

South Carolina Community Loan Fund

Report on Financial Statements

For the Years Ended December 31, 2017 and 2016

South Carolina Community Loan Fund

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of South Carolina Community Loan Fund ("SCCLF") which comprise the statements of financial position as of December 31, 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.

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, 2017 and 2016, 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.

Other Matters

Other information

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance") 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 28, 2018 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 28, 2018

South Carolina Community Loan Fund

Statements of Financial Position

As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 6,974,972	\$ 7,814,990
Accounts and grants receivable	7,291	250,000
Other current assets	44,382	22,171
Loans receivable, current portion	2,515,513	2,013,478
Total current assets	<u>9,542,158</u>	<u>10,100,639</u>
Other assets		
Property and equipment, net	33,171	9,788
Loans receivable, net of allowance for loan loss and current portion	10,434,590	8,144,057
Note receivable - non-recourse	6,200,000	6,200,000
Total other assets	<u>16,667,761</u>	<u>14,353,845</u>
Total assets	<u>\$ 26,209,919</u>	<u>\$ 24,454,484</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 18,722	\$ 5,515
Accrued expenses	43,973	25,046
Deferred revenue	-	32,500
Assets held for others	23,602	46,717
Other liabilities - program related investments, current portion	100,000	100,000
Other liabilities - equity equivalent investments, current portion	100,000	-
Other liabilities - other investments, current portion	800,000	450,000
Total current liabilities	<u>1,086,297</u>	<u>659,778</u>
Other liabilities		
Other liabilities - program related investments, net of current portion	1,250,000	1,350,000
Other liabilities - equity equivalent investments, net of current portion	4,692,000	3,692,000
Other liabilities - other investments, net of current portion	6,923,638	6,750,533
Note payable - non-recourse	6,200,000	6,200,000
Total other liabilities	<u>19,065,638</u>	<u>17,992,533</u>
Total liabilities	<u>20,151,935</u>	<u>18,652,311</u>
Net assets		
Unrestricted:		
Undesignated	2,541,426	2,194,596
Board designated	2,734,612	2,836,067
Temporarily restricted	781,946	771,510
Total net assets	<u>6,057,984</u>	<u>5,802,173</u>
Total liabilities and net assets	<u>\$ 26,209,919</u>	<u>\$ 24,454,484</u>

See Notes to Financial Statements.

South Carolina Community Loan Fund

Statement of Activities

For the year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support			
Federal grants	\$ -	\$ -	\$ -
Local grants	-	-	-
Foundation grants	44,655	870,000	914,655
Individual and community contributions	27,306	5,000	32,306
Sponsorship revenue	16,494	-	16,494
Financial institution contributions	71,500	-	71,500
Total public support	<u>159,955</u>	<u>875,000</u>	<u>1,034,955</u>
Revenue			
Interest income - non-recourse loan	63,531	-	63,531
Loan program interest	666,684	-	666,684
Loan program origination fees	145,758	-	145,758
Loan program application fees	11,905	-	11,905
Loan program cap rate, service, and late fees	53,518	-	53,518
Special event revenue	1,720	-	1,720
Program service revenue	23,165	-	23,165
Total revenue	<u>966,281</u>	<u>-</u>	<u>966,281</u>
Net assets released from restrictions	<u>864,564</u>	<u>(864,564)</u>	<u>-</u>
Total public support and revenue	<u>1,990,800</u>	<u>10,436</u>	<u>2,001,236</u>
Expenses			
Program services	1,284,529	-	1,284,529
Management and general	373,053	-	373,053
Fundraising	87,843	-	87,843
Total expenses	<u>1,745,425</u>	<u>-</u>	<u>1,745,425</u>
Change in net assets	245,375	10,436	255,811
Net assets, beginning of year	5,030,663	771,510	5,802,173
Net assets, end of year	<u>\$ 5,276,038</u>	<u>\$ 781,946</u>	<u>\$ 6,057,984</u>

See Notes to Financial Statements.

South Carolina Community Loan Fund

Statement of Activities

For the year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support			
Federal grants	\$ 7,052	\$ -	\$ 7,052
Local grants	-	270,000	270,000
Foundation grants	8,750	505,889	514,639
Individual and community contributions	40,167	5,000	45,167
Sponsorship revenue	55,930	-	55,930
Financial institution contributions	43,000	5,000	48,000
Total public support	<u>154,899</u>	<u>785,889</u>	<u>940,788</u>
Revenue			
Interest income - non-recourse loan	46,943	-	46,943
Loan program interest	534,530	-	534,530
Loan program origination fees	146,123	-	146,123
Loan program application fees	6,000	-	6,000
Loan program cap rate, service, and late fees	31,538	-	31,538
Special event revenue	6,044	-	6,044
Program service revenue	12,241	-	12,241
Gain on sale of asset	213	-	213
Investment income	3	-	3
Total revenue	<u>783,635</u>	<u>-</u>	<u>783,635</u>
Net assets released from restrictions	<u>543,166</u>	<u>(543,166)</u>	<u>-</u>
Total public support and revenue	<u>1,481,700</u>	<u>242,723</u>	<u>1,724,423</u>
Expenses			
Program services	1,150,647	-	1,150,647
Management and general	178,468	-	178,468
Fundraising	68,987	-	68,987
Total expenses	<u>1,398,102</u>	<u>-</u>	<u>1,398,102</u>
Change in net assets	83,598	242,723	326,321
Net assets, beginning of year	4,947,065	528,787	5,475,852
Net assets, end of year	<u>\$ 5,030,663</u>	<u>\$ 771,510</u>	<u>\$ 5,802,173</u>

See Notes to Financial Statements.

South Carolina Community Loan Fund

Statement of Functional Expenses

For the year ended December 31, 2017

Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 329,177	\$ 221,856	\$ 65,711	\$ 616,744
Payroll taxes and employment benefits	46,934	31,632	9,369	87,935
Total personnel	376,111	253,488	75,080	704,679
Interest	396,605	-	-	396,605
Professional fees and contracted services	125,123	68,600	1,290	195,013
Rent	34,231	8,671	-	42,902
Travel	37,528	1,362	153	39,043
Conferences and meetings	22,286	9,169	285	31,740
Training and workshop programs	30,749	-	-	30,749
Communications and utilities	17,343	3,686	-	21,029
Printing and postage	8,798	1,304	3,307	13,409
Professional development	9,968	2,540	-	12,508
Advertising	6,856	-	2,987	9,843
Insurance	289	8,520	-	8,809
Dues and subscriptions	7,031	525	603	8,159
Office expenses	2,841	4,192	-	7,033
Educational and special events	-	5,242	1,054	6,296
Minor equipment/repairs and maintenance	-	2,819	2,186	5,005
Miscellaneous	387	1,985	33	2,405
Program related	234	-	865	1,099
Total operating expenses	1,076,380	372,103	87,843	1,536,326
Provision for loan loss (Note 2)	189,649	-	-	189,649
Loan subsidy (Note 1)	15,650	-	-	15,650
Depreciation	2,850	950	-	3,800
Total expenses	\$ 1,284,529	\$ 373,053	\$ 87,843	\$ 1,745,425

See Notes to Financial Statements.

South Carolina Community Loan Fund

Statement of Functional Expenses

For the year ended December 31, 2016

Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 412,361	\$ 84,113	\$ 42,851	\$ 539,325
Payroll taxes and employment benefits	88,494	16,298	8,703	113,495
Total personnel	500,855	100,411	51,554	652,820
Interest	255,120	-	-	255,120
Professional fees and contracted services	116,094	30,772	893	147,759
Training and workshop programs	46,264	7	-	46,271
Rent	35,014	6,916	-	41,930
Conferences and meetings	25,386	6,658	297	32,341
Travel	25,128	197	1,042	26,367
Educational and special events	5,371	4,092	11,917	21,380
Communications and utilities	13,205	4,897	-	18,102
Printing and postage	13,825	2,262	813	16,900
Advertising	11,754	1,739	39	13,532
Professional development	11,462	205	60	11,727
Minor equipment/repairs and maintenance	7,888	3,477	-	11,365
Insurance	1,634	5,985	-	7,619
Dues and subscriptions	6,499	611	225	7,335
Miscellaneous	281	5,585	349	6,215
Office expenses	3,106	2,826	-	5,932
Program related	1,195	950	1,798	3,943
Total operating expenses	1,080,081	177,590	68,987	1,326,658
Provision for loan loss (Note 2)	41,537	-	-	41,537
Loan subsidy (Note 1)	25,000	-	-	25,000
Depreciation	4,029	878	-	4,907
Total expenses	<u>\$ 1,150,647</u>	<u>\$ 178,468</u>	<u>\$ 68,987</u>	<u>\$ 1,398,102</u>

See Notes to Financial Statements.

South Carolina Community Loan Fund

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities		
Change in net assets	\$ 255,811	\$ 326,321
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	3,800	4,907
Provision for loan loss	189,649	41,537
Gain on sale of asset	-	(213)
Changes in:		
Accounts and grants receivable	242,709	(243,506)
Other current assets	(22,211)	(1,168)
Accounts payable and accrued expenses	32,134	14,126
Deferred revenue	(32,500)	(107,500)
Assets held for others	(23,115)	46,717
Net cash provided by operating activities	<u>646,277</u>	<u>81,221</u>
Investing activities		
Community development loans made	(5,378,614)	(4,638,513)
Net proceeds from repayment of loans receivable	2,396,397	2,332,456
Non-recourse loan made to borrower	-	(6,200,000)
Purchase of fixed asset	(27,183)	-
Proceeds from sale of asset	-	1,300
Net cash used for investing activities	<u>(3,009,400)</u>	<u>(8,504,757)</u>
Financing activities		
Net proceeds from non-recourse note payable	-	6,200,000
Proceeds from equity equivalent investments	1,100,000	1,750,000
Proceeds from program related investments	150,000	-
Payments on program related investments	(250,000)	-
Proceeds from other investments	573,105	1,770,076
Payments on other investments	(50,000)	(250,000)
Net cash provided by financing activities	<u>1,523,105</u>	<u>9,470,076</u>
Net increase (decrease) in cash and cash equivalents	(840,018)	1,046,540
Cash and cash equivalents, beginning of year	<u>7,814,990</u>	<u>6,768,450</u>
Cash and cash equivalents, end of year	<u>\$ 6,974,972</u>	<u>\$ 7,814,990</u>
Supplemental disclosures		
Cash paid for interest	<u>\$ 361,154</u>	<u>\$ 255,120</u>

See Notes to Financial Statements.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

The summary of significant accounting policies of South Carolina Community Loan Fund (“SCCLF”) is presented to assist in understanding SCCLF’s financial statements. The financial statements and notes are representations of SCCLF’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.

Nature of activities:

South Carolina Community Loan Fund, a nonprofit community development loan fund, was certified by the United States Treasury CDFI Fund as a Community Development Financial Institution (“CDFI”) in 2007. SCCLF has offices located in Charleston, Columbia, and Spartanburg and serves the state of South Carolina. SCCLF’s mission is to advance equitable access to capital by providing loans, technical assistance, and advocacy for affordable housing, healthy food, community facilities, and community business enterprises to create thriving, prosperous, economically resilient communities for all South Carolinians.

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. CDFIs 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. CDFIs 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:

SCCLF 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, 2017 and 2016

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

Programs and services, continued:

SCCLF provides loans generally up to \$1,000,000 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. Larger loans are permitted if properly approved by the Board per SCCLF's loan policy.

Forgivable Loan Programs:

Loan Subsidy (LS) Program

SCCLF provides project-specific forgivable loans to nonprofit organizations and entrepreneurs for the development of Healthy Food Enterprises. Loan subsidies are provided as zero percent, non-amortizing, deferred loans. As these loans are forgivable over time, loans are recognized as an expense in the Statements of Activities when closed.

Revolving loan programs:

Affordable Housing (AH)

SCCLF provides affordable housing loans generally up to \$1,000,000 to finance acquisition, predevelopment, infrastructure, construction, rehabilitation, and permanent financing development costs. SCCLF finances the construction, rehabilitation, or redevelopment of homeownership and rental units affordable to low to moderate income families in South Carolina.

Community Business (CB)

SCCLF provides community business loans generally up to \$1,000,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvements, machinery and equipment, working capital, and permanent financing business costs. SCCLF finances the capital needs of community businesses serving and employing low to moderate income individuals located in underserved South Carolina communities.

Community Facility (CF)

SCCLF provides community facility loans generally up to \$1,000,000 to finance acquisition, predevelopment, infrastructure, construction, rehabilitation, and permanent financing development costs. SCCLF finances the construction and renovation of community facilities including, but not limited to, recreation centers, day care centers, health care centers, senior centers, charter schools, homeless shelters, and transitional housing in underserved South Carolina communities.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

Programs and services, continued:

Healthy Food (HF)

SCCLF provides healthy food retail loans generally up to \$1,000,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvement, machinery and equipment, working capital, and permanent financing business costs. SCCLF 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.

Funding sources:

Federal Government Grants:

Community Development Financial Institutions (CDFI) Financial Assistance (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.

Small Business Lending Fund (SBLF)

The 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.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

Programs and services, continued:

The following programs and funding sources are no longer active. However, they are included here because they are reflective of activity that is still being reported upon by the organization to certain entities.

Homebuyer Assistance (HBA) Program

The Homebuyer Assistance Program 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 SCCLF lending partners. Applications are not taken from individual homebuyers. As HBA loans are forgivable over time, loans are recognized as an expense in the Statements of Activities when closed.

Neighborhood Stabilization Program (NSP)

The Neighborhood Stabilization Program 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 Statements of Activities when closed. The 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.

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. SCCLF 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.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

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 SCCLF. 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 entity's 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 SCCLF's exempt activities. See Note 5.

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. See Note 7.

Basis of presentation:

In accordance with accounting principles generally accepted in the United States of America (GAAP), SCCLF 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 SCCLF 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 SCCLF and/or the passage of time.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

Basis of presentation, continued:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by SCCLF. 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. SCCLF has no permanently restricted net assets at December 31, 2017 or 2016.

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.

Cash and cash equivalents:

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

Credit risk:

SCCLF 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. At times, deposits may exceed FDIC insurance limits. Management monitors the risk of exposure to loss through monitoring the performance of the financial institutions through publicly available rating agency information.

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 or grants receivable at December 31, 2017 or 2016, as management believes all outstanding amounts are collectible.

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.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

Loans receivable, continued:

It is the policy of SCCLF 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.

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.

New Market Tax Credit:

The New Market Tax Credit Program ("NMTC") provides investors with credits against federal income tax in exchange for capital investments in businesses and commercial projects in low-income communities.

The U.S. Treasury CDFI fund awards NMTCs to certified Community Development Entities ("CDE") to make qualified low income investments ("QLICI") into qualified low income businesses ("QLICB").

In 2016, SCCLF served as an intermediary lender between the Opportunity Finance Network (CDE) and Wells Fargo (CDE), the NMTC awardees, and Self Help, the NMTC borrower, in a commercial loan transaction. See Note 3.

Below market interest loans:

GAAP generally requires 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. SCCLF both receives and makes loans with stated rates of interest that vary from the prevailing market rates for commercial loans. SCCLF believes there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. SCCLF accounts for these loans at the stated rates.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

Revenue recognition:

Contributions are recognized when received or at the time a promise to give is made and is, 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. Contributions are recorded as temporarily or permanently restricted contributions based on their purpose and/or implied time restrictions.

In accordance with industry guidance on prevailing industry practice for CDFIs, SCCLF recognizes revenue from CDFI and lending program grants as revenue and support when the funds are received. As a result, expenditures under these programs could occur in fiscal years subsequent to recognition of the related revenue.

All grant or 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.

Advances received from donors or granting agencies for use in a period subsequent to the Statements of Financial Position dates are included in deferred revenue.

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. SCCLF 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	3 – 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, SCCLF reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. SCCLF reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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 and Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

Functional allocation of expenses, continued:

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

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

Assets held for others:

Advances received from donors or granting agencies to be passed through to designated third parties are included in the Statements of Financial Position as assets held for others.

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 SCCLF. The reserve is calculated at 6 months of operating cash or \$500,000, whichever is less.

Investor liquidity reserve - The Board has required a reserve in an amount equal to 10% of borrowed capital or 12 months of anticipated repayments of borrowed loan capital, whichever is greater.

Loan loss reserve - The Board has required a reserve in the amount equal to 5%, 7% and 10% for all loans outstanding, depending on the Loan Risk Rating of 1, 2, or 3, respectively, assigned to the loan upon closing.

Budgets:

The budget for SCCLF 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.

Income taxes:

SCCLF 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. SCCLF is classified by the Internal Revenue Service as other than a private foundation.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

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

Income taxes, continued:

SCCLF's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. Management has evaluated the tax positions of SCCLF and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the years ended December 31, 2017 or 2016. With few exceptions, SCCLF is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years before 2014.

Subsequent events:

In preparing these financial statements, SCCLF evaluated events and transactions for potential recognition or disclosure through March 28, 2018, which is the date these financial statements were available to be issued.

Reclassifications:

Certain items in the prior year have been reclassified to conform to current year presentation. These reclassifications had no impact on net assets, changes in net assets, and cashflows.

Note 2. Loans Receivable, net

Loans receivable, net, is comprised of the following at December 31:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 2,515,513	\$ 2,013,478
Receivable in one to five years	<u>11,282,638</u>	<u>8,802,456</u>
Total loans receivable	13,798,151	10,815,934
Less allowance for loan loss	<u>(848,048)</u>	<u>(658,399)</u>
Loans receivable, net	<u>\$ 12,950,103</u>	<u>\$ 10,157,535</u>

Loans receivable are held with interest rates ranging from 1.00% - 6.50% and secured by real estate, furniture, equipment, and one receivable secured by the mortgage assignment.

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, SCCLF can assign a loan loss reserve of up to 100% of the outstanding loan balance as deemed necessary by management. See Note 11.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 2. Loans Receivable, net

The table below represents outstanding loans receivable, net by program activity as of December 31, 2017:

	Affordable Housing	Community Business	Community Facilities	Healthy Food	Grand Total
Beginning balance	\$ 8,475,491	\$ 1,925,210	\$ 1,615,554	\$ 1,781,896	\$ 13,798,151
Provision for loan losses	478,563	140,144	103,537	125,804	848,048
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
December 31, 2017	<u>\$7,996,928</u>	<u>\$1,785,066</u>	<u>\$1,512,017</u>	<u>\$1,656,092</u>	<u>\$12,950,103</u>

The table below represents outstanding loans receivable, net by program activity as of December 31, 2016:

	Affordable Housing	Community Business	Community Facilities	Healthy Food	Grand Total
Beginning balance	\$ 5,730,417	\$ 1,233,959	\$ 1,994,327	\$ 1,857,231	\$ 10,815,934
Provision for loan losses	323,817	89,632	114,944	130,006	658,399
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
December 31, 2016	<u>\$4,238,578</u>	<u>\$1,144,327</u>	<u>\$3,047,405</u>	<u>\$1,727,225</u>	<u>\$10,157,535</u>

There were no past due payments on outstanding loans receivables as of December 31, 2017 or 2016.

Note 3. New Market Tax Credit Note Receivable and Note Payable

In April 2016, SCCLF served as an intermediary lender between the Opportunity Finance Network (“OFN”) and Wells Fargo, the NMTC awardees, and Self Help, the NMTC borrower, in a commercial loan transaction. This resulted in a \$6,200,000 note receivable and note payable being recorded on the Statements of Financial Position. These notes are considered non-recourse. The note receivable shall bear interest at a fixed rate equal to 1.0247% per annum. Interest only payments are payable quarterly through March 5, 2023. Beginning on June 5, 2023, the NMTC borrower shall make quarterly payments equal to the sum of principal based on a 23 year amortization schedule, plus interest. The unpaid principal balance, together with any unpaid and accrued interest thereon, shall be due and payable in full on April 5, 2046. The terms of the note payable to the awardees mirror the terms on the note receivable. SCCLF received a \$12,000 CDE fee from Wells Fargo and a \$75,000 syndication fee from Opportunity Finance Network for serving as the intermediary lender in this transaction. These amounts are included in the 2016 loan origination fees on the Statements of Activities.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 4. Property and Equipment, net

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

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 14,031	\$ 14,031
Software	61,579	34,395
	<u>75,610</u>	<u>48,426</u>
Less accumulated depreciation	<u>(42,439)</u>	<u>(38,638)</u>
Property and equipment, net	<u>\$ 33,171</u>	<u>\$ 9,788</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$3,800 and \$4,907, respectively.

Note 5. Other Liabilities – Program Related Investments

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

	<u>2017</u>	<u>2016</u>
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing March 2023; unsecured.	\$ 100,000	\$ 100,000
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Matured January 2017; unsecured.	-	100,000
James O. and Harriet P. Rigney Endowment of Coastal Community Foundation, 2% interest only payments, payable quarterly. Maturing December 2018; unsecured.	100,000	100,000
Edward Hazen Foundation, 2% interest only payments, payable quarterly. Maturing March 2020; unsecured.	100,000	100,000
Jessie Smith Noyes Foundation, 2% interest only payments, payable quarterly. Maturing May 2019; unsecured.	50,000	50,000
Kresge Foundation, 2% interest only payments until March 2020, payable quarterly. Principal payments of \$25,000 quarterly beginning March 2020. Maturing December 2024 through 2028; unsecured.	500,000	500,000
Mary Reynolds Babcock Foundation, 2% interest only payments, payable quarterly. Maturing December 2021; unsecured.	400,000	400,000
Mary Reynolds Babcock Foundation, 2% interest only payments, payable quarterly. Maturing December 2021; unsecured.	<u>100,000</u>	<u>100,000</u>
	<u>\$ 1,350,000</u>	<u>\$ 1,450,000</u>

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 5. Other Liabilities – Program Related Investments, Continued

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

2018	\$	100,000
2019		50,000
2020		200,000
2021		600,000
2022		100,000
Thereafter		<u>300,000</u>
	\$	<u>1,350,000</u>

Note 6. Other Liabilities – Equity Equivalent Investments

SCCLF 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>2017</u>	<u>2016</u>
Bank of South Carolina, 2% interest-only payments, payable quarterly. Maturing August 2020 with an obligation to extend the loan for an additional two years at the end of five years; unsecured; subordinated with rolling maturity.	\$ 100,000	\$ 100,000
BNC Bank, 2% interest-only payments, payable quarterly. Maturing October 2021; unsecured; subordinated	1,000,000	1,000,000
Carolina Alliance Bank, 2% interest-only payments, payable quarterly. Maturing August 2022.	100,000	-
CBC Bank, 2% interest-only payments, payable quarterly. Maturing March 2020 with an option to extend for an additional five years; unsecured; subordinated.	100,000	100,000
Heritage Trust, 2% interest-only payments, payable quarterly. Maturing October 2019 with obligation to extend the loan for an additional two years at the end of each five years; unsecured; subordinated with rolling maturity.	100,000	100,000
PNC Bank, 3% interest-only payments, payable quarterly. Maturing December 2019 with one five year extension option; unsecured; subordinated.	500,000	500,000

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 6. Other Liabilities – Equity Equivalent Investments, Continued

	<u>2017</u>	<u>2016</u>
Small Business Lending Fund, 2% interest-only payments, payable quarterly. Interest increases to 9% in year eight. Maturing September 2019 with option to extend for an additional two years; unsecured; subordinated.	392,000	392,000
TD Bank, 2% interest-only payments, payable quarterly. Maturing December 2020; unsecured; subordinated.	1,000,000	750,000
United Community Bank, 2% interest-only payments, payable quarterly. Maturing November 2019 with an option to extend for an additional five years; unsecured; subordinated.	100,000	100,000
United Community Bank, 2% interest-only payments, payable quarterly. Maturing August 2018 with an option to extend for an additional five years; unsecured; subordinated.	100,000	100,000
Wells Fargo, 2% interest-only payments, payable quarterly. Maturing December 2024 with an option to extend for an additional two years with quarterly principal payments of \$37,500 during extension period; unsecured; subordinated.	300,000	300,000
Wells Fargo, 2% interest-only payments, payable quarterly. Maturing February 2022 with an option to extend for an additional two years with quarterly principal payments of \$31,250 during extension period; unsecured; subordinated.	250,000	250,000
Wells Fargo, 2% eight quarterly principal payments beginning 2028. Maturing November 2029.	750,000	-
	<u>\$ 4,792,000</u>	<u>\$ 3,692,000</u>

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:

2018	\$ 100,000
2019	700,000
2020	1,200,000
2021	1,392,000
2022	350,000
Thereafter	<u>1,050,000</u>
	<u>\$ 4,792,000</u>

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 7. Other Liabilities – Other Investments

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

	<u>2017</u>	<u>2016</u>
Anita Zucker, 2% interest only payments, payable quarterly. Maturing January 2020; unsecured.	\$ 500,000	\$ 500,000
Anita Zucker, 2% interest only payments, payable quarterly. Maturing February 2019; unsecured.	400,000	400,000
Anita Zucker, 2% interest only payments, payable quarterly. Maturing July 2018; unsecured.	200,000	200,000
Jerry Zucker Rvoc Trust, 2% payable quarterly. Maturing February 2021; unsecured.	382,576	382,576
Jerry Zucker Rvoc Trust, 2% payable quarterly. Maturing February 2021; unsecured.	223,105	-
Bank of America Community Development Corporation, loan principal available to be drawn up to a \$1,000,000 maximum by September 2015; 3.25% interest only payments, payable quarterly. Annual payments of \$250,000 due in September 2021 and September 2022, with all outstanding principal due in full in September 2023; unsecured.	1,000,000	1,000,000
Community Development Financial Institutions Fund, 1.95% interest only payments, payable semi-annually. Maturing April 2028; unsecured.	760,500	760,500
Community Development Financial Institutions Fund, 2% interest only payments, payable semi-annually. Maturing March 2019; unsecured.	672,000	672,000
Heritage Trust, 2% interest only payments, payable quarterly. Maturing June 2022; unsecured.	100,000	100,000
Julie and Martin Klaper, 2% interest only payments, payable quarterly. Maturing April 2019; unsecured.	150,000	150,000
NBSC, 3% interest only payments, payable quarterly. Maturing December 2023; unsecured.	100,000	100,000
PNC Bank, 3% interest only payments, payable quarterly. Maturing June 2018; unsecured.	500,000	500,000

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 7. Other Liabilities – Other Investments, Continued

	<u>2017</u>	<u>2016</u>
PNC Bank, 3% interest only payments, payable quarterly. Maturing December 2021; unsecured.	500,000	500,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing February 2021; unsecured	350,000	350,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing February 2021; unsecured.	350,000	-
Robert Johnston, 2% interest only payments, payable quarterly. Maturing January 2020; unsecured.	100,000	100,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing February 2019; unsecured.	100,000	100,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing November 2018; unsecured.	50,000	50,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing July 2018; unsecured.	50,000	50,000
Robert Johnston, 2% interest only payments, payable quarterly. Matured December 2017; unsecured.	-	50,000
Russ McCray, 2% interest only payments, payable quarterly. Maturing December 2020; unsecured.	22,957	22,957
South State Bank, loan principal available to be drawn up to \$250,000 maximum, 2% interest only payments, payable quarterly. Originally maturing January 2020 and with converted terms to January 2033; unsecured. See Note 14.	250,000	250,000
South State Bank, 2% interest only payments, payable quarterly. Originally maturing November 2017 with converted terms to January 2033; unsecured. See Note 14.	300,000	300,000
Tom Baker, 2% interest only payments, payable quarterly. Maturing February 2021; unsecured. Note transferred from Architectural Associates in 2016.	25,000	25,000
USDA, 1% interest only payments for the first three years followed by quarterly principal payments. Maturing June 2044; unsecured.	37,500	37,500

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 7. Other Liabilities – Other Investments, Continued

	<u>2017</u>	<u>2016</u>
Woodforest National Bank, 2.75% interest only payments, payable quarterly. Maturing October 2021; unsecured.	600,000	600,000
	<u>\$ 7,723,638</u>	<u>\$ 7,200,533</u>

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

2018	\$ 800,000
2019	1,322,000
2020	622,957
2021	2,107,576
2022	923,105
Thereafter	<u>1,948,000</u>
	<u>\$ 7,723,638</u>

Note 8. Concentrations

SCCLF received 16% of its revenue for the year ended December 31, 2016 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. For the year ended December 31, 2017, no revenue was received from federal, state, or local grants.

Note 9. Operating Leases

SCCLF obtained an operating lease for their current office facilities which expires in November 2018. The initial monthly lease payment for the operating lease was \$2,874 with payment increases of 3% per year of the lease.

Minimum lease payments are expected to be \$33,551 for the year ending December 31, 2018.

Note 10. Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Healthy Food Feeding Innovation program	\$ 17,240	\$ 21,433
Lending-Healthy food program restriction	114,290	392,000
Lending or related loan loss reserves	-	200,000
Diverse Community Capital program	150,000	-
Specific operational expenses	<u>500,416</u>	<u>158,077</u>
	<u>\$ 781,946</u>	<u>\$ 771,510</u>

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 11. Board Designated Reserves

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

	<u>2017</u>	<u>2016</u>
Borrower reserve	\$ -	\$ 660,916
Operating reserve	500,000	250,000
Investor liquidity reserve	1,386,564	1,234,253
Loan loss reserve	<u>848,048</u>	<u>658,398</u>
Total board designated reserves	<u>\$ 2,734,612</u>	<u>\$ 2,803,567</u>

In 2016, SCCLF designated an additional \$32,500 for loan loss reserves as specified in a grant from a Program Related Investment ("PRI") investor. This amount is included in deferred revenue and will be recognized as loans are made.

Note 12. Related Party Transactions

During the years ended December 31, 2017 and 2016, SCCLF received donations and grants from companies and governmental entities at which board members were employed, as well as donations from individual board members. SCCLF also had loans outstanding from entities affiliated with board members. Related party transactions are as follows as of and for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Donations, grants and sponsorships from companies/governmental entities at which board members were employed	\$ -	\$ 7,052
Donations from individual board members	10,181	14,302
Loans receivable from entities affiliated with board members	1,021,267	726,669
Program-related investments and EQ2s due to individuals and entities affiliated with board members	3,150,000	1,450,000

Note 13. Commitments

Under some loan receivable agreements, the full amount of the loan is not drawn down by the borrower at the time the loan receivable is closed. The remaining funds are committed to the borrower; however, they are contingent upon certain milestones being achieved. Therefore, the final draw down of funding does not become unconditional until the borrower meets the specified requirements of the loan. At December 31, 2017 and 2016, SCCLF had \$5,147,669 and \$1,674,613, respectively, held in committed funds.

On December 15, 2016, SCCLF entered into a Rural Development \$10,000,000 financing agreement with the USDA. The note, which is payable in equal monthly amortized installments including interest at 2.375%, matures in December 2056 and is secured by a Letter of Credit, full recourse in unrestricted net assets and an interest in, and an assignment, in all loans funded by SCCLF. As of March 28, 2018 no funds had been drawn down from the agreement.

South Carolina Community Loan Fund

Notes to Financial Statements

December 31, 2017 and 2016

Note 14. Subsequent Events

In January 2018, SCCLF entered into an EQ2 investment agreement with South State Bank for an amount of \$750,000 with interest at 3% annum and a maturity date of January 2033. This EQ2 investment replaced two existing other investment agreements with South State Bank for \$250,000 and \$300,000, which were due in January 2020 and December 2017, respectively. See Note 8. Quarterly interest only payments are required for the first ten years on the new EQ2 investment, with twenty quarterly principal payments of \$37,500 plus interest to be paid for the remaining five years.

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
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 ("SCCLF"), which comprise the statement of financial position as of December 31, 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 March 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered SCCLF's internal control over financial reporting 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 SCCLF's internal control. Accordingly, we do not express an opinion on the effectiveness of SCCLF'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 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 SCCLF'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 black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
March 28, 2018

Reporting under the *Uniform Guidance*



Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the *Uniform Guidance*

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

Report on Compliance for Each Major Federal Program

We have audited South Carolina Community Loan Fund ("SCCLF")'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 SCCLF's major federal programs for the year ended December 31, 2017. SCCLF'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 federal statutes, regulation, 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 SCCLF'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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 SCCLF'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 SCCLF's compliance.

Opinion on Each Major Federal Program

In our opinion, SCCLF 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, 2017.

Report on Internal Control Over Compliance

Management of SCCLF 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 SCCLF'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 SCCLF'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Charleston, South Carolina
March 28, 2018

South Carolina Community Loan Fund

Schedule of Expenditures of Federal Awards and Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Award or Pass-through Number	Passed through to Subrecipients	Federal Expenditures
U. S. Department of Treasury				
Direct				
Community Development Financial Institutions Program - 2013	21.020	131FA011442	\$ -	\$ 579,946
Community Development Financial Institutions Program - 2014	21.020	141FA012641	-	678,183
Total U. S. Department of the Treasury			-	1,258,129
Total Federal Expenditures			\$ -	\$ 1,258,129

Note 1. 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 ("SCCLF") and is presented on the accrual basis of accounting. The information in this 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"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2. Indirect Cost Rate

SCCLF does not utilize an indirect cost rate with respect to any of its federal programs.

Note 3. CDFI Loan Programs

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at the end of the audit period with continuing compliance requirements included in the Schedule consist of:

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Award Number	Outstanding Balance
U. S. Department of Treasury			
Direct			
Community Development Financial Institutions Program - 2013	21.020	131FA011442	\$ 579,946
Community Development Financial Institutions Program - 2014	21.020	141FA012641	\$ 678,183

South Carolina Community Loan Fund**Schedule of Findings and Questioned Costs****For the Year Ended December 31, 2017**

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?	None noted
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?	None noted

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 2 CFR Section 200.516(a)?	No
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
21.020	Community Development Financial Institutions Program

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