

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

Carolina Small Business Development Fund

Years Ended June 30, 2017 and 2016

Audited Financial Statements, Supplementary Information, and Compliance Reports

Carolina Small Business Development Fund

Years Ended June 30, 2017 and 2016

Audited Financial Statements

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carolina Small Business Development Fund as of June 30, 2017 and 2016, 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.

Independent Auditors' Report--Continued

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of Carolina Small Business Development Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carolina Small Business Development Fund's internal control over financial reporting and compliance.

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

Raleigh, North Carolina
December 12, 2017

Statements of Financial Position

Carolina Small Business Development Fund

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
OPERATING FUNDS:		
General deposits	\$ 1,157,562	\$ 1,021,378
Operating deposits	1,978,590	3,131,636
Total operating funds (cash and cash equivalents)	<u>3,136,152</u>	<u>4,153,014</u>
COMMITTED LOAN SUPPORT FUNDS:		
Small business lending	6,387,526	7,082,373
OTHER COMMITTED SUPPORT FUNDS:		
SEDA - for CDCU lending	179,962	186,162
Mortgage loans - GCCU	<u>143,763</u>	<u>313,441</u>
	323,725	499,603
Less: Reserve on at-risk deposits/mortgage loans	<u>(50,000)</u>	<u>(40,661)</u>
Total other committed support funds	273,725	458,942
LOANS RECEIVABLE:		
Loans - small business lending	24,102,488	19,396,016
Less: Loan loss reserves	<u>(2,289,736)</u>	<u>(1,452,310)</u>
Total loans receivable	21,812,752	17,943,706
GRANTS RECEIVABLE	1,158,565	56,043
OTHER RECEIVABLES	55,148	14,661
PREPAID EXPENSES	49,291	-
FIXED ASSETS:		
Leasehold improvements	3,508	15,737
Equipment and computers	202,952	135,971
Furniture and fixtures	<u>81,859</u>	<u>80,670</u>
	288,319	232,378
Less: Allowance for depreciation	<u>(175,852)</u>	<u>(150,359)</u>
Total fixed assets	<u>112,467</u>	<u>82,019</u>
 TOTAL ASSETS	 <u>\$ 32,985,626</u>	 <u>\$ 29,790,758</u>

See independent auditors' report and notes to financial statements.

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 33,716	\$ 35,584
Accrued vacation	66,959	39,115
Other accrued expenses	7,889	12,463
Notes payable	<u>18,711,909</u>	<u>16,339,235</u>
TOTAL LIABILITIES	18,820,473	16,426,397
NET ASSETS		
Unrestricted net assets:		
Available for general use	3,382,413	3,580,205
Board-designated:		
Contingency reserve	954,585	814,328
Small business lending	6,843,589	5,369,911
At-risk deposits/mortgage loans	273,725	284,910
Property and equipment, net	<u>112,467</u>	<u>82,019</u>
Total unrestricted net assets	11,566,779	10,131,373
Temporarily restricted net assets	<u>2,598,374</u>	<u>3,232,988</u>
TOTAL NET ASSETS	<u>14,165,153</u>	<u>13,364,361</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,985,626</u>	<u>\$ 29,790,758</u>

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 2,563,490	\$ 2,811,926	\$ 5,375,416
Contributions	5,017		5,017
Special events revenue	92,565		92,565
Dividend income	40,746	64	40,810
Mortgage interest	13,353		13,353
Loan closing revenue	58,894	4,680	63,574
Repayment of bad debt	54,663		54,663
Business loan interest	1,328,274	168,379	1,496,653
Origination fees	72,683	4,855	77,538
Premium on sale of guaranteed loans			-
Membership fees	13,500		13,500
Other income	2,721		2,721
Net assets released from restrictions due to satisfaction of:			
Purpose restrictions	3,520,951	(3,520,951)	-
Time restrictions	103,567	(103,567)	-
	<u>7,870,424</u>	<u>(634,614)</u>	<u>7,235,810</u>
TOTAL SUPPORT, REVENUES, AND OTHER INCOME			
EXPENSES:			
Program services	5,351,983		5,351,983
Support services:			
Management and general	1,020,925		1,020,925
Fundraising	62,110		62,110
Total support services	<u>1,083,035</u>		<u>1,083,035</u>
	<u>6,435,018</u>	<u>-</u>	<u>6,435,018</u>
TOTAL EXPENSES			
CHANGE IN NET ASSETS	1,435,406	(634,614)	800,792
Net assets, beginning of year	<u>10,131,373</u>	<u>3,232,988</u>	<u>13,364,361</u>
NET ASSETS, END OF YEAR	<u>\$ 11,566,779</u>	<u>\$ 2,598,374</u>	<u>\$ 14,165,153</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 2,516,000	\$ 878,317	\$ 3,394,317
Contributions	30,101		30,101
Special events revenue	66,735		66,735
Dividend income	32,835	73	32,908
Mortgage interest	8,950		8,950
Loan closing revenue	47,163	5,321	52,484
Repayment of bad debt	5,414		5,414
Business loan interest	1,093,968	135,847	1,229,815
Origination fees	98,785	14,836	113,621
Premium on sale of guaranteed loans	195,520		195,520
Membership fees	22,000		22,000
Other income	1,968		1,968
Net assets released from restrictions due to satisfaction of:			
Purpose restrictions	665,553	(665,553)	-
Time restrictions	30,000	(30,000)	-
	<u>4,814,992</u>	<u>338,841</u>	<u>5,153,833</u>
TOTAL SUPPORT, REVENUES, AND OTHER INCOME			
EXPENSES:			
Program services	3,805,890		3,805,890
Support services:			
Management and general	630,729		630,729
Fundraising	43,998		43,998
Total support services	<u>674,727</u>		<u>674,727</u>
	<u>4,480,617</u>	<u>-</u>	<u>4,480,617</u>
TOTAL EXPENSES			
	334,375	338,841	673,216
CHANGE IN NET ASSETS			
Net assets, beginning of year	<u>9,796,998</u>	<u>2,894,147</u>	<u>12,691,145</u>
NET ASSETS, END OF YEAR	<u>\$ 10,131,373</u>	<u>\$ 3,232,988</u>	<u>\$ 13,364,361</u>

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2017

	Program Services	Support Services	Total
PERSONNEL:			
Salaries	\$ 1,603,338	\$ 452,224	\$ 2,055,562
Employee benefits	247,064	69,686	316,750
Payroll taxes	139,801	39,430	179,231
Total personnel	<u>1,990,203</u>	<u>561,340</u>	<u>2,551,543</u>
OTHER EXPENSES:			
Interest expense	465,124		465,124
Marketing and newsletter	46,329	13,068	59,397
Bank fees	19,765		19,765
Telephone	47,890	13,506	61,396
Audit fees	31,489	8,881	40,370
Contract services	800,153	225,689	1,025,842
Subscriptions, sponsorships and dues	67,225	18,967	86,192
Staff travel	165,551	46,693	212,244
Seminars, conferences, and workshops	38,262	6,596	44,858
Board meeting expenses	14,102	6,665	20,767
Office supplies and expenses	41,677	11,292	52,969
Printing and copying	17,022	4,801	21,823
Software	12,270	3,456	15,726
Office occupancy	135,458	38,509	173,967
Insurance and bonding	16,858	4,756	21,614
Postage	6,351	1,791	8,142
Provision for losses on loans	1,240,997		1,240,997
Loan servicing fees	16,726	4,717	21,443
Legal expenses	111,646	31,492	143,138
Staff development	35,557	10,029	45,586
Fundraising expense		62,110	62,110
Miscellaneous expenses	569		569
Total other expenses	<u>3,331,021</u>	<u>513,018</u>	<u>3,844,039</u>
Total operating expenses before depreciation	5,321,224	1,074,358	6,395,582
Depreciation	<u>30,759</u>	<u>8,677</u>	<u>39,436</u>
TOTAL EXPENSES	<u>\$ 5,351,983</u>	<u>\$ 1,083,035</u>	<u>\$ 6,435,018</u>

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2016

	Program Services	Support Services	Total
PERSONNEL:			
Salaries	\$ 900,335	\$ 253,941	\$ 1,154,276
Employee benefits	130,240	36,735	166,975
Payroll taxes	84,394	23,802	108,196
Total personnel	<u>1,114,969</u>	<u>314,478</u>	<u>1,429,447</u>
OTHER EXPENSES:			
Interest expense	290,230		290,230
Marketing and newsletter	27,329	7,709	35,038
Bank fees	15,509		15,509
Telephone	22,540	6,357	28,897
Audit fees	35,202	9,928	45,130
Contract services	577,939	163,012	740,951
Subscriptions, sponsorships and dues	41,362	11,670	53,032
Staff travel	115,282	32,515	147,797
Seminars, conferences, and workshops	27,124	4,676	31,800
Board meeting expenses	5,398	2,551	7,949
Office supplies and expenses	19,091	5,173	24,264
Printing and copying	9,499	2,679	12,178
Software	9,189	2,589	11,778
Office occupancy	65,429	18,601	84,030
Insurance and bonding	13,216	3,729	16,945
Postage	5,283	1,490	6,773
Provision for losses on loans	1,256,500		1,256,500
Loan servicing fees	30,658	8,645	39,303
Legal expenses	72,755	20,521	93,276
Staff development	31,575	8,906	40,481
Fundraising expense		43,998	43,998
Miscellaneous expenses	313		313
Total other expenses	<u>2,671,423</u>	<u>354,749</u>	<u>3,026,172</u>
Total operating expenses before depreciation	3,786,392	669,227	4,455,619
Depreciation	<u>19,498</u>	<u>5,500</u>	<u>24,998</u>
TOTAL EXPENSES	<u>\$ 3,805,890</u>	<u>\$ 674,727</u>	<u>\$ 4,480,617</u>

See independent auditors' report and notes to financial statements.

Statements of Cash Flows

Carolina Small Business Development Fund

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 800,792	\$ 673,216
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	39,436	24,998
Provision for losses on loans	1,240,997	1,256,500
Changes in operating assets and liabilities:		
Grants receivable	(1,102,522)	279,467
Other receivables	(40,487)	3,123
Prepaid expenses	(49,291)	-
Accounts payable and accrued expenses	21,402	12,427
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>910,327</u>	<u>2,249,731</u>
INVESTING ACTIVITIES		
Decrease (increase) in committed loan support funds	694,847	(3,637,836)
Decrease in other committed support funds, net provision for losses	116,341	109,628
Small business loans funded	(8,469,019)	(10,770,519)
Principal payments received on small business loans	3,427,851	2,458,845
Proceeds on sale of guaranteed loans	-	2,595,362
Purchases of fixed assets	(69,883)	(47,073)
NET CASH USED IN INVESTING ACTIVITIES	<u>(4,299,863)</u>	<u>(9,291,593)</u>
FINANCING ACTIVITIES		
Proceeds from new borrowings	2,485,629	8,302,938
Principal payments on borrowings	(112,955)	(77,218)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,372,674</u>	<u>8,225,720</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,016,862)	1,183,858
Cash and cash equivalents (operating funds), beginning of year	<u>4,153,014</u>	<u>2,969,156</u>
CASH AND CASH EQUIVALENTS (OPERATING FUNDS), END OF YEAR	<u>\$ 3,136,152</u>	<u>\$ 4,153,014</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 465,124	\$ 290,230
NONCASH INVESTING ACTIVITIES		
Charge-offs against loan loss reserves (loans receivable)	\$ 334,722	\$ 703,680
Charge-offs against loan loss reserves (other assets)	-	75,416
Charge-offs against reserve for at-risk deposits	19,857	-

See independent auditors' report and notes to financial statements.

Notes to Financial Statements

Carolina Small Business Development Fund

Years Ended June 30, 2017 and 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization: Carolina Small Business Development Fund (the Organization; Carolina Small Business; and formerly, 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. Our vision is to create economic opportunity for all people.

In 2010, the Organization 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.

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

Display of Net Assets by Class: The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of FASB ASC 958-205, 210, 225. Accordingly, the Organization's financial statements present the following two classes of net assets: (a) unrestricted net assets and (b) temporarily restricted net assets. Temporarily restricted net assets are created only by donor-imposed restrictions on their use. All other net assets, including Board-designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class. In the event the Organization receives net assets that contain permanent, donor-imposed restrictions, it will present a third category of net assets.

Promises to Give: Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Recognition of Support: The accompanying financial statements have been prepared in conformity with the provisions of FASB ASC 958-605. Grant awards are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Certain of the Organization's grants are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon satisfaction of the time and/or purpose restrictions. Support from loan assistance programs is recognized upon closing of the funded loans or upon incurrence of other qualifying expenditures. State awards of \$2,500,000 were fully expended (or committed) and were recorded directly to unrestricted support for each of the years ended June 30, 2017 and 2016.

Cash Equivalents: The Organization generally considers its *operating funds* to be cash equivalents. Operating funds at June 30, 2017 and 2016 consist of amounts held in bank (credit union) checking (savings/master share) accounts, as well as certificates of deposit (share term certificates) with minimal penalties for early withdrawal. Refer also to *Note B--Significant Concentrations*.

Committed Loan Support Funds: 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 bank (credit union) checking accounts with various banks, but also include deposits in money market and master share accounts. Refer also to *Note B--Significant Concentrations*.

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

Carolina Small Business Development Fund

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

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 C--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 C--Loan Receivable/Loan Loss Reserves*.

Grants Receivable: Receivables at June 30, 2017, consist primarily of grant awards from a nonprofit foundation and federal agencies. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are unsecured and are expected to be collected within a year. Refer also to *Note B--Significant Concentrations*.

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 unrestricted. Depreciation is computed over the estimated useful lives of the respective assets on a straight-line basis. Purchases of fixed assets of greater than \$1,000 are capitalized, with purchases below that threshold expensed as incurred.

Fair Value of Financial Instruments: The carrying values of operating funds, accounts receivable, payables and accrued expenses are considered to approximate the fair values of such at June 30, 2017 and 2016, due to the short-term maturity of these financial instruments. Committed loan support funds and other committed support funds are carried at fair value as further described in *Note H--Fair Value Measurements*.

Loans receivable are carried at face value, less loan loss reserves. Notes payable are carried at face value. Carolina Small Business makes and receives loans with stated interest rates that are consistent with community development market rates. Therefore, management believes the net carrying values of loans receivable and notes payable approximate the fair values of these financial instruments.

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

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

Carolina Small Business Development Fund

NOTE B--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 generally 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 \$7,917,000 at June 30, 2017, though the Organization has incurred no loss as a result of such.

Credit Risk: Approximately 94% of grants receivable at June 30, 2017 is due from a nonprofit foundation under an award that provides for small business loans to disaster victims. Refer also to *Note C--Loans Receivable/Loan Loss Reserves* as pertains to credit risk associated with loans receivable.

Support Risk: Carolina Small Business was appropriated \$2,500,000 by the North Carolina General Assembly to provide small business loans and financial training to start-ups and existing businesses and lending services to community-based organizations for each of the fiscal years ended June 30, 2017 and 2016. This appropriation represented approximately 35% and 49% of the Organization's total support and revenues for the years ended June 30, 2017 and 2016, respectively. An appropriation of \$2,500,000 for fiscal 2017-2018 was approved subsequently during the 2017 Legislative Session.

NOTE C--LOANS RECEIVABLE / LOAN LOSS RESERVES

Loans receivable of \$24,102,488 (including 384 loans) and \$19,396,016 (including 312 loans) at June 30, 2017 and 2016, respectively, are due from small businesses in underserved communities throughout North Carolina. Outstanding loans at June 30, 2017 have terms ranging from one to twenty years and bear interest at rates ranging from 0% to 10.75%.

Principal maturities of loans receivable approximate the following at June 30, 2017:

<u>Years Ending June 30</u>	
2018	\$ 6,297,077
2019	3,694,508
2020	3,733,128
2021	2,296,394
2022	1,987,401
Thereafter	<u>6,093,980</u>
	<u>\$ 24,102,488</u>

Charge-Offs: Charge-offs of \$334,722 and \$703,680 were taken against loans receivable for the years ended June 30, 2017 and 2016, respectively. Loans are charged-off when all or a portion of the loan balance is deemed uncollectible.

Loan Loss Reserves: Loans receivable at June 30, 2017 and 2016, are recorded net of a provision for losses on loans of \$2,289,736 (9.5%) and \$1,452,310 (7.49%), respectively, based on management's estimates of inherent and probable credit losses. Management's estimates are based largely on assessed risk ratings and the significance of nonperforming, past due, and restructured loans.

At June 30, 2017, loans receivable of \$1,041,721 (4.32%) are due under nonperforming loans, including \$158,732 considered delinquent (over 90 days past due and still accruing) and \$882,989 in nonaccrual status. At June 30, 2016, loans receivable of \$667,851 (3.4%) are due under nonperforming loans, including \$128,179 considered delinquent (over 90 days past due and still accruing) and \$539,672 in nonaccrual status.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

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

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

<u>Risk Rating</u>	<u>Loan Balance</u>	<u>31 – 60 Days</u>	<u>61 – 89 Days</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Troubled Debt Restructures</u>
<i>June 30, 2017</i>						
Pass	\$ 20,011,840	\$ 82,934	\$ 56,981	\$ -	\$ 139,915	\$ -
Watch	403,601	-	304,718	-	304,718	-
Classified	<u>3,687,047</u>	<u>414,555</u>	<u>368,053</u>	<u>933,687</u>	<u>1,716,295</u>	<u>1,607,297</u>
	<u>\$ 24,102,488</u>	<u>\$ 497,489</u>	<u>\$ 729,752</u>	<u>\$ 933,687</u>	<u>\$ 2,160,928</u>	<u>\$ 1,607,297</u>
<i>June 30, 2016</i>						
Pass	\$ 17,369,092	\$ 350,678	\$ 100,494	\$ 238,840	\$ 690,012	\$ 145,685
Watch	119,710	-	-	-	-	-
Classified	<u>1,907,214</u>	<u>131,996</u>	<u>50,000</u>	<u>379,906</u>	<u>561,902</u>	<u>384,759</u>
	<u>\$ 19,396,016</u>	<u>\$ 482,674</u>	<u>\$ 150,494</u>	<u>\$ 618,746</u>	<u>\$ 1,251,914</u>	<u>\$ 530,444</u>

The general characteristics for each risk rating is as follows:

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

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

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

Significant Estimate: Carolina Small Business has recognized a provision for losses on loans at June 30, 2017 and 2016, based on management’s best estimate of uncollectible loans. Management believes that loan loss reserves adequately provide for potential losses; however, it is at least reasonably possible that management’s estimate of potential losses may change significantly in the near term.

Carolina Small Business Development Fund

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

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

USDA--Intermediary Relending Program (IRP). Loans receivable of \$1,986,428 at June 30, 2017, bear interest at rates ranging from 7.0% to 9.3%, and are recorded net of a funded reserve for losses of \$120,680 (6.1% of outstanding loans). The program requires the Organization to maintain funded reserves of at least six percent of outstanding loans. Charge-offs of \$0 and \$57,581 were made during the years ended June 30, 2017 and 2016, respectively. Loans receivable of \$236,977 have payments over 60 days past due at June 30, 2017. Refer to *Note D--Notes Payable* as pertains to pay-back of the loan funds.

USDA--Rural Micro-entrepreneur Assistance Program (RMAP). Loans receivable of \$484,642 at June 30, 2017, bear interest at rates ranging from 7.0% to 9.75%, and are recorded net of a funded reserve for losses of \$61,250 (12.6% of outstanding loans). The program requires the Organization to maintain funded reserves of at least five percent of outstanding loans. No charge-offs were made during the years ended June 30, 2017 and 2016. Loans receivable of \$54,768 have payments over 60 days past due at June 30, 2017. Refer to *Note D--Notes Payable* as pertains to pay-back of the loan funds.

Community Development Financial Institutions (CDFI) Loans Receivable. Loans receivable of \$2,954,495 at June 30, 2017, bear interest at rates ranging from 7.0% to 9.75%, and are recorded net of a reserve for losses of \$662,448 (22.4% of outstanding loans). Charge-offs of \$10,878 and \$336,117 were made for the years ended June 30, 2017 and 2016, respectively. Loans receivable of \$136,424 have payments over 60 days past due at June 30, 2017.

SBA Intermediary Lending Pilot (ILP) Program. Loans receivable of \$798,900 at June 30, 2017, bear interest at rates ranging from 7.0% to 8.5%, and are recorded net of a funded reserve for losses of \$50,000 (5.9% of outstanding loans). The program requires the Organization to maintain funded reserves of at least five percent of outstanding loans. Charge-offs of \$0 and \$11,204 were made for the years ended June 30, 2017 and 2016, respectively. None of these loans have payments over 60 days past due at June 30, 2017. Refer to *Note D--Notes Payable* as pertains to pay-back of the loan funds.

Guaranteed Loan Programs. Carolina Small Business participates in two loan guaranty programs, SBA Community Advantage Pilot Loan Program and the Charlotte Community Capital Fund Program. These programs assist Carolina Small Business in providing long-term financing to small business concerns that would otherwise not be available.

SBA Community Advantage Pilot Loan Program (CA) is a pilot loan program introduced by the U.S. Small Business Administration (SBA) to meet the credit, management, and technical assistance needs of small businesses in underserved markets. CA provides mission-oriented lenders access to 7(a) loan guaranties up to 85% for loans of \$250,000 or less. Loans receivable of \$7,522,524 at June 30, 2017, 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 outstanding amount of the unguaranteed portion of the CA loan portfolio, which approximates \$116,543 at June 30, 2017.

CA-guaranteed loans of \$2,595,362 were sold at a premium of \$195,520 in the secondary market during the year ended June 30, 2016. The Organization is required to fund reserves of at least 3% of the guarantee on loans sold which approximates \$80,115. Carolina Small Business held \$198,563 in a PNC-funded loan loss account at June 30, 2017, satisfying both the 5% 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 guaranties up to 85% for loans of \$150,000 or less. Loans receivable of \$815,888 at June 30, 2017, are guaranteed (up to 85%) by the Charlotte Community Capital Fund.

Carolina Small Business Development Fund

NOTE D--NOTES PAYABLE (including subsequent events)

Creditor	Principal Payments	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2017	June 30, 2016
US SBA ILP	Quarterly	1%	Quarterly	2031	Partially secured by ILP deposits/loans receivable	\$ 816,978	\$ 870,426
First Bank	Due in full at maturity	2%	Monthly	Dec. 2020	Unsecured	250,000	250,000
USDA IRP	Annually	1%	Annually	2040	Partially secured by IRP deposits/loans receivable	676,541	700,889
USDA IRP	Annually beginning May 2017	1%	Annually	2030	Partially secured by IRP deposits/loans receivable	259,399	278,482
USDA IRP	Annually beginning Sep. 2019	1%	Annually	2036	Partially secured by IRP deposits/loans receivable	625,000	625,000
USDA IRP	Annually beginning Oct. 2018	1%	Annually	2046	Partially secured by IRP deposits/loans receivable	326,067	147,938
PNC Bank	Due in full at maturity	3%	Quarterly	Jan. 2019	Unsecured	500,000	500,000
PNC Bank--LOC	\$750,000 in Aug. 2017 and 2018, with prepayment penalties through Aug. 2018	3%	Quarterly	Aug. 2018	Partially secured by \$300,000 minimum deposit account and guaranteed loan programs	1,500,000	1,500,000
PNC Bank--LOC	Due in full at maturity	3%	Quarterly	Apr. 2021	Unsecured	1,000,000	1,000,000
Wells Fargo	Quarterly beginning May 2024	2%	Quarterly	2024	Unsecured	500,000	500,000
Wells Fargo	Quarterly beginning Apr. 2026	2%	Quarterly	May 2028	Unsecured	1,000,000	1,000,000
Mercy Investment Services	Due in full at maturity	3%	Quarterly	May 2019	Unsecured	500,000	500,000
USDA RMAP	Monthly beginning Sep. 2016	2%	Monthly	Aug. 2034	Partially secured by RMRF deposits/loans receivable	483,924	500,000
Community One Bank	\$500,000 in Dec. 2018 and 2019	3.50%	Quarterly	Dec. 2019	Unsecured	1,000,000	1,000,000
Community One Bank	\$500,000 in Sep. 2019 and 2020	3.50%	Quarterly	Sep. 2020	Unsecured	1,000,000	1,000,000
Woodforest National Bank	\$500,000 in Jun. 2020 and 2021	2.50%	Monthly	Jun. 2021	Unsecured	1,000,000	1,000,000
TD Bank	Due in full at maturity	3%	Monthly	Jul. 2018, as subsequently extended	Unsecured	500,000	486,500
TD Bank	Due in full at maturity	3%	Monthly	Aug. 2018	Unsecured	500,000	500,000
Opportunity Finance Network	Quarterly beginning Sep. 2017	3.75%	Quarterly	Sep. 2019	Partially secured by loans receivable	500,000	500,000
Opportunity Finance Network	Quarterly beginning Sep. 2017	3.75%	Quarterly	Sep. 2019	Partially secured by loans receivable	500,000	500,000
The Episcopal Church	Due in full at maturity	3.75%	Quarterly	Mar. 2018	Unsecured	250,000	250,000
Goldman Sachs	Quarterly beginning Jan. 2018	4.50%	Monthly	Dec. 2022	Partially secured by GS deposits/loans receivable	1,774,000	730,000
Appalachian Community Capital	Due in full at maturity	2.66% (Cost of Funds + 1%)	Monthly	Oct. 2021	Unsecured	1,000,000	1,000,000
Bank of America	Annually beginning Dec. 2020	3.25%	Quarterly	Dec. 2022	Partially secured by Borrower's title and interest in End Loans	1,000,000	1,000,000
Bank of North Carolina	Due in full at maturity	3.00%	Quarterly	Feb. 2022	Partially secured by loans receivable	1,250,000	-
Total Notes Payable						\$ 18,711,909	\$ 16,339,235

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

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

Interest expense totaled \$465,124 and \$290,230 for the years ended June 30, 2017 and 2016, respectively.

Principal maturities of notes payable at June 30, 2017 approximate the following, after giving effect to the subsequent extension noted previously herein:

<u>Years Ending June 30</u>	
2018	\$ 1,323,176
2019	3,763,972
2020	2,923,000
2021	3,008,093
2022	2,951,212
Thereafter	<u>4,742,456</u>
	<u>\$ 18,711,909</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. Management is aware of no instances of non-compliance at June 30, 2017, or subsequent thereto.

Available to Borrow for Small Business Lending: At June 30, 2017, loan funds of \$5,000,000 (provided under the USDA Rural Housing Service-Community Facilities Direct Loan Program) are available to be drawn through December 13, 2021. Other loan funds of \$226,000 are available to be drawn through December 22, 2017.

Subsequent Event: Loan funds of \$525,000 were subsequently committed by CDFI Community Investment Fund I, LLC, with the majority expected to be drawn in fiscal 2017-2018.

NOTE E--TEMPORARILY RESTRICTED NET ASSETS/CONDITIONAL AWARDS

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

	<u>Years Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Small Business Lending*	\$ 2,672,394	\$ 313,916
Women's Business Center	239,655	142,790
People of Color/TSC CARES (lending/tta)	463,179	89,721
Other training and technical assistance	62,863	119,126
NC Disaster Recovery Loan Program	82,860	-
General operations	<u>103,567</u>	<u>30,000</u>
	<u>\$ 3,624,518</u>	<u>\$ 695,553</u>

*State Economic Development Assistance Funds of \$2,389,200 were released from temporarily restricted net assets to unrestricted net assets in fiscal 2016-2017 since deemed to have no ongoing compliance requirements.

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2017</u>		<u>2016</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Small Business Lending	\$ 515,154	\$ 2,795,807		
Women's Business Center	-	6,538		
People of Color/TSC CARES	-	410,279		
Other training and technical assistance	25,000	20,363		
NC Disaster Recovery Loan Program	<u>2,058,220</u>	<u>-</u>		
	<u>\$ 2,598,374</u>	<u>\$ 3,232,987</u>		

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE E--TEMPORARILY RESTRICTED NET ASSETS/CONDITIONAL AWARDS -- Continued

At June 30, 2017, support from awards for the following remains conditional:

Small Business Lending	\$ 1,163,300
Women's Business Center	41,719
Other training and technical assistance	30,000
General operations	<u>66,933</u>
	<u>\$ 1,301,952</u>

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

Refer also to *Note K--Subsequent Events*.

NOTE F--OPERATING LEASES

Carolina Small Business leases its primary office space in Raleigh, North Carolina. In November 2014, Carolina Small Business signed an amended lease, agreeing to relocate its offices on or about February 1, 2015, and to extend the term through September 2020 (initial term was through April 2017). The lease provides for Excused Rent equal to one-half of Base Rent from the Relocation Date through the fourteenth consecutive full month following the Relocation Date. The lease also requires payment of common area Operating Expenses on a pro rata basis. Carolina Small Business also leases office space for its Innovation and Entrepreneurship Center in Raleigh (opened in fiscal 2017), for its Western Women's Business Center in Asheville, and for satellite offices in Charlotte, Greenville, and Fayetteville, North Carolina.

Rent expense under these leases approximated \$173,967 and \$84,028 for the years ended June 30, 2017 and 2016, respectively.

Future minimum rentals for leases having an initial term of one year or more at June 30, 2017, are as follows:

<u>Years Ending June 30</u>	
2018	\$ 155,244
2019	117,948
2020	97,641
2021	24,762
Thereafter	-
	<u>\$ 395,595</u>

NOTE G--EMPLOYEE BENEFIT PLAN

Carolina Small Business adopted a 401(k) retirement plan effective July 1, 2009, with deferrals first permitted September 1, 2009. If employed on September 1, 2009, employees are immediately eligible for participation in the plan; otherwise, employees having attained age 21 and completed one month of service are eligible for participation. Carolina Small Business 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 \$70,227 and \$28,583 for the years ended June 30, 2017 and 2016, respectively. The plan also provides for discretionary, nonelective employer contributions, though no such contributions were approved for the years ended June 30, 2017 and 2016.

Carolina Small Business Development Fund

NOTE H--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, 2017</u>				
Operating funds	\$ 812,602	\$ -	\$ 812,602	\$ -
Committed loan support funds	2,666,110	2,666,110	-	-
Other committed support funds	285,856	-	179,962	105,894
Loans receivable	24,102,488	-	24,102,488	-
Notes payable	18,711,909	-	18,711,909	-
Total	<u>\$ 46,578,965</u>	<u>\$ 2,666,110</u>	<u>\$ 43,806,961</u>	<u>\$ 105,894</u>
<u>June 30, 2016</u>		(Level 1)	(Level 2)	(Level 3)
Operating funds	\$ 809,343	\$ -	\$ 809,343	\$ -
Committed loan support funds	601,813	601,813	-	-
Other committed support funds	471,072	-	186,162	284,910
Loans receivable	19,396,016	-	19,396,016	-
Notes payable	16,339,235	-	16,339,235	-
Total	<u>\$ 37,617,479</u>	<u>\$ 601,813</u>	<u>\$ 36,730,756</u>	<u>\$ 284,910</u>

Level 1: 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. The carrying values of loans receivable and notes payable approximate the fair values of such based on community development market rates for financial instruments with similar terms and remaining maturities.

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

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE H--FAIR VALUE MEASUREMENTS -- Continued

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

	Year Ended	
	June 30, 2017	June 30, 2016
Beginning balance, beginning of year	\$ 284,910	\$ 298,541
Reduction due to sale of OREO property	(166,300)	-
Net increase in allowance for loan loss	(9,338)	-
Collections on mortgages purchased from GCCU	<u>(3,378)</u>	<u>(13,631)</u>
Ending balance, end of year	<u>\$ 105,894</u>	<u>\$ 284,910</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 I--TAX STATUS

Carolina Small Business is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable state tax statutes. It has also been determined that Carolina Small Business is not a private foundation as described in Section 509(a) of the Internal Revenue Code. Filings for tax years ending subsequent to June 30, 2013, remain open and subject to examination.

NOTE J--CONTINGENCIES

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

NOTE K--SUBSEQUENT EVENTS (not otherwise disclosed herein)

Carolina Small Business was subsequently awarded \$4,000,000 (by NC Department of Commerce, CDBG Disaster Recovery Program) for small business loans in counties most affected by Hurricane Matthew.

The Organization was also subsequently awarded a grant of \$1,216,666 (by JP Morgan Chase Foundation, passed through PeopleFund) in support of the Veteran Entrepreneurship & Training Services Collaborative Loan Fund.

Management has evaluated subsequent events through December 12, 2017, the date on which financial statements were available for issue. All subsequent events for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

SUPPLEMENTARY INFORMATION

Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2017

Grantor/ Pass-through Grantor/ Program Title	CFDA/ Contract #	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-loan fund):</u>					
New loans taken/made to borrowers			\$ 178,129		
Loans due to federal agency at beginning of fiscal year			<u>1,752,309</u>		
	10.767		<u>1,930,438</u>		(*)
<u>U.S. Department of Agriculture, Rural Development:</u>					
<u>Rural Micro-Entrepreneur Assistance Program (RMAP-loan fund):</u>					
Training and technical assistance to micro-borrowers			102,062		
Loans due to federal agency at beginning of fiscal year			<u>500,000</u>		
	10.870		<u>602,062</u>		(*)
<u>U.S. Department of Housing and Urban Development:</u>					
<u>Community Development Block Grant Program:</u>					
City of Asheville, North Carolina:					
RISE: Reaching Innovative Solutions for Entrepreneurs (Western Women's Business Center)	14.218	FY 2016-2017	40,000		
<u>U.S. Small Business Administration:</u>					
Women's Business Center (WBC)					
	59.043		143,117		
<u>Intermediary Lending Pilot Program (ILP-loan fund):</u>					
Loans due to federal agency at beginning of fiscal year	59.062		<u>870,426</u>		(*)
TOTAL FEDERAL EXPENDITURES			\$ <u>3,586,043</u>		
<u>STATE AWARDS:</u>					
<u>State of North Carolina Special Appropriation of State General Fund:</u>					
North Carolina Department of Commerce:					
Small business lending (including committed funds)			\$ 800,000	\$ 800,000	
Loan loss reserves (committed)			200,000	200,000	
General operations			<u>1,500,000</u>	<u>1,500,000</u>	
	NC Grant ID 53193		<u>2,500,000</u>	<u>2,500,000</u>	(*)
TOTAL STATE AWARDS			\$ <u>2,500,000</u>	\$ <u>2,500,000</u>	

(*) Awards having compliance requirements that could have a direct and material effect on the Organization's financial statements.

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

Notes to Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2017

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, 2017. 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, as applicable, either the cost principles contained in Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C--FEDERAL LOAN / LOAN GUARANTEE PROGRAMS

The following federal loan programs are administered by the Organization, with balances and transactions relating to these programs included in the Organization's basic financial statements. Loans outstanding at the beginning of the fiscal year and loans taken/made 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, 2017 consists of:

<u>CFDA #</u>	<u>Program Name</u>	<u>Outstanding Balance June 30, 2017</u>
10.767	USDA IRP	\$ 1,887,007
10.870	USDA RMAP	483,924
59.062	US SBA ILP	816,978

Loans receivable from borrowers of approximately \$7,522,524 are guaranteed (up to 75% or 85%) under the SBA Community Advantage Pilot Loan Program at June 30, 2017.

NOTE D--INDIRECT COST RATE

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

COMPLIANCE REPORTS



Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Board of Directors
Carolina Small Business Development Fund
Page Two

Purpose of this Report

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

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

Raleigh, North Carolina
December 12, 2017



Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

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

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

Report on Compliance for Each Major Federal Program

We have audited Carolina Small Business Development Fund's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Carolina Small Business Development Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

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

Raleigh, North Carolina
December 12, 2017

Schedule of Findings and Questioned Costs

Carolina Small Business Development Fund

Year Ended June 30, 2017

Section I - Summary of Auditors' Results

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal award programs:

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

Noncompliance material to major federal award programs? yes no

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

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

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Program Name</u>
10.870	USDA Rural Micro-Entrepreneur Assistance Program
59.062	US SBA Intermediary Lending Pilot Program

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, 2017

Section II - Financial Statement Findings

No such findings to report.

Section III - Federal Award Findings and Questioned Costs

No such findings to report.

Summary Schedule of Prior Audit Findings

Carolina Small Business Development Fund

Year Ended June 30, 2017

No federal award findings were reported in connection with the prior audit.