797	\$ 14,845	\$ -	\$ -	\$ 14,845	\$ 1,132,694
Watch	1,196,389	174,129	-	175,248	349,377	640,960
Classified	<u>1,374,002</u>	<u>-</u>	<u>73,880</u>	<u>725,753</u>	<u>799,633</u>	<u>828,505</u>
	<u>\$ 17,974,188</u>	<u>\$ 188,974</u>	<u>\$ 73,880</u>	<u>\$ 901,001</u>	<u>\$ 1,163,855</u>	<u>\$ 2,602,159</u>
<i>June 30, 2022</i>						
Pass	\$ 14,610,123	\$ -	\$ -	\$ -	\$ -	\$ 813,047
Watch	809,055	156,708	-	157,959	314,667	325,258
Classified	<u>1,477,697</u>	<u>178,949</u>	<u>-</u>	<u>702,253</u>	<u>881,202</u>	<u>583,035</u>
	<u>\$ 16,896,875</u>	<u>\$ 335,657</u>	<u>\$ -</u>	<u>\$ 860,212</u>	<u>\$ 1,195,869</u>	<u>\$ 1,721,340</u>

Carolina Small Business Development Fund

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

The general characteristics for each risk rating are as follows:

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

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

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

Significant Estimate: Carolina Small Business has recognized a provision for losses on loans at June 30, 2023 and 2022, based on management's best estimate of uncollectible loans. Management believes that loan loss reserves adequately provide for potential losses; however, it is at least reasonably possible that management's estimate of potential losses may change significantly in the near term.

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

USDA--Intermediary Relending Program (IRP). Loans receivable of \$817,340 and \$691,091 at June 30, 2023 and 2022, respectively, bear interest at rates ranging from 5% to 8.75%. The program requires the Organization to maintain funded reserves of at least 6.0% of outstanding loans. Funded reserves approximate \$120,738 (14.8%) at June 30, 2023. No charge-offs were made during the years ended June 30, 2023 and 2022. A loan with an outstanding balance of \$73,880 has payments over 60 days past due at June 30, 2023. Refer to *Note E--Notes Payable and Other Liabilities* as pertains to pay-back of the loan funds.

USDA--Rural Micro-entrepreneur Assistance Program (RMAP). Loans receivable of \$99,072 and \$44,008 at June 30, 2023 and 2022, respectively, bear interest at rates ranging from 7.5% to 10.75%. The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Funded reserves approximate \$61,318 (61.9%) at June 30, 2023. Charge-offs of \$2,003 and \$0 were made for the years ended June 30, 2023 and 2022, respectively. No loans have payments over 60 days past due at June 30, 2023. Refer also to *Note E--Notes Payable and Other Liabilities* as pertains to pay-back of the loan funds.

SBA Intermediary Lending Pilot (ILP) Program. Loans receivable of \$420,988 and \$358,259 at June 30, 2023 and 2022, respectively, bear interest at rates ranging from 6% to 9.75%. The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Funded reserves approximate \$50,283 (11.9%) at June 30, 2023. No charge-offs were made for the years ended June 30, 2023 and 2022. No loans have payments over 60 days past due at June 30, 2023. Refer also to *Note E--Notes Payable and Other Liabilities* as pertains to pay-back of the loan funds.

Carolina Small Business Development Fund

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

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

SBA Community Advantage Pilot Loan Program (CA) is a pilot loan program introduced by the U.S. Small Business Administration (SBA) to meet the credit, management, and technical assistance needs of small businesses in underserved markets. CA provides mission-oriented lenders access to (a) loan guarantees up to 85% for loans of \$350,000 or less (up from \$250,000 or less prior to April 2022). Approximately \$5,415,076 of the Organization's loans receivable at June 30, 2023 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 \$87,433 at June 30, 2023.

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. Carolina Small Business has sold no loans on the SBA 7(a) secondary market since June 30, 2019. The Organization is required to fund reserves of at least 3% of the guarantee on loans sold which approximates \$39,288 at June 30, 2023. Carolina Small Business held \$286,047 in a PNC-funded loan loss account at June 30, 2023, satisfying both the 5% (in preceding paragraph) and 3% reserve requirements.

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 guarantees up to 85% for loans of \$150,000 or less. Approximately \$76,683 of the Organization's loans receivable at June 30, 2023 are guaranteed up to 85% by the Charlotte Community Capital Fund.

North Carolina Capital Access Program (NC CAP) is a program run by NC Rural Center, and available to partner lenders in all 100 North Carolina counties. Under the NC CAP program, the borrower and the lender contribute a total of two to seven percent of the loan amount, and the NC Rural Center matches this amount dollar-for-dollar. These funds grow to create a reserve account that each participating lender may use to offset losses on enrolled loans, thus helping offset the lender's risk. At June 30, 2023, the NC CAP program holds approximately \$193,051 as a credit enhancement reserve for Carolina Small Business loans enrolled in the program. Enrolled loans have outstanding balances of approximately \$273,255 in the aggregate at June 30, 2023.

The National Association for Latino Community Asset Builders (NALCAB) Guarantee program offers a loan guarantee for a portion of the current principal balance on secured loans made by a NALCAB Network Member Lender. The NALCAB Guarantee program eligibility requirements are for loans to be made to small businesses that are in operation for at least one year, and have annual revenues of < \$1 million and a loan term of five years. The NALCAB Guarantee limit for real estate loans is up to 50% of loan principal balance, with the guarantee amount not to exceed \$75,000. The NALCAB Guarantee limit for small business loans (loans that are not secured with real estate) is up to 50% of loan principal balance, with the guarantee amount not to exceed \$20,000. Approximately \$28,980 of the Organization's loans receivable at June 30, 2023 are guaranteed by the NALCAB Guarantee program.

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE AND OTHER LIABILITIES (including subsequent events)

Notes payable consist of the following:

Lender	Principal Payments	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2023	June 30, 2022
NMTC-PNC	Due in full at maturity	3.50%	Quarterly	Oct. 2025	Secured by QALICB loans receivable and underlying collateral	\$ 2,529,612	\$ 3,050,000
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
Appalachian Community Capital	Due in full at maturity	2.73%	Monthly	Sep. 2027	Unsecured	500,000	500,000
Appalachian Community Capital	Due in full at maturity	2.00%	Monthly	Oct. 2022	Unsecured	0	100,000
USDA RMAP	Monthly	2.00%	Monthly	Nov. 2034	Partially secured by RMRF deposits/loans receivable	346,477	373,216
USDA RMAP	Monthly beginning May 2019	2.00%	Monthly beginning May 2019	Apr. 2037	Partially secured by RMRF deposits/loans receivable	387,640	412,381
First National Bank	Due in full at maturity	3.00%	Monthly	Oct. 2022	Unsecured	0	1,100,000
SBA EIDL	Monthly beginning June 2021	2.75%	Monthly beginning June 2021	June 2050	Secured by interest in all tangible and intangible personal property	0	150,000
US SBA ILP	Quarterly	1.00%	Quarterly	Sep. 2031	Partially secured by ILP deposits/loans receivable	486,031	542,579
Bank of America	Annually beginning December 2020	3.25%	Quarterly	Dec. 2022	Partially secured by Borrower's title and interest in End Loans	0	500,000
Bank of America	Annually beginning August 2024	1.00%	Quarterly	Aug. 2026	Secured by specific loans receivable	525,000	525,000
Spectrum Communications Indemnity Inc.	Due in full at maturity	2.50%	Semi-Annually	Apr. 2026	Unsecured	1,050,945	1,029,510
Opportunity Finance Network	Due in full at maturity	2.00%	Quarterly	July 2026	Unsecured	1,000,000	1,000,000
Olamina Fund	Due in full at maturity	3.25%	Quarterly beginning December 2021	Sep. 2026	Unsecured	2,000,000	2,000,000
PNC Bank - new consolidated note	Due in full at maturity, as amended February 2022	3.25%	Quarterly	Dec. 2024	Partially secured by \$300,000 minimum deposit account	1,216,125	1,216,125
USDA IRP	Annually	1.00%	Annually	Nov. 2040	Partially secured by IRP deposits/loans receivable	457,991	548,050
USDA IRP	Annually	1.00%	Annually	May 2030	Partially secured by IRP deposits/loans receivable	163,566	163,566
USDA IRP	Annually beginning September 2019	1.00%	Annually	Sep. 2036	Partially secured by IRP deposits/loans receivable	528,434	528,434
USDA IRP	Annually	1.00%	Annually	Jan. 2046	Partially secured by IRP deposits/loans receivable	272,092	272,092
Total Notes Payable						\$ 12,213,913	\$ 14,760,953

QALICB=Qualified Active Low-income Community Business

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE AND OTHER LIABILITIES (including subsequent events)--Continued

Other liabilities consist of long-term, subordinated promissory notes, that lenders are classifying as Equity Equivalent Investments (EQ2). EQ2s are a means by which not-for-profit CDFI's can access equity-like capital. Unlike permanent capital, an equity equivalent must eventually be repaid and requires interest payments during its term.

EQ2 Lender	EQ2 Term	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2023	June 30, 2022
CDFI Community Investment Fund, LLC (formerly Woodforest National Bank)	Due in full at maturity; may be extended for two one-year periods.	3.00%	Quarterly	Dec. 2027, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	\$ 525,000	\$ 525,000
Pinnacle Bank (formerly Bank of North Carolina)	Due in full at maturity; may be extended for one two-year period.	1.00%	Quarterly	Feb. 2027, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	1,250,000	1,250,000
First National Bank	Subject to renewal on December 28, 2025, and, if renewed, each 3-year anniversary thereafter.	3.00%	Annually	End of last renewal period	Full Recourse Obligation; subordinate to Senior Debt, but on par with other EQ2s.	500,000	0
First Tennessee	Due in full at maturity; may be extended for one year	2.75%	Quarterly	Jan. 2028, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	496,563	496,562
Wells Fargo	Quarterly beginning April 2026	2.00%	Quarterly	Apr. 2028	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	1,000,000	1,000,000
Wells Fargo	Quarterly beginning May 2024	2.00%	Quarterly	May 2024, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	500,000	500,000
United Bank	Due in full at maturity in Apr. 2028, may be extended to Apr. 2033.	2.00%	Quarterly	Apr. 2028, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	250,000	0
Total Other Liabilities						\$ 4,521,563	\$ 3,771,562

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE AND OTHER LIABILITIES (including subsequent events) -- Continued

Interest expense totaled \$462,876 and \$580,217 for the years ended June 30, 2023 and 2022, respectively.

Principal maturities of notes payable at June 30, 2023 approximate the following:

<u>Years Ending June 30</u>	
2024	\$ 701,168
2025	1,944,839
2026	3,786,854
2027	3,458,917
2028	711,574
Thereafter	<u>1,610,561</u>
	<u>\$ 12,213,913</u>

Financial Covenants/Ratios: Certain of the preceding notes payable require the Organization to comply with various financial covenants and ratios over the terms of the related notes. The Organization met these commitments at June 30, 2023 and subsequent thereto, or has obtained acknowledgements from lenders accepting such.

Bank Line of Credit: The Organization had a \$500,000 bank line of credit that could be used for working capital. No borrowings were taken against the line of credit through June 30, 2023 or subsequent thereto. Carolina Small Business elected to close the line of credit, rather than renew it, in July 2023. Refer also to *Note M--Subsequent Events*.

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>2023</u>	<u>2022</u>
Small business lending	\$ 1,297,029	\$ 3,284,900
Women's Business Center	343,212	500,945
Training and technical assistance	175,278	3,358
NC Disaster Recovery Loan Program	425,489	1,280,683
Oak City Biz Labs Program (described below)	2,189,645	-
General operations	<u>4,214,370</u>	<u>1,927,889</u>
	<u>\$ 8,645,023</u>	<u>\$ 6,997,775</u>

Oak City Biz Labs Program (including subsequent events): In April 2022, the City of Raleigh contracted with Carolina Small Business to assist the City in administering the distribution/use of up to \$5,000,000 of Coronavirus State and Local Fiscal Recovery Funds, authorized by the American Rescue Plan Act of 2021. The Organization was responsible for administering the Oak City Biz Labs Program for small businesses located in Raleigh. Per the subrecipient agreement, up to \$4,200,000 was expected to be available for distribution to eligible businesses over a 24-month period, with Carolina Small Business to be compensated for administering the funds on a cost-reimbursement basis, not to exceed \$800,000. Carolina Small Business is also responsible for providing technical assistance and financial support to small businesses located in Raleigh that continue to suffer from the economic consequences of the COVID-19 pandemic. The City Council authorized two rounds of funding and the Organization distributed grants totaling \$2,189,645 to eligible businesses and recognized administrative fees of \$348,783 for services provided in fiscal 2023. (No services were provided under the agreement in fiscal 2022.) The last disbursement for round two was in May 2023. Technical assistance services were provided to the grant recipients after all monies were disbursed. The City of Raleigh agreed to allow Carolina Small Business to provide the final survey to be completed by mid-February 2024. The Organization's commitment to provide services for the program is expected to end on or about June 2024.

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>2023</u>	<u>2022</u>
Small business lending	\$ 864,412	\$ 1,289,597
Women's Business Center	-	133,000
NC Disaster Recovery Loan Program	<u>493,216</u>	<u>918,705</u>
	<u>\$ 1,357,628</u>	<u>\$ 2,341,302</u>

Support from awards for the following remains conditional at June 30, 2023:

Small business lending	\$ 123,564
Women's Business Center	31,468
Training and technical assistance	376,063
General operations (*)	<u>1,181,662</u>
	<u>\$ 1,712,757</u>

(*) Eligible expenditures of \$1,070,345 must be incurred or obligated by December 31, 2024 and expended by December 31, 2026. Other expenditures must be incurred by December 31, 2023.

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

NOTE G--OPERATING LEASES

The Organization leases its primary office space in Raleigh under an operating lease scheduled to expire in April 2028. The lease requires minimum rentals plus pro rata payments for common area maintenance. The lease, as amended in April 2020, provides for the conditional abatement of rent from May 2020 to October 2020. The lease may be extended for one five-year period with base rent at fair market value. At July 1, 2022 (the beginning of the period of adoption of ASC Topic 842) and on the date the accompanying financial statements were available to be issued, management was not reasonably certain that the Organization would exercise its option to extend the lease. Therefore, the term of the lease is limited to its initial term.

Carolina Small Business has various other space leases that generally have terms of one year or less, are cancellable by either party without penalty, or require rentals of nominal value. Related lease payments are recognized ratably over the lease term.

The following summarizes the line items in the statement of financial position which include amounts for operating leases as of June 30:

	<u>2023</u>
<u>Operating Leases:</u>	
Right-of-use assets:	
Office space	\$ 880,746
Accumulated amortization	<u>(140,859)</u>
Total operating lease right-of-use assets, net	<u>\$ 739,887</u>
Operating lease liabilities, current portion	\$ 137,811
Operating lease liabilities, noncurrent portion	<u>613,540</u>
Total operating lease liabilities	<u>\$ 751,351</u>

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE G--OPERATING LEASES -- Continued

The following summarizes the line items in the statements of activities which include the components of lease costs for the years ended June 30:

	<u>2023</u>	<u>2022</u>
<u>Operating lease costs included in:</u>		
Office occupancy:		
Program services	\$ 157,238	\$ 133,247
Support services	<u>44,349</u>	<u>37,582</u>
Total operating lease costs	<u>\$ 201,587</u>	<u>\$ 170,829</u>

The following summarizes cash flow information related to leases for the year ended June 30:

	<u>2023</u>
<u>Cash paid for amounts included in the measurement of lease liabilities:</u>	
Operating cash flows from operating leases	\$ (129,395)
<u>Noncash investing and financing activities:</u>	
Operating lease ROU assets obtained in exchange for operating lease liabilities	880,746

Maturities of operating lease liabilities are as follows at June 30, 2023:

<u>Years Ending June 30</u>	
2024	\$ 157,655
2025	162,373
2026	167,249
2027	172,265
Thereafter	<u>147,575</u>
Total lease payments	807,117
Less: Interest	<u>(55,766)</u>
Present value of lease liabilities	<u>\$ 751,351</u>

The following summarizes the weighted average remaining lease term and discount rate for operating leases as of June 30:

	<u>2023</u>
<u>Weighted Average Remaining Lease Term:</u>	
Operating leases	5.33 years
 <u>Weighted Average Discount Rate:</u>	
Operating leases	2.88%

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 \$121,365 and \$80,567 for the years ended June 30, 2023 and 2022, respectively. The plan also provides for discretionary, nonelective employer contributions, though no such contributions were approved for the years ended June 30, 2023 and 2022.

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:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2023</u>				
Operating funds	\$ 838,178	\$ 501,113	\$ 337,065	\$ -
Committed loan support funds	1,203,454	1,203,454	-	-
Other committed support funds	199,186	-	118,636	80,550
Loans receivable	17,974,188	-	17,974,188	-
Notes payable	12,213,913	-	12,213,913	-
Other liabilities	<u>4,521,563</u>	-	<u>4,521,563</u>	-
Total	<u>\$ 36,950,482</u>	<u>\$ 1,704,567</u>	<u>\$ 35,165,365</u>	<u>\$ 80,550</u>
<u>June 30, 2022</u>				
Operating funds	\$ 834,828	\$ 501,063	\$ 333,765	\$ -
Committed loan support funds	1,197,739	1,197,739	-	-
Other committed support funds	224,089	-	138,872	85,217
Loans receivable	16,896,875	-	16,896,875	-
Notes payable	14,760,953	-	14,760,953	-
Other liabilities	<u>3,771,562</u>	-	<u>3,771,562</u>	-
Total	<u>\$ 37,686,046</u>	<u>\$ 1,698,802</u>	<u>\$ 35,902,027</u>	<u>\$ 85,217</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, 2023, Level 2 financial instruments include the following term certificates: a 5-year certificate of deposit valued at \$332,054 (including accrued interest), with interest at 1%, maturing in July 2023 (subsequently renewed at a rate of 0.02% maturing in July 2028); a 2-year certificate of deposit valued at \$5,011, with interest at 0.15%, maturing in December 2023; a 5-year share term certificate valued at \$106,443, with interest at 3.0%, maturing in January 2026 and 5-year share term certificates valued at \$12,193 with interest at 3.0%, maturing in August 2027. The carrying value of *loans receivable, notes payable, and other liabilities* approximates the fair value of such based on community development market rates for financial instruments with similar terms and remaining maturities.

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

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

	Year Ended	
	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Beginning balance, beginning of year	\$ 85,217	\$ 89,917
Collections on mortgages purchased from GCCU	<u>(4,667)</u>	<u>(4,700)</u>
Ending balance, end of year	<u>\$ 80,550</u>	<u>\$ 85,217</u>

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

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

Carolina Small Business began administering certain loan and grant programs in fiscal 2020 on behalf of certain municipalities and a nonprofit organization. Loans placed and grants disbursed on behalf of these programs are not reflected in the accompanying financial statements. The Organization is required to follow standard and commercially reasonable collection practices on all delinquent loans, but will not be required to repay any loans deemed uncollectible. Revenue from service contracts is recognized as services are provided in an amount that reflects the consideration the Organization expects to be entitled to receive in exchange for those services. Amounts collected in advance are included in deferred revenue. Advances of loan or grant funds are recorded as a liability until placed or disbursed. Amounts due to the Organization for loans placed or grants disbursed are included in other receivables. Loan and grant programs administered by Carolina Small Business, many of which originated in response to the COVID-19 pandemic, are summarized herein.

Carolina Small Business Development Fund

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

Mecklenburg County Small Business Loan Program: The Organization entered into a 5-year contract with Mecklenburg County, effective June 1, 2019, to provide lending services to qualified small and start-up businesses in Mecklenburg County. The contract includes an option to renew for one 3-year term. The County has committed to provide loan capital of \$2,750,000 to fund loans of up to \$75,000. Carolina Small Business will receive administrative fees to perform trainings and technical assistance for the program not-to-exceed \$500,000, plus monthly servicing fees, over the 5-year contract term. Administrative fees are payable in quarterly payments of \$25,000. Administrative fees of \$100,000 were recognized in fiscal 2023 and 2022, with servicing fees of \$7,518 and \$1,828 recognized for fiscal 2023 and 2022, respectively. Loan funds of \$182,393 received from Mecklenburg County, but not placed as of June 30, 2023, are recorded as a liability in the accompanying financial statements. Loan funds of \$67,869 placed in excess of funds advanced as of June 30, 2022, are recorded as a negative liability. Loans receivable, due from borrowers and payable to the County, totaled \$2,589,604 and \$772,198 at June 30, 2023 and 2022, respectively.

Emergency Stabilization Loan Fund (Mecklenburg County): In April 2020, Carolina Small Business entered into a 10-year contract to provide lending services to small businesses located in Mecklenburg County. The County has committed to provide loan capital of \$5,000,000. Carolina Small Business will receive administrative fees to perform training and technical assistance for the program not-to-exceed \$500,000, plus monthly servicing fees, over the 10-year contract term. Administrative fees of \$55,556 were recognized in fiscal 2023 and 2022, with servicing fees of \$17,308 and \$21,211 recognized for fiscal 2023 and 2022, respectively. Principal and interest repayments of \$133,544 and \$149,367 collected from borrowers (net of fees) are recorded as a liability at June 30, 2023 and 2022, respectively, in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$3,101,129 and \$3,821,665 at June 30, 2023 and 2022, respectively.

NC Rapid Recovery Loan Program (Rural Center): In March 2020 and May 2020, Carolina Small Business entered into contracts with the Rural Economic Development Center, Inc. (Rural Center), whereby the Organization agreed to participate as lender and servicing agent for loans to small businesses negatively impacted by Hurricane Florence, Hurricane Dorian, or COVID-19. The loans were funded by grants from the Golden LEAF Foundation to the Rural Center, the term of which expired on April 1, 2021. Carolina Small Business is entitled to administrative fees of 2% and a portion of interest collected from borrowers, as defined by contract. Loans receivable, due from borrowers and payable to the Rural Center, totaled \$746,009 and \$1,053,307 at June 30, 2023 and 2022, respectively.

Durham Small Business Recovery Fund (City of Durham): On June 11, 2020, Carolina Small Business entered into a contract with the City of Durham whereby the Organization agreed to administer and seek contributions for the Durham Small Business Recovery Fund. The City of Durham has committed \$1,000,000 in Public Funds and another source has committed \$1,000,000 in Private Funds. Public Funds are available for loans and Private Funds are available for grants, both of which are intended to help preserve eligible small businesses within the City of Durham that have been impacted by the COVID-19 pandemic. The loans are non-revolving and will be repaid to the City of Durham upon collection. The grants will not be repaid. Carolina Small Business received and recognized fund creation fees of \$200,000 in June 2020. The contract also provides for technical assistance fees of \$100,000 payable to the Organization in two equal payments on July 15, 2020 and July 15, 2021, as well as certain servicing and transactional fees. All grant funds were disbursed by October 2021. Technical assistance fees of \$50,000 were recognized in fiscal 2022 and 2021. Principal and interest repayments of \$16,954 collected from borrowers (net of fees) are recorded as a liability at June 30, 2023. Loan funds of \$120,994 received from the City of Durham, but not placed as of June 30, 2022, as well as principal and interest repayments of \$6,091 (net of fees), are recorded as a liability in the accompanying financial statements. Loans receivable, due from the borrowers and payable to the City of Durham, totaled \$777,286 and \$740,578 at June 30, 2023 and 2022, respectively.

Carolina Small Business Development Fund

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

Durham Small Business Recovery Fund (Durham County): On June 22, 2020, Durham County voted to commit \$1,000,000 to the Durham Small Business Recovery Fund. The County will provide \$833,333 for loan capital and \$83,333 for administrative fees payable to Carolina Small Business. The contract also provides for technical assistance fees of \$83,334 payable to Carolina Small Business over the course of fiscal 2021 and 2022. Administrative and technical assistance fees of \$41,667 and \$125,000 were recognized in fiscal 2022 and 2021, respectively. Loan funds of \$432,128 received from Durham County, but not placed as of June 30, 2023, as well as principal and interest repayments of \$2,743 (net of fees), are recorded as a liability in the accompanying financial statements. Loan funds of \$833,333, received from Durham County, but not placed as of June 30, 2022, are recorded as a liability at June 30, 2022. Loans receivable, due from the borrowers and payable to Durham County, totaled \$401,206 and \$0 at June 30, 2023 and 2022, respectively.

RETOOLNC Grant Program (including subsequent events): In September 2020, the North Carolina Department of Administration, Office for Historically Underutilized Businesses (NCHUB) partnered with Carolina Small Business Development Fund and the North Carolina Institute of Economic Development to administer the RETOOLNC Grant Program. Funding for the program is sourced from Coronavirus Relief Funds of \$12,600,000 awarded to the North Carolina Pandemic Recovery Office. The program provides grants of up to four months of operational expenses for eligible businesses registered with the NCHUB or which share a similar profile to a HUB-certified business. These grant funds are intended to aid small historically underutilized businesses in North Carolina to make pivotal changes to meet industry needs during the coronavirus pandemic. Grant funds were required to be disbursed or returned by December 30, 2020. Carolina Small Business received and disbursed \$6,500,000 in grants and received administrative fees of \$77,022 under this program in fiscal 2021.

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

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

NOTE K--RELATED PARTY TRANSACTION

In July 2018, the Organization extended a loan of \$1,700,000 to EMP Commercial, LLC, owned by Eagle Market Streets Development Corporation (Eagle Market Streets, hereafter) and Mountain Housing Opportunities, Inc. (Mountain Housing). All loan documents, including unlimited guarantees on the loan, were signed by both Eagle Market Streets and Mountain Housing. The signer on behalf of Eagle Market Streets was its President/Manager, who also served as the Vice Chair for the Organization's Board of Directors. The Vice Chair abstained from voting when the Board approved the loan to EMP Commercial, LLC. The loan requires 87 monthly interest-only payments (at approximately 3.50%), with principal due in full on October 31, 2025. At June 30, 2023, the loan balance is \$1,700,000 and interest payments are being made on a monthly basis.

Carolina Small Business Development Fund

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

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.

The Organization has committed to repay one-half of principal collected on certain disaster recovery loans. At June 30, 2023 and 2022, loans receivable of \$986,432 and \$1,037,409, respectively, are subject to this repayment provision. Principal maturities are scheduled as follows at June 30, 2023: \$111,984 in fiscal 2024; \$51,572 in fiscal 2025; \$628,500 in fiscal 2026; \$62,173 in fiscal 2027; \$65,343 in fiscal 2028 and \$66,860 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 2023 and loans totaling \$300,000 were written off in fiscal 2023. Loans totaling \$900,000 were forgiven in fiscal 2022 and loans totaling \$150,000 were written off in fiscal 2022. No loans remain outstanding at June 30, 2023.

NOTE M--SUBSEQUENT EVENTS (not otherwise disclosed)

The City of Charlotte's Contractor Development Program has contracted with Merriwether & Williams Insurance Services (MWIS) to administer the program. MWIS has contracted with Carolina Small Business Development Fund to provide collateral in the form of Irrevocable Letters of Credit (ILOC) for the Bond Readiness Program and lending capital for the Contract-Based Finance (CBF) Program. As a result, in August 2023, CSBDF opened a \$1,000,000 Line of Credit with Pinnacle Bank to support the Surety bond guarantees. Outstanding principal on the line is due in one payment on August 25, 2024. Interest is payable on outstanding balances monthly, based on the 1-month CME Term Secured Overnight Financing Rate plus 2.300 percentage points (resulting in an initial rate of 7.625% per annum). The maximum exposure for the initial launch of the program shall not exceed \$1,000,000. Increases to this maximum exposure limit may be considered based upon the success of the program and CSBDF's availability to funding sources. The line of credit is secured by a \$1,000,000 certificate of deposit (CD) with Pinnacle Bank. The CD matures September 14, 2025, bears interest at 4.05% annually, and will not automatically renew. At the date on which the accompanying financial statements were available to be issued, zero (\$0) dollars of the credit line had been utilized.

Management has evaluated subsequent events through December 11, 2023, the date on which the financial statements were available to be issued. No further adjustments to or disclosures in the financial statements are considered necessary.

SUPPLEMENTARY INFORMATION

Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2023

Grantor/ Pass-through Grantor/ Program Title	Assistance Listing #	Pass-through Entity Identifying Number	Federal Expenditures*	State Awards	
				Support	Expenditures
<u>FEDERAL AWARDS:</u>					
<u>U.S. Department of Agriculture, Rural Development:</u>					
<u>Intermediary Relending Program (IRP) :</u>					
Loans due to federal agency at beginning of fiscal year	10.767		\$ 1,512,142		
<u>Rural Microentrepreneur Assistance Program (RMAP) :</u>					
Training and technical assistance to micro-borrowers	10.870		5,077		
Loans due to federal agency at beginning of fiscal year	10.870		785,597		
			<u>790,674</u>		
<u>U.S. Department of the Treasury, Community Development Financial Institutions Fund:</u>					
<u>COVID-19: CDFI Rapid Response Program (CDFI RRP)</u>					
	21.024		809,394		
<u>U.S. Department of the Treasury:</u>					
<u>Coronavirus State and Local Fiscal Recovery Funds (authorized by the American Rescue Plan Act)</u>					
<u>State of North Carolina Appropriation:</u>					
<u>COVID-19: State Fiscal Recovery Funds (SFRF)</u>					
<u>N.C. Department of Commerce (disbursing agency):</u>					
Appropriated for small business loans, financial training to start-ups and lending services to community-based organizations.	21.027	Agreement signed Jun. 28, 2022/effective Mar. 3, 2021	4,001,766		
<u>City of Charlotte:</u>					
<u>Small Business Ecosystem Partner Grant: City of Charlotte COVID-19 Assistance Program.</u>					
	21.027	#2023000128	138,683		
<u>City of Raleigh:</u>					
<u>COVID-19: Local Fiscal Recovery/Oak City Biz Labs Program:</u>					
Small business grants	21.027	Subrecipient	2,189,645		
Training & technical assistance/administrative costs	21.027	Agreement	348,783		
			<u>2,538,428</u>		
			<u>6,678,877</u>		
<u>U.S. Small Business Administration:</u>					
<u>COVID-19: Economic Injury Disaster Loan :</u>					
Loan due to federal agency at beginning of fiscal year	59.008		150,000		
<u>Women's Business Ownership Assistance :</u>					
Western Women's Business Center (SBAHQ20W0032/SBAOEDWB220186)	59.043		192,712		
<u>Prime Technical Assistance:</u>					
<u>National Association for Latino Community Asset Builders:</u>					
<u>Capacity-building effort to increase access to lending to disadvantaged entrepreneurs of color.</u>					
	59.050	FY22 SBA PRIME PO#1911	15,000		
<u>Intermediary Loan Program (ILP) :</u>					
Loans due to federal agency at beginning of fiscal year	59.062		542,579		
			<u>542,579</u>		
			<u>\$ 10,691,378</u>		

STATE AWARDS:

State of North Carolina Appropriation under The Disaster
Recovery Act of 2016:

The Golden LEAF Foundation:

North Carolina Disaster Recovery Loan Program :

Small business lending (advance refunded)
Program expenses

FY2017-149

\$ (25,489)	\$ -
-	-
<u>(25,489)</u>	<u>-</u>

TOTAL STATE AWARDS

\$ (25,489)	\$ -
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* No amounts were passed through to subrecipients.

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

Notes to Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2023

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, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C--FEDERAL LOAN / LOAN GUARANTEE PROGRAMS

The following federal loan programs are administered by the Organization, with balances and transactions relating to these programs included in the Organization's basic financial statements. Loans outstanding at the beginning of the fiscal year and loans taken during the fiscal year are included in the federal expenditures presented in the Schedule. The balance of loans due to the federal agencies at June 30, 2023 consists of:

<u>CFDA #</u>	<u>Program Name</u>	<u>Outstanding Balance June 30, 2023</u>
10.767	USDA IRP	\$ 1,422,083
10.870	USDA RMAP	734,118
59.008	US SBA EIDL	-
59.062	US SBA ILP	486,031

Loans receivable from borrowers of approximately \$5,415,076 at June 30, 2023, are guaranteed (up to 75% or 85%) under the SBA Community Advantage Pilot Loan Program.

Loans receivable from borrowers of approximately \$76,683 at June 30, 2023, are guaranteed (up to 85%) under the Charlotte Community Capital Fund Program.

Loans receivable from borrowers of approximately \$273,255 at June 30, 2023, are guaranteed (up to 7%) under the NC Capital Access Program.

Loans receivable from borrowers of approximately \$28,980 at June 30, 2023, are guaranteed under the National Association for Latino Community Asset Builders (NALCAB) Guarantee program.

NOTE D--INDIRECT COST RATE

The Organization elected to charge indirect costs as provided by the Organization's grant agreements, instead of using the 10% de minimis indirect cost rate allowed by the Uniform Guidance.

COMPLIANCE REPORTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report Compliance and Other Matters

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

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

Purpose of this Report

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

Romeo, Wiggins & Company, LLP.

Raleigh, North Carolina
December 11, 2023



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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Carolina Small Business Development Fund's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Carolina Small Business Development Fund's major federal programs for the year ended June 30, 2023. Carolina Small Business Development Fund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Carolina Small Business Development Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Carolina Small Business Development Fund's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Carolina Small Business Development Fund's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Carolina Small Business Development Fund's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

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

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

Schedule of Findings and Questioned Costs

Carolina Small Business Development Fund

Year Ended June 30, 2023

Section I - Summary of Auditor's Results

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal award programs:

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

Noncompliance material to major federal award programs? yes no

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

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

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Program Name</u>
10.767	U.S. Department of Agriculture, <i>Intermediary Relending Program</i>
21.027	U.S. Department of the Treasury, <i>Coronavirus State and Local Fiscal Recovery Funds</i>

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

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs--Continued

Carolina Small Business Development Fund

Year Ended June 30, 2023

Section II - Financial Statement Findings

There were no such findings to report.

Section III - Federal Award Findings and Questioned Costs

There were no such findings to report.