

**South Carolina Community Loan Fund  
(formerly Lowcountry Housing Trust, Inc.)**

***Report on Financial Statements***

***For the Years Ended December 31, 2013 and 2012***

# South Carolina Community Loan Fund

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## Independent Auditor's Report

To the Board of Directors  
South Carolina Community Loan Fund  
(formerly Lowcountry Housing Trust, Inc.)  
North Charleston, South Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of South Carolina Community Loan Fund, formerly Lowcountry Housing Trust, Inc., ("CLF") which comprise the statements of financial position as of December 31, 2013 and 2012 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.

### Auditor's 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 of 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 South Carolina Community Loan Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 14 to the financial statements, CLF retroactively adopted a change in accounting principle related to revenue recognition in 2013. Our opinion is not modified with respect to that matter.

## **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* 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 *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also included our report dated March 20, 2014 on our consideration of South Carolina Community Loan 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 South Carolina Community Loan Fund's internal control over financial reporting and compliance.



Charleston, South Carolina  
March 20, 2014

## South Carolina Community Loan Fund

### Statements of Financial Position

As of December 31, 2013 and 2012

	2013	( As Adjusted) 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,937,774	\$ 4,544,718
Accounts and grants receivable	35,000	-
Investment receivable	-	200,000
Unconditional promises to give, current portion	-	50,000
Other current assets	12,922	4,481
Loans receivable, current portion	639,184	85,012
Total current assets	<u>4,624,880</u>	<u>4,884,211</u>
<b>Other assets</b>		
Property and equipment, net	22,579	33,288
Loans receivable, net of allowance for loan loss and current portion	3,264,239	2,237,976
Total other assets	<u>3,286,818</u>	<u>2,271,264</u>
Total assets	<u>\$ 7,911,698</u>	<u>\$ 7,155,475</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 3,421	\$ 5,061
Accrued expenses	23,151	17,513
NSP program income due to State	-	42,413
Other liabilities - program related investments, current portion	150,000	-
Total current liabilities	<u>176,572</u>	<u>64,987</u>
<b>Other liabilities</b>		
Other liabilities - program related investments, net of current portion	500,000	450,000
Other liabilities - equity equivalent investments	942,000	842,000
Other liabilities - other investments	1,709,000	725,000
Total other liabilities	<u>3,151,000</u>	<u>2,017,000</u>
Total liabilities	<u>3,327,572</u>	<u>2,081,987</u>
<b>Net assets</b>		
Unrestricted:		
Undesignated	2,845,316	3,249,983
Board designated	1,229,920	895,657
Temporarily restricted	508,890	927,848
Total net assets	<u>4,584,126</u>	<u>5,073,488</u>
Total liabilities and net assets	<u>\$ 7,911,698</u>	<u>\$ 7,155,475</u>

See Notes to Financial Statements.

## South Carolina Community Loan Fund

### Statement of Activities

For the year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Public Support and Revenue</b>			
<b>Public Support</b>			
Federal grants	\$ -	\$ -	\$ -
Local grants	49,000	160,000	209,000
Foundation grants	50,500	-	50,500
Individual and community contributions	12,961	10,000	22,961
Financial institution contributions	39,500	-	39,500
Total public support	<u>151,961</u>	<u>170,000</u>	<u>321,961</u>
<b>Revenue</b>			
Investment income	524	-	524
Special events, net of expenses	7,725	-	7,725
Loan program interest	149,102	-	149,102
Loan program origination fees	40,968	-	40,968
Loan program application fees	7,750	-	7,750
Loan program cap rate, service, and late fees	4,531	-	4,531
Program service revenue	30,551	30,000	60,551
Total revenue	<u>241,151</u>	<u>30,000</u>	<u>271,151</u>
Net assets released from restrictions	<u>618,958</u>	<u>(618,958)</u>	<u>-</u>
Total Public Support and Revenue	<u>1,012,070</u>	<u>(418,958)</u>	<u>593,112</u>
<b>Expenses</b>			
Program services	961,148	-	961,148
Management and general	99,944	-	99,944
Fundraising	21,382	-	21,382
Total expenses	<u>1,082,474</u>	<u>-</u>	<u>1,082,474</u>
Change in net assets	(70,404)	(418,958)	(489,362)
<b>Net assets, beginning of year, as adjusted</b>	<u>4,145,640</u>	<u>927,848</u>	<u>5,073,488</u>
<b>Net assets, end of year</b>	<u>\$ 4,075,236</u>	<u>\$ 508,890</u>	<u>\$ 4,584,126</u>

See Notes to Financial Statements.

## South Carolina Community Loan Fund

### Statement of Activities

For the year ended December 31, 2012 (as adjusted)

	( As Adjusted )		
	Unrestricted	Temporarily Restricted	Total
<b>Public Support and Revenue</b>			
<b>Public Support</b>			
Federal grants	\$ 703,806	\$ -	\$ 703,806
Local grants	70,000	200,000	270,000
Foundation grants	15,750	11,000	26,750
Individual and community contributions	12,700	35,480	48,180
Financial institution contributions	9,500	25,000	34,500
Total public support	<u>811,756</u>	<u>271,480</u>	<u>1,083,236</u>
<b>Revenue</b>			
Investment income	37	-	37
Special events, net of expenses	4,775	-	4,775
Loan program interest	54,261	-	54,261
Loan program origination fees	26,222	-	26,222
Loan program application fees	4,800	-	4,800
Loan program cap rate, service, and late fees	18,024	-	18,024
Program service revenue	77,449	60,000	137,449
Total revenue	<u>185,568</u>	<u>60,000</u>	<u>245,568</u>
Net assets released from restrictions	202,233	(202,233)	-
Total Public Support and Revenue	<u>1,199,557</u>	<u>129,247</u>	<u>1,328,804</u>
<b>Expenses</b>			
Program services	621,991	-	621,991
Management and general	50,901	-	50,901
Fundraising	36,037	-	36,037
Total expenses	<u>708,929</u>	<u>-</u>	<u>708,929</u>
Change in net assets	490,628	129,247	619,875
<b>Net assets, beginning of year</b>	1,991,370	198,601	2,189,971
Cumulative effect of change in accounting policy (Note 14)	1,663,642	600,000	2,263,642
<b>Net assets, beginning of year, as adjusted</b>	<u>3,655,012</u>	<u>798,601</u>	<u>4,453,613</u>
<b>Net assets, end of year, as adjusted</b>	<u>\$ 4,145,640</u>	<u>\$ 927,848</u>	<u>\$ 5,073,488</u>

See Notes to Financial Statements.

## South Carolina Community Loan Fund

### Statement of Functional Expenses

For the year ended December 31, 2013

Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 305,053	34,159	12,201	\$ 351,413
Payroll taxes and employment benefits	60,082	6,728	2,403	69,213
Total personnel	365,135	40,887	14,604	420,626
Professional fees and contracted services	110,307	34,290	1,000	145,597
Interest expense	52,533	-	-	52,533
Professional development	41,200	-	-	41,200
Rent	25,974	8,658	-	34,632
Fundraising	26,339	-	5,644	31,983
Miscellaneous	12,730	-	-	12,730
Conferences and meetings	17,315	5,772	-	23,087
SC Community Capital Alliance	16,442	-	-	16,442
Travel	13,149	-	62	13,211
Repairs and maintenance	9,473	3,157	-	12,630
Communication and utilities	6,506	2,169	-	8,675
Printing and postage	6,737	1,702	72	8,511
Dues and subscriptions	6,360	707	-	7,067
Office expenses	4,487	1,496	-	5,983
Insurance	4,424	1,106	-	5,530
Advertising	2,195	-	-	2,195
Program related	1,949	-	-	1,949
Total expenses before affordable housing subsidy, depreciation and provision for loan loss	723,255	99,944	21,382	844,581
Affordable housing subsidy (Note 1)	35,000	-	-	35,000
Homebuyer assistance program (Note 1)	58,200	-	-	58,200
Depreciation	10,709	-	-	10,709
Provision for loan loss (Note 3)	133,984	-	-	133,984
Total expenses	<u>\$ 961,148</u>	<u>\$ 99,944</u>	<u>\$ 21,382</u>	<u>\$ 1,082,474</u>

See Notes to Financial Statements.

**South Carolina Community Loan Fund****Statement of Functional Expenses****For the year ended December 31, 2012 (as adjusted)**

<b>Expenses</b>	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Salaries and wages	\$ 253,179	\$ 12,572	\$ 8,382	\$ 274,133
Payroll taxes and employment benefits	21,279	1,057	704	23,040
Total personnel	274,458	13,629	9,086	297,173
Professional fees and contracted services	92,854	9,884	25,708	128,446
Rent	25,155	8,385	-	33,540
Interest expense	31,676	-	-	31,676
Conferences and meetings	14,940	4,980	-	19,920
Professional development	19,262	-	-	19,262
Printing and postage	10,869	3,623	-	14,492
Office expenses	10,553	3,518	-	14,071
Advertising	13,078	-	-	13,078
Travel	10,616	-	-	10,616
Communication and utilities	6,894	2,298	-	9,192
Repairs and maintenance	6,710	2,237	-	8,947
Insurance	3,696	1,232	-	4,928
Dues and subscriptions	2,972	1,115	-	4,087
Program related	2,549	-	-	2,549
Miscellaneous	2,096	-	-	2,096
Events	-	-	1,243	1,243
Total expenses before affordable housing subsidy, depreciation and provision for loan loss	528,378	50,901	36,037	615,316
Affordable housing subsidy (Note 1)	20,000	-	-	20,000
Depreciation	10,239	-	-	10,239
Provision for loan loss (Note 3)	63,374	-	-	63,374
Total expenses	<u>\$ 621,991</u>	<u>\$ 50,901</u>	<u>\$ 36,037</u>	<u>\$ 708,929</u>

*See Notes to Financial Statements.*

## South Carolina Community Loan Fund

### Statements of Cash Flows

For the years ended December 31, 2013 and 2012 (as adjusted)

	2013	( As Adjusted) 2012
<b><i>Cash flows from operating activities</i></b>		
Change in net assets	\$ (489,362)	\$ 619,875
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	10,709	10,239
Provision for loan loss	133,983	63,374
Changes in:		
Accounts and grants receivable	(35,000)	19,808
Investment receivable	200,000	(200,000)
Unconditional promises to give	50,000	99,020
Other current assets	(8,441)	(173)
Accounts payable and accrued expenses	3,998	2,091
NSP program income due to State	(42,413)	(36,823)
Net cash (used for) provided by operating activities	<u>(176,526)</u>	<u>577,411</u>
<b><i>Investing activities</i></b>		
Purchases of property and equipment	-	(19,601)
Community development loans made	(1,960,852)	(1,905,112)
Net proceeds from repayment of loans receivable	246,434	636,685
Net cash used for investing activities	<u>(1,714,418)</u>	<u>(1,288,028)</u>
<b><i>Financing activities</i></b>		
Proceeds from program related investments	200,000	600,000
Proceeds from equity equivalent investments	100,000	250,000
Proceeds from other investments	984,000	100,000
Net cash provided by financing activities	<u>1,284,000</u>	<u>950,000</u>
Net (decrease) increase in cash and cash equivalents	(606,944)	239,383
<b><i>Cash and cash equivalents, beginning of year</i></b>	4,544,718	4,305,335
<b><i>Cash and cash equivalents, end of year</i></b>	<u>\$ 3,937,774</u>	<u>\$ 4,544,718</u>
<b><i>Supplemental disclosures</i></b>		
Cash paid for interest	<u>\$ 52,533</u>	<u>\$ 31,676</u>

See Notes to Financial Statements.

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## South Carolina Community Loan Fund

### *Notes to Financial Statements*

*December 31, 2013 and 2012*

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#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies**

The summary of significant accounting policies of South Carolina Community Loan Fund, formerly Lowcountry Housing Trust, Inc., ("CLF") is presented to assist in understanding CLF's financial statements. The financial statements and notes are representations of CLF's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements, unless otherwise noted.

#### *Nature of Activities*

South Carolina Community Loan Fund, formerly Lowcountry Housing Trust, a nonprofit community development loan fund, was certified by the United States Treasury CDFI Fund as a Community Development Financial Institution (CDFI) in 2007. CLF is located in North Charleston, South Carolina and serves the state of South Carolina. CLF's mission is to build vibrant, sustainable communities by increasing the availability of affordable housing and to act as a catalyst to meet fundamental needs of underserved neighborhoods.

#### *Community Development Financial Institution*

A certified CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. These financial institutions are focused on community development activities that rebuild distressed and neglected communities through a variety of lending, investment, social support and educational activities. CDFI's provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investment to small start-up or expanding businesses in low-income areas. CDFI's include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

According to the Riegle Community Development and Regulatory Improvement Act of 1994, CDFIs are specialized financial institutions that:

- Have a primary mission of promoting community development;
- Serve an investment area or targeted population;
- Provide development services and equity investments or loans;
- Maintain accountability to residents of its investment area or targeted population; and
- Are not a public agency or institution.

#### *Programs and Services*

CLF finances projects that: 1) provide affordable housing; 2) create access to food and essential services; 3) increase the quality and availability of neighborhood facilities; 4) create employment opportunities; 5) attract additional investment; and 6) strengthen the social and economic fabric of the community.

## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

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#### Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued

##### Programs and Services, continued

CLF provides loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvements, machinery and equipment, working capital, and permanent financing costs for affordable housing, healthy food, community facility, and community business development projects.

##### Forgivable Loan Programs:

###### Affordable Housing Subsidy (AHS) Program

The Affordable Housing Subsidy Program (AHS) subsidizes the production of new affordable housing units, both for-sale and rental, through new construction, substantial rehabilitation of vacant units or conversion of nonresidential buildings to residential use. CLF provides project-specific forgivable loans to nonprofit and for profit developers to construct new units or rehabilitate vacant housing units for sale or rent to low and moderate income households. Funds can be used for acquisition, pre-development, infrastructure, or construction costs. Affordable Housing Subsidies (“subsidy”) are zero percent, non-amortizing, deferred loans. As AHS loans are forgivable over time, loans are recognized as an expense in the Statement of Activity when closed.

###### Homebuyer Assistance (HBA) Program

The Homebuyer Assistance Program (HBA) provides non-amortizing subordinate mortgage loans to lower the purchase price of a home for qualified persons on a first come, first ready basis. Applications are accepted and evaluated continually throughout the year. Funding is limited. Applications for HBA loans are accepted from nonprofit developers, for-profit developers, government entities, nonprofit/for-profit developer partnerships, and current CLF lending partners. Applications are not taken from individual homebuyers. As HBA loans are forgivable over time, loans are recognized as an expense in the Statement of Activity when closed.

###### Neighborhood Stabilization Program (NSP)

The Neighborhood Stabilization Program (NSP) is used to assist local governmental agencies, for-profit, and nonprofit organizations to purchase and rehabilitate foreclosed properties that would otherwise remain abandoned. The overall goal of this program is to help reduce/ameliorate the decline (both physical and pecuniary) of local communities as a result of foreclosed and abandoned properties. The project targets assistance in providing activities that address the stabilization of foreclosed upon homes and residential properties that will be used to house individuals or families whose income is at or below 120% of area median income. Program funds are used to purchase foreclosed homes at a discount (at least 1% discount) and rehabilitate, redevelop, or demolish them. As NSP loans are forgivable over time, loans are recognized as an expense in the Statement of Activity when closed.

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## South Carolina Community Loan Fund

### *Notes to Financial Statements*

*December 31, 2013 and 2012*

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#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued**

##### Revolving Loan Programs:

###### Affordable Housing (AH)

CLF provides affordable housing loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, rehabilitation, and permanent financing development costs. CLF finances the construction, rehabilitation, or redevelopment of homeownership and rental units affordable to low to moderate income families in South Carolina. CLF finances Low Income Housing Tax Credit (LIHTC) projects throughout the State.

###### Community Business (CB)

CLF provides community business loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvements, machinery and equipment, working capital, and permanent financing business costs. CLF finances the capital needs of community businesses serving and employing low to moderate income individuals located in underserved South Carolina communities.

###### Community Facility (CF)

CLF provides community facility loans up to \$500,000 to finance acquisition, pre-development, infrastructure, construction, rehabilitation, and permanent financing development costs. CLF finances the construction and renovation of community facilities including, but not limited to, recreation centers, day care centers, health care centers, senior centers, homeless shelters, and transitional housing in underserved South Carolina communities.

###### Healthy Food (HF)

CLF provides healthy food retail loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvement, machinery and equipment, working capital, and permanent financing business costs. CLF finances the construction and renovation of retail and wholesale outlets including, but not limited to, grocery stores, corner stores, farmer's markets, food hubs, and mobile markets selling healthy food in underserved South Carolina communities.

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## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

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#### Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued

##### Funding Sources:

Federal Government Grants:

##### Community Development Block Grant (CDBG)

The CDBG Program allocates annual grants to cities and urban counties to develop viable communities by providing decent housing, a suitable living environment, and opportunities to expand economic opportunities, principally for low and moderate income persons. CLF applies for CDBG grants from local municipalities to support both its operations and programs; specifically grants have been provided to support CDFI implementation and the Homebuyer Assistance Program. Extension of grant periods for utilization of unspent grants is provided at the discretion of the local municipality upon a yearend review of the organization and its program.

##### HOME Investment Partnership Program (HOME)

HOME provides formula grants to States and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income individuals. CLF applies for HOME grants from local municipalities to support both its operations and programs; specifically grants have been provided to the Homebuyer Assistance Program. Extension of grant periods for utilization of unspent grants is provided at the discretion of the local municipality upon a yearend review of the organization and its program.

##### Community Development Financial Institutions Financial Assistance (CDFI FA)

The CDFI Fund makes awards of up to \$2 million to certified CDFIs under the FA component of the CDFI Program. A CDFI may use the award for financing capital, loan loss reserves, capital reserves, or operations. FA awards are made in the form of equity investments, loans, deposits, or grants, and the CDFI is required to match its FA award dollar-for-dollar with non-federal funds of the same type as the award itself. This requirement enables CDFIs to leverage private capital to meet the demand for affordable financial products and services in economically distressed communities.

##### Community Development Financial Institutions Healthy Food Financing Initiative (HFFI)

The CDFI Fund makes awards totaling \$25 million annually to certified CDFIs under the HFFI component of the CDFI Program. A CDFI may use the award for financing capital, loan loss reserves, capital reserves, or operations. The HFFI is an interagency initiative involving the United States Department of the Treasury, the United States Department of Agriculture, and the United States Department of Health and Human Services. HFFI represents the federal government's first coordinated step to eliminate "food deserts" by promoting a wide range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products; developing and equipping grocery stores; and strengthening producer-to-consumer relationships.

# South Carolina Community Loan Fund

## Notes to Financial Statements

December 31, 2013 and 2012

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### Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued

#### Neighborhood Stabilization Program (NSP)

The Neighborhood Stabilization Program (NSP) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. NSP1, a term that references the NSP funds authorized under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008, provides grants to all states and selected local governments on a formula basis.

#### Small Business Loan Fund (SBLF)

The Small Business Lending Fund (SBLF), enacted into law as part of the Small Business Jobs Act of 2010 (the Jobs Act), is a dedicated investment fund that encourages lending to small businesses by providing capital to qualified community banks and community development loan funds (CDLFs) with assets of less than \$10 billion. Through the SBLF, participating lenders and small businesses can work together to help create jobs and promote economic growth in local communities across the nation. For CDLFs, the SBLF is structured to encourage small business lending through access to low-cost capital. These nonprofit loan funds play a critical role in distressed communities across the country that lack access to mainstream financial services. CDLFs engage in activities ranging from offering microloans to entrepreneurs, providing mezzanine debt to growing small businesses, and financing community facilities like charter schools and health clinics.

#### Private Investments:

#### Equity Equivalent Investments (EQ2)

The Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have supported a bank capital product named Equity Equivalent Investments (also referred to as EQ2). EQ2 is a financial tool that encourages banks and certain other entities to invest in CDFI's, such as CLF. The purpose of an EQ2 is to promote a stronger capital structure at the CDFI, secure additional debt capital and increase lending and investing in economically disadvantaged communities.

An EQ2 is a long-term, low-interest loan that is typically structured with a rolling maturity and an automatic annual extension of the loan, as long as the borrower carries out its community development purposes. The equity equivalent investment is carried on the bank or entities' balance sheet as an investment and on the CDFI's balance sheet as debt. Equity equivalent investments are not secured by any of the CDFI's assets and are fully subordinate to the CDFI's other creditors. (See Note 6)

#### Program-Related Investments (PRI)

Program-Related Investments (PRIs) are long term, low interest loans received from foundations used to finance charitable activities. As with EQ2s, they are typically non-secured, but have a defined maturity date. To be program-related, the investments must significantly further CLF's exempt activities.

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## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

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#### Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued

##### Other Investments (OI)

Other Investments (OIs) are long term, low interest loans received from individuals and businesses to finance charitable activities. In addition, investments received from financial institutions with a defined maturity date, not qualifying as EQ2s, are categorized as Other Investments. As with EQ2s, they are typically non-secured, but have a defined maturity date.

##### Basis of presentation

In accordance with accounting principles generally accepted in the United States of America (GAAP), CLF reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Accordingly, net assets of CLF and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of CLF and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by CLF. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes. CLF has no permanently restricted net assets at December 31, 2013 or 2012.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

##### Budgets

The budget for CLF is prepared in October for the following calendar year, and is based on estimated revenues and expenses for the various fiscal year grants and management operations.

Budgetary control is also achieved through the grant contracts, which run on various fiscal years.

##### Use of estimates and assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of results of operations during the reporting period. Actual results could differ from those estimates and assumptions.

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## South Carolina Community Loan Fund

### *Notes to Financial Statements*

*December 31, 2013 and 2012*

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#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued**

##### Cash and cash equivalents

For purposes of the financial statements, CLF considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NSP requires that all funds granted to CLF must be deposited in a non-interest bearing account. Additionally, NSP stipulates that any income generated from an activity associated with NSP must be deposited in an interest-bearing account. CLF held \$42,413 of NSP funds at December 31, 2012.

##### Accounts and Grants Receivable

Accounts and grants receivable, typically are comprised of grant funds receivable and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no allowance related to uncollectible accounts receivable at December 31, 2013 or 2012.

##### Loans Receivable

Loans are stated at the principal amount outstanding, net of the allowance for loan losses. Interest income on loans is accrued at the loan's stated interest rate on the principal balance outstanding.

It is the policy of CLF to discontinue the accrual of interest when the loan payments are delinquent for 90 days, and, in management's opinion, the timely collection of interest or principal becomes uncertain, unless the loan principal and interest are determined by management to be fully collateralized and in the process of collection. Interest on these loans is recognized when paid by the borrower only if collection of principal is likely to occur. A non-accrual loan may be reinstated to an accrual status when contractual principal and interest payments are current and collection is reasonably assured.

##### Below Market Interest Loans

GAAP generally require that loans with below market interest rates be restated for financial reporting purposes to amounts that reflect the expected cash flows, discounted at market rates. CLF both receives and makes loans with stated rates of interest that vary from the prevailing market rates for commercial loans. CLF believes there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. CLF accounts for these loans at the stated rates.

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## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

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#### Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued

##### Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged-off against the allowance when management determines that the loan is uncollectible. Subsequent recoveries of amounts previously charged-off are credited to the allowance. The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated losses after considering various factors, including prevailing and anticipated economic conditions, diversification and size of the loan portfolio, current financial status and credit standing of the borrowers, the status and level of non-performing assets, past and expected loan loss experience, adequacy of collateral, and specific impaired loans.

##### Promises to Give

Promises to give are recorded as contributions at the time the promises to give are made and are, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give are recorded as temporarily or permanently restricted contributions based on their purpose and/or implied time restrictions. When the purpose and/or time restrictions are met, the amounts are recorded in the Statements of Activities as releases from restrictions. Promises to give expected to be collected within one year are recorded at their net realizable values. Promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows (i.e., net of a present value discount). There was no allowance related to uncollectible promises to give in 2012. There were no promises to give as of December 31, 2013, as all amounts were collected.

##### Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximated fair value at the date of donation. Depreciation is computed using the straight-line method. CLF capitalizes all expenditures for property and equipment in excess of \$5,000, unless required to do otherwise under grant conditions. The depreciation method is designed to amortize the cost of the assets over their estimated lives as follows:

Furniture and equipment	3 – 5 years
Software	5 years

##### Donated Assets

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CLF reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CLF reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

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#### Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued

##### Credit Risk

CLF maintains its cash accounts at various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures up to \$250,000 for all accounts in aggregate per financial institution. As of December 31, 2012, non-interest bearing accounts were fully insured by the FDIC. In addition, CLF maintains sweep accounts at two of the financial institutions which allow funds held in excess of \$250,000 at each financial institution to be swept nightly into government securities and accounts which provide coverage on all funds. At December 31, 2013 and 2012, management does not believe there is significant credit risk due to the high quality of these financial institutions and products.

##### Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statements of Activities. Accordingly, certain cost have been allocated among the programs and supporting services benefited.

Management and general expenses include the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of CLF's program strategy, secure proper administrative functioning of the Board of Directors, maintain competent legal services for program administration of CLF, and manage the financial and budgetary responsibilities of CLF.

Fundraising costs provide the support necessary to encourage and secure private financial funding from individuals, foundations, and corporations.

##### Board Designated Reserves

The Board of Directors has designated net assets for the following purposes:

Operating reserve – The Board has designated these net assets to ensure the ability to continue the operations of CLF.

Investor liquidity reserve – The Board has required a reserve in an amount equal to 10% of borrowed capital or six months of anticipated repayments of borrowed loan capital, whichever is greater.

Borrower reserve – The Board has required that an amount equal to 5% of gross loans outstanding be held for loan restructurings, refinancing and other lending related cash requirements.

Loan loss reserve – The Board has required that an amount equal to 5%, 7%, or 10% of gross loans outstanding, depending on the Loan Risk Rating of 1, 2, or 3 assigned to the loan upon closing, be held from its permanent loan capital.

##### Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies, Continued

##### Income Taxes

CLF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a charitable organization whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax. CLF is classified by the Internal Revenue Service as other than a private foundation.

Management has evaluated the tax positions of CLF and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the years ended December 31, 2013 or 2012. CLF's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. With few exceptions, CLF is no longer subject to income tax examinations by the federal, state, or local tax authorities for years before 2010.

##### Subsequent Events

In preparing these financial statements, CLF evaluated events and transactions for potential recognition or disclosure through March 20, 2014, which is the date these financial statements were available to be issued.

#### Note 2. Loans Receivable

Loans receivable is comprised of the following at December 31:

	<u>2013</u>	<u>2012</u>
Loans receivable		
Interest rates ranging from 1.00% - 7.25%, secured by real estate and one receivable secured by developer fee and mortgage assignment	\$ 4,159,669	\$ 2,445,251
Less allowance for loan loss	<u>(256,246)</u>	<u>(122,263)</u>
	3,903,423	2,322,988
Less current portion	<u>(639,184)</u>	<u>(85,012)</u>
Loans receivable, net of current portion and allowance for loan loss	<u>\$ 3,264,239</u>	<u>\$ 2,237,976</u>

The amount of the loan loss is calculated based on a risk rating chart that considers the financial condition of the borrower, the payment history, the pre-sale condition and other similar factors in assigning a loan loss reserve of 5% - 10%. Should a loan deteriorate after closing, CLF can assign a loan loss reserve of up to 100% of the outstanding loan balance as deemed necessary by management. The Board maintains all reserves in a separate bank account which includes the amount of loan loss reserve to be used should loans not be repaid in full. See Note 12.

## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

#### Note 3. Unconditional Promises to Give, net

Unconditional promises to give, net, is comprised of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ -	\$ 50,000
Receivable in one to five years	-	-
	-	50,000
Less discount to present value	-	-
Unconditional promises to give, net	<u>\$ -</u>	<u>\$ 50,000</u>

There were no unconditional promises to give at December 31, 2013. There was one conditional promise to give of \$150,000 at December 31, 2013. There were no conditional promises to give at December 31, 2012.

#### Note 4. Property and Equipment, net

Property and equipment, net, is comprised of the following at December 31:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 25,398	\$ 25,398
Software	35,530	35,530
	60,928	60,928
Less accumulated depreciation	(38,349)	(27,640)
Property and equipment, net	<u>\$ 22,579</u>	<u>\$ 33,288</u>

Depreciation expense for the years ended December 31, 2013 and 2012 was \$10,709 and \$10,239, respectively.

#### Note 5. Other Liabilities – Program Related Investments

CLF has outstanding amounts under program related promissory note agreements. At December 31, the notes consisted of the following:

	<u>2013</u>	<u>2012</u>
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing January 2017; unsecured.	\$ 100,000	\$ 100,000
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing December 2015; unsecured.	100,000	100,000
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing March 2018; unsecured.	100,000	-
Mary Reynolds Babcock Foundation, 2% interest only payments, payable quarterly. Maturing December 2014; unsecured.	150,000	150,000

## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

#### Note 5. Other Liabilities – Program Related Investments, Continued

	<u>2013</u>	<u>2012</u>
Mary Reynolds Babcock Foundation, 2% interest only payments, payable quarterly. Maturing June 2016; unsecured.	\$ 100,000	\$ 100,000
James O. and Harriet P. Rigney Endowment of Coastal Community Foundation, 2% interest only payments, payable quarterly. Maturing December 2018; unsecured.	<u>100,000</u>	<u>-</u>
	<u>\$ 650,000</u>	<u>\$ 450,000</u>

The future maturities of program-related investments are as follows for the years ending December 31:

2014	\$ 150,000
2015	100,000
2016	100,000
2017	100,000
2018	<u>200,000</u>
	<u>\$ 650,000</u>

#### Note 6. Other Liabilities – Equity Equivalent Investments

CLF has outstanding amounts under equity equivalent subordinated promissory note agreements. These notes are subordinate to all other debt, and the maturities may be extended or rolled at the option of the lender. At December 31, the notes consisted of the following:

	<u>2013</u>	<u>2012</u>
Small Business Lending Fund of the Federal Government, 2% interest-only payments, payable quarterly. Interest increases to 9% in year eight. Maturing September 2019; unsecured; subordinated with rolling maturity.	\$ 392,000	\$ 392,000
Wells Fargo, 2% interest-only payments, payable quarterly. Maturing February 2022; unsecured; subordinated with rolling maturity.	250,000	250,000
Bank of South Carolina, 2% interest-only payments, payable quarterly. Maturing August 2020; unsecured; subordinated with rolling maturity.	100,000	100,000
Heritage Trust, 2% interest-only payments, payable quarterly. Maturing October 2019; unsecured; subordinated with rolling maturity.	100,000	100,000
Tidelands Bank, 2% interest-only payments, payable quarterly. Maturing August 2018; unsecured; subordinated with rolling maturity.	<u>100,000</u>	<u>-</u>
Total equity equivalent investments	<u>\$ 942,000</u>	<u>\$ 842,000</u>

## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

#### Note 6. Other Liabilities – Equity Equivalent Investments, Continued

The equity equivalent investments have rolling maturities and, unless otherwise extended, future maturities of these investments are as follows for the years ending December 31:

2014	\$	-
2015		-
2016		-
2017		-
2018		100,000
Thereafter		<u>842,000</u>
	\$	<u>942,000</u>

#### Note 7. Other Liabilities – Other Investments

CLF has outstanding amounts under other investment promissory note agreements. At December 31, the notes consisted of the following:

	<u>2013</u>	<u>2012</u>
PNC Bank, 3% interest only payments, payable quarterly. Maturing June 2018; unsecured.	\$ 500,000	\$ -
South Carolina Bank and Trust, 2% interest only payments, payable quarterly. Maturing November 2017; unsecured.	300,000	300,000
Anita Zucker, 2% interest only payments, payable quarterly. Maturing February 2017; unsecured.	200,000	200,000
Anita Zucker, 2% interest only payments, payable quarterly. Maturing July 2018; unsecured.	200,000	-
Bank of America Community Development Corporation, loan principal available to be drawn up to a \$1,000,000 maximum by September 2014; 3.25% interest only payments, payable quarterly. Annual payments up to \$250,000 due in September 2021 and September 2022, with all outstanding principal due in full in September 2023; unsecured.	184,000	-
Heritage Trust, 2% interest only payments, payable quarterly. Maturing June 2022; unsecured.	100,000	100,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing December 2017; unsecured.	50,000	50,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing February 2017; unsecured.	50,000	50,000

## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

#### Note 7. Other Liabilities – Other Investments, Continued

	<u>2013</u>	<u>2012</u>
Robert Johnston, 2% interest only payments, payable quarterly. Maturing July 2018; unsecured.	50,000	-
Robert Johnston, 2% interest only payments, payable quarterly. Maturing November 2018; unsecured.	50,000	-
Architectural Associates, 2% interest only payments, payable quarterly. Maturing June 2016; unsecured.	<u>25,000</u>	<u>25,000</u>
	<u>\$ 1,709,000</u>	<u>\$ 725,000</u>

The future maturities of other investments are as follows for the years ending December 31:

2014	\$ -
2015	-
2016	25,000
2017	600,000
2018	800,000
Thereafter	<u>284,000</u>
	<u>\$ 1,709,000</u>

#### Note 8. Line of Credit

On October 16, 2009, CLF signed a line of credit with Wells Fargo in the amount of \$150,000. This line of credit was reaffirmed on November 2, 2012 and was replaced in August 2013 (see below). The line of credit bore interest at prime rate plus 1.85% and was due on demand. There were no outstanding borrowings under this line of credit at December 31, 2012.

In August 2013, CLF entered into a revolving line of credit with Wells Fargo in the amount of \$350,000 which replaced the \$150,000 line of credit above. The line of credit bears interest at the indexed rate (which was approximately 3.25% at December 31, 2013) and is due on demand. There were no outstanding borrowings under this line of credit at December 31, 2013.

#### Note 9. Concentrations

CLF received over 44% and 75% of its revenue for the years ended December 31, 2013 and 2012, respectively, from federal, state, and local grants. These revenues are utilized to provide community development loans to qualified affordable housing, healthy food retail, community facility, and community business projects. Loss of these funding sources could have a material impact on the financial statements.

## South Carolina Community Loan Fund

### Notes to Financial Statements

December 31, 2013 and 2012

#### Note 10. Operating Leases

CLF has an operating lease, which began in December 2010, expiring November 2015, for their office facilities. The initial monthly lease payment was \$2,788 and payment increases 3% per year of the lease. The following are the future minimum lease payments for the years ending December 31:

2014	\$	35,496
2015		36,561

#### Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2013</u>	<u>2012</u>
Operations-Strategic plan	\$ -	\$ 59,000
Lending-Affordable housing loans	-	27,000
Program-South Carolina Community Development Finance Alliance	3,558	10,000
Lending-healthy food program restriction	459,041	485,235
Operations-Geographic restriction	21,291	46,613
Lending-Geographic restriction	<u>25,000</u>	<u>300,000</u>
	<u>\$ 508,890</u>	<u>\$ 927,848</u>

#### Note 12. Board Designated Reserves

The Board of Directors has designated the following reserves for the year ended December 31:

	<u>2013</u>	<u>2012</u>
Borrower reserve	\$ 258,574	\$ 321,694
Operating reserve	250,000	250,000
Investor liquidity reserve	465,100	201,700
Loan loss reserve	<u>256,246</u>	<u>122,263</u>
Total reserves	<u>\$ 1,229,920</u>	<u>\$ 895,657</u>

#### Note 13. Related Party Transactions

During the years ended December 31, CLF received donations and grants from companies and governmental entities at which board members were employed, as well as donations from individual board members. Related party transactions are as follows as of and for the years ending December 31:

	<u>2013</u>	<u>2012</u>
Donations and grants from companies/governmental entities at which board members were employed	\$ 75,000	\$ 30,000
Donations from individual board members	10,596	9,575
Loans receivable from entities affiliated with board members	636,117	35,095
Program-related investments and EQ2s due to entities affiliated with board members	725,000	675,000

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## South Carolina Community Loan Fund

### *Notes to Financial Statements*

*December 31, 2013 and 2012*

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#### **Note 14. Change in Accounting Policy**

In 2013, CLF changed its accounting policy related to revenue recognition for its CDFI and local and county government funds and applied that policy retrospectively. Previously, funds were deferred upon receipt and recognized as revenue when related expenditures were made. In accordance with new industry guidance on prevailing industry practice, CLF has elected to recognize revenue for these CDFI and lending program funds as revenue and support when CLFs are received. As a result, expenditures under these programs could occur in fiscal years subsequent to recognition of the related revenue. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Net assets at the beginning of 2012 have been adjusted by an increase of \$2,263,642 for the change in accounting policy. The change in policy resulted in a cumulative decrease to revenue of \$857,681 for funds previously recognized by CLF from CDFI and local and county lending programs during the year ended December 31, 2012 that were received prior to 2012. The cumulative effect of the change in policy increased ending net assets and decreased deferred revenue for 2012 by \$1,405,961.

#### **Note 15. Subsequent Events**

Effective January 1, 2014, the Lowcountry Housing Trust, Inc. legally changed its name to the South Carolina Community Loan Fund.

In November 2013, CLF received an award letter for CDFI funding from the Department of Treasury in the amount of \$1,347,000 for funding period of October 1, 2013 through September 30, 2014. However, funding does not become unconditional until a signed assistance agreement has been signed by CLF and approved by the Department of Treasury. As of the report date, CLF was waiting on approval and receipt of CLFs from the Department of Treasury.

In early 2014, CLF received signed loan agreements for two United States Department of Agriculture (USDA) loans for 2014 in the amounts of \$750,000 for the Intermediary Relending Program (IRP) and \$1,000,000 for housing assistance under the "515 Rural Rental Housing Program".

## **Reporting 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***

To the Board of Directors  
South Carolina Community Loan Fund  
North Charleston, South 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 South Carolina Community Loan Fund ("CLF"), which comprise the statements of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered CLF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CLF's internal control over financial reporting.

*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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 CLF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Elliott Davis, LLC".

Charleston, South Carolina  
March 20, 2014

**Reporting under *OMB Circular A-133***



**Independent Auditor's Report on Compliance For Each Major Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

To the Board of Directors  
South Carolina Community Loan Fund  
North Charleston, South Carolina

**Report on Compliance for Each Major Federal Program**

We have audited South Carolina Community Loan Fund ("CLF")'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CLF's major federal programs for the year ended December 31, 2013. CLF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of CLF's major federal programs based on our audit of the types of compliance requirement 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 CLF'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 CLF's compliance with those requirements.

**Opinion on Each Major Federal Program**

In our opinion, CLF 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 December 31, 2013.

## **Report on Internal Control Over Compliance**

Management of CLF 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 CLF'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 OMB Circular A-133, 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 CLF'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, non-compliance 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 non-compliance 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of South Carolina Community Loan Fund as of and for the year ended December 31, 2013, and have issued our report thereon dated March 20, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



March 20, 2014

## South Carolina Community Loan Fund

### Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
<b>U. S. Department of Housing and Urban Development</b>			
<b>Passed through South Carolina State</b>			
<b>Housing Finance and Development</b>			
Neighborhood Stabilization Program	14.228	08-NSP113	\$ 17,409
<b>Passed through City of Charleston, South Carolina</b>			
Community Development Block Grant	14.218	B-09-MC-45-0001	<u>60,000</u>
<b>Total U. S. Department of Housing and Urban Development</b>			<u>77,409</u>
<b>U. S. Department of the Treasury</b>			
<b>Direct</b>			
Community Development Financial Institutions Program	21.020	121FA010775	574,348
Community Development Financial Institutions Food Financing Initiative Program	21.020	111FA009976	<u>25,959</u>
<b>Total U. S. Department of the Treasury</b>			<u>600,307</u>
<b>Total Federal Expenditures</b>			<u>\$ 677,716</u>

### **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal contracts and grant activity of the South Carolina Community Loan Fund, formerly Lowcountry Housing Trust, Inc. (the "Fund") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

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**South Carolina Community Loan Fund****Schedule of Findings and Questioned Costs****Year Ended December 31, 2013**

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**Section I – Summary of Auditor's Results**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
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Identification of major programs:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
21.020	Community Development Financial Institution Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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**Section II - Financial Statements Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - Summary Schedule of Prior Year Findings**

None