

South Carolina Community Loan Fund

Report on Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

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

We have audited the accompanying consolidated financial statements of South Carolina Community Loan Fund and subsidiary (collectively, "SCCLF" or "South Carolina Community Loan Fund") which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of South Carolina Community Loan Fund and subsidiary as of December 31, 2019 and 2018, 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 consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 April 29, 2020, 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
April 29, 2020

South Carolina Community Loan Fund

Consolidated Statements of Financial Position

As of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 8,326,755	\$ 8,108,199
Restricted cash	758,410	757,866
Other current assets	92,048	76,667
Investments	500	-
Interest receivable, net	-	9,883
Loans receivable	2,714,202	1,784,010
Total current assets	<u>11,891,915</u>	<u>10,736,625</u>
Other assets		
Property and equipment, net	921,098	813,757
Loans receivable, net of allowance for loan loss and current portion	14,445,617	14,090,164
Note receivable - non-recourse	6,200,000	6,200,000
Total other assets	<u>21,566,715</u>	<u>21,103,921</u>
Total assets	<u>\$ 33,458,630</u>	<u>\$ 31,840,546</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 11,073	\$ 21,038
Accrued expenses	73,299	46,280
Assets held for others	56,730	4,230
Other liabilities - program related investments	100,000	50,000
Other liabilities - equity equivalent investments	700,000	700,000
Other liabilities - other investments	622,957	1,422,000
Total current liabilities	<u>1,564,059</u>	<u>2,243,548</u>
Other liabilities		
Other liabilities - program related investments, net of current portion	1,100,000	1,200,000
Other liabilities - equity equivalent investments, net of current portion	4,449,297	4,192,000
Other liabilities - other investments, net of current portion	12,572,434	11,811,043
Note payable - non-recourse	6,200,000	6,200,000
Total other liabilities	<u>24,321,731</u>	<u>23,403,043</u>
Total liabilities	<u>25,885,790</u>	<u>25,646,591</u>
Net assets		
Without donor restrictions		
Undesignated	4,028,347	3,113,512
Board designated	2,006,344	2,672,000
With donor restrictions	1,538,149	408,443
Total net assets	<u>7,572,840</u>	<u>6,193,955</u>
Total liabilities and net assets	<u>\$ 33,458,630</u>	<u>\$ 31,840,546</u>

See Notes to Consolidated Financial Statements

South Carolina Community Loan Fund

Consolidated Statement of Activities

For the year ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue			
<i>Public support</i>			
Government grants	\$ 700,000	\$ 850,000	\$ 1,550,000
Other grants	157,000	645,000	802,000
Contributions	63,613	-	63,613
Sponsorship and ticket sale revenue	44,373	-	44,373
Total public support	<u>964,986</u>	<u>1,495,000</u>	<u>2,459,986</u>
<i>Revenue</i>			
Interest on loan receivables	1,028,215	-	1,028,215
Loan program fees	106,515	-	106,515
New market tax credit program fees	242,153	-	242,153
Investment income	175,409	-	175,409
Total revenue	<u>1,552,292</u>	<u>-</u>	<u>1,552,292</u>
Net assets released from restrictions	<u>365,294</u>	<u>(365,294)</u>	<u>-</u>
Total public support and revenue	<u>2,882,572</u>	<u>1,129,706</u>	<u>4,012,278</u>
<i>Expenses</i>			
Program services	1,924,273	-	1,924,273
Management and general	462,142	-	462,142
Fundraising	246,978	-	246,978
Total expenses	<u>2,633,393</u>	<u>-</u>	<u>2,633,393</u>
Change in net assets	249,179	1,129,706	1,378,885
<i>Net assets, beginning of year</i>	<u>5,785,512</u>	<u>408,443</u>	<u>6,193,955</u>
<i>Net assets, end of year</i>	<u>\$ 6,034,691</u>	<u>\$ 1,538,149</u>	<u>\$ 7,572,840</u>

See Notes to Consolidated Financial Statements

South Carolina Community Loan Fund

Consolidated Statement of Activities

For the year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue			
Public support			
Other grants	\$ 1,382,500	\$ 230,000	\$ 1,612,500
Contributions	18,449	-	18,449
Sponsorship and ticket sale revenue	75,840	-	75,840
Total public support	<u>1,476,789</u>	<u>230,000</u>	<u>1,706,789</u>
Revenue			
Interest on loan receivables	931,700	-	931,700
Loan program fees	163,868	-	163,868
Total revenue	<u>1,095,568</u>	<u>-</u>	<u>1,095,568</u>
Net assets released from restrictions	<u>603,503</u>	<u>(603,503)</u>	<u>-</u>
Total public support and revenue	<u>3,175,860</u>	<u>(373,503)</u>	<u>2,802,357</u>
Expenses			
Program services	2,076,873	-	2,076,873
Management and general	357,808	-	357,808
Fundraising	231,705	-	231,705
Total expenses	<u>2,666,386</u>	<u>-</u>	<u>2,666,386</u>
Change in net assets	509,474	(373,503)	135,971
Net assets, beginning of year	<u>5,276,038</u>	<u>781,946</u>	<u>6,057,984</u>
Net assets, end of year	<u>\$ 5,785,512</u>	<u>\$ 408,443</u>	<u>\$ 6,193,955</u>

See Notes to Consolidated Financial Statements

South Carolina Community Loan Fund

Consolidated Statement of Functional Expenses

For the year ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Expenses				
Salaries and wages	\$ 601,748	\$ 221,303	\$ 159,666	\$ 982,717
Payroll taxes and employment benefits	78,234	26,198	31,143	135,575
Total personnel	679,982	247,501	190,809	1,118,292
Interest	510,686			510,686
Professional fees and contracted services	207,724	89,876	24,218	321,818
Travel	70,227	12,014	14,261	96,502
Communications and utilities	33,227	41,694	5,794	80,715
Advertising	61,813	921	-	62,734
Rent	29,868	368	2,290	32,526
Professional development	20,673	4,406	1,186	26,265
Miscellaneous	16,289	5,679	1,018	22,986
Office expenses	13,865	5,962	2,045	21,872
Insurance	8,474	6,437	1,524	16,435
Printing and postage	13,873	366	128	14,367
Conferences and meetings	6,493	4,589	2,907	13,989
Dues and subscriptions	7,308	1,005	225	8,538
Repairs and maintenance	253	7,798	9	8,060
Property taxes	-	7,989	-	7,989
Program related	1,711	-	-	1,711
Total operating expenses	1,682,466	436,605	246,414	2,365,485
Provision for loan loss (Note 3)	193,597	-	-	193,597
Depreciation	9,323	25,537	564	35,424
Bad debt expense	26,640	-	-	26,640
Forgivable loan expense	12,247	-	-	12,247
Total expenses	<u>\$ 1,924,273</u>	<u>\$ 462,142</u>	<u>\$ 246,978</u>	<u>\$ 2,633,393</u>

See Notes to Consolidated Financial Statements

South Carolina Community Loan Fund

Consolidated Statement of Functional Expenses

For the year ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Expenses				
Salaries and wages	\$ 548,902	\$ 162,675	\$ 164,981	\$ 876,558
Payroll taxes and employment benefits	55,285	26,199	27,421	108,905
Total personnel	<u>604,187</u>	<u>188,874</u>	<u>192,402</u>	<u>985,463</u>
Interest	478,401	-	-	478,401
Professional fees and contracted services	166,157	80,094	14,000	260,251
Travel	75,184	10,302	11,891	97,377
Communications and utilities	31,769	20,807	5,003	57,579
Rent	44,988	9,037	3,474	57,499
Conferences and meetings	41,154	13,321	2,065	56,540
Advertising	39,508	52	284	39,844
Professional development	14,492	5,088	600	20,180
Printing and postage	16,281	1,600	340	18,221
Insurance	1,154	11,941	231	13,326
Office expenses	7,964	3,709	1,415	13,088
Dues and subscriptions	8,559	1,742	-	10,301
Miscellaneous	4,609	3,558	-	8,167
Program related	3,193	-	-	3,193
Total operating expenses	<u>1,537,600</u>	<u>350,125</u>	<u>231,705</u>	<u>2,119,430</u>
Provision for loan loss (Note 3)	518,453	-	-	518,453
Forgivable loan expense	20,820	-	-	20,820
Depreciation	-	7,683	-	7,683
Total expenses	<u>\$ 2,076,873</u>	<u>\$ 357,808</u>	<u>\$ 231,705</u>	<u>\$ 2,666,386</u>

See Notes to Consolidated Financial Statements

South Carolina Community Loan Fund

Consolidated Statement of Cash Flows and Statement of Cash Flows

For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating activities		
Change in net assets	\$ 1,378,885	\$ 135,971
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	35,424	7,683
Provision for loan loss	193,597	518,453
Changes in:		
Accounts and grants receivable	-	7,291
Interest receivable	9,883	(9,883)
Other current assets	(15,881)	(32,285)
Accounts payable and accrued expenses	17,054	4,623
Assets held for others	52,500	(19,372)
Net cash provided by operating activities	<u>1,671,462</u>	<u>612,481</u>
Investing activities		
Community development loans made	(2,963,353)	(7,916,558)
Net proceeds from repayment of loans receivable	1,484,111	4,474,034
Payments for property and equipment	(142,765)	(788,269)
Net cash used for investing activities	<u>(1,622,007)</u>	<u>(4,230,793)</u>
Financing activities		
Proceeds from equity equivalent investments	850,000	2,200,000
Payments on equity equivalent investments	(592,703)	(100,000)
Proceeds from program related investments	-	100,000
Payments on program related investments	(50,000)	(200,000)
Proceeds from other investments	1,350,000	4,896,905
Payments on other investments	(1,387,652)	(1,387,500)
Net cash provided by financing activities	<u>169,645</u>	<u>5,509,405</u>
Net increase in cash and cash equivalents	219,100	1,891,093
Cash and cash equivalents, beginning of year	<u>8,866,065</u>	<u>6,974,972</u>
Cash and cash equivalents, end of year	<u>\$ 9,085,165</u>	<u>\$ 8,866,065</u>
Cash and cash equivalents	\$ 8,326,755	\$ 8,108,199
Restricted cash	758,410	757,866
Ending cash balance	<u>\$ 9,085,165</u>	<u>\$ 8,866,065</u>
Supplemental disclosures		
Cash paid for interest	<u>\$ 493,263</u>	<u>\$ 475,272</u>

See Notes to Consolidated Financial Statements

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 consolidated financial statements. The consolidated financial statements and notes are representations of SCCLF's management, who is responsible for the integrity and objectivity of the consolidated financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the consolidated 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. In addition, SCCLF has also been certified as a Community Development Entity ("CDE"). 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 build assets and benefit communities and people most in need of economic opportunity.

Principles of consolidation:

South Carolina Community Loan Fund's consolidated financial statements include 1051A Gardner Road, LLC ("1051A, LLC"), which is a single member limited liability company and a wholly owned subsidiary of SCCLF formed in 2018. On August 20, 2018, 1051A Gardner Road, LLC purchased an office building for \$712,138. The purchase was financed through a note payable to SCCLF. The \$800,000 note payable has an interest rate of 4.5%, with payments of principal and accrued interest payable in monthly payments of \$4,054 beginning December 1, 2018. The note matures December 1, 2048. The building office space is leased to SCCLF for a three year term with monthly rent payments of \$6,807. All material inter-organization transactions have been eliminated in consolidation.

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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Community development financial institution, continued:

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.

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 Consolidated 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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Programs and services, continued:

Community Facility (“CF”)

SCCLF provides community facility loans generally up to \$1,000,000 to finance acquisition, pre-development, 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.

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.

New Market Tax Credit (“NMTC”)

The New Market Tax Credit Program 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 CDEs to make qualified low income investments (“QLICI”) into qualified low income businesses (“QLICB”) (see Note 4).

Funding sources:

Federal Government Grants:

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.

CDFI 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 Consolidated Financial Statements

December 31, 2019 and 2018

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

Programs and services, continued:

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.

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 Consolidated 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 Consolidated 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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Programs and services, continued:

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.

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 7.

Program Related Investments (“PRIs”)

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 6.

Other Investments (“OIs”)

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 8.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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 two classes of net assets:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of SCCLF and/or the passage of time, or that are subject to donor imposed stipulations that they be maintained permanently.

Cash and cash equivalents:

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

Restricted cash:

Restricted cash represents a bank balance of \$758,410 and \$757,866 as of December 31 2019 and 2018, respectively, which is used as a guarantee for the USDA Community Facilities loan. The guarantee is funded through a Bank of America 1% interest loan.

Use of estimates and assumptions:

The preparation of consolidated 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 consolidated financial statements and the reported amounts of results of operations during the reporting period. Actual results could differ from those estimates and assumptions.

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.

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 Consolidated Financial Statements

December 31, 2019 and 2018

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

Loans receivable:

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.

Investments in New Markets Tax Credit entities:

SCCLF accounts for its investments in NMTC entities ("sub-CDEs") using the equity method of accounting. Under the equity method, the investment is recorded at cost, and increased or decreased by SCCLF's share of the limited liability companies' income or losses, and increased or decreased by the amount of any contributions made or distributions received. SCCLF holds a 0.01% membership interest in each of the funds as of December 31, 2019. SCCLF did not hold any membership interests as of December 31, 2018.

SCCLF regularly assesses the carrying value of its investments in the limited liability companies. If the carrying value exceeds the estimated value derived by management, SCCLF reduces its investment and includes such reduction as an impairment loss. Fair value is measured as the remaining benefits, including NMTCs and flow-through income, to SCCLF. As of December 31, 2019, no impairment loss has been recognized.

The sub-CDEs are not considered variable interest entities ("VIEs") since they do not meet any of the VIE criteria set forth in the Accounting Standards Codification ("ASC") issued by the Financial Accounting Standards Board ("FASB"). Rather they are considering voting interest entities and should be accounted for based on other factors of a controlling financial interest in accordance with ASC 810.

SCCLF's balance in its investments in the limited liability companies, plus the risk of recapture of tax credits previously taken by SCCLF's investor members, represents its maximum exposure to loss.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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.

New accounting pronouncements:

In May 2014, the FASB issued guidance (“ASC 606”) to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance was adopted for the year ended December 31, 2019.

Analysis of various provisions of this standard resulted in no significant changes in the way SCCLF recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The clarifying guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. This guidance was adopted for the year ended December 31, 2019.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on SCCLF's net assets or changes in net assets.

Revenue recognition:

Loan Program and Other Related Fees:

Loan application fees are earned and recorded as revenue at a point in time when the loan application is completed by the applicant with all required documentation and accepted by SCCLF.

Loan origination fees are earned on loan closings and recorded as revenue at a point in time when the performance obligation is met, i.e. when the loan closes and funds are loaned to the customer.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Revenue recognition, continued:

SCCLF requires a signed promissory note with all borrowers which constitutes a contract between SCCLF and the customer, states the loan terms, and lays out the obligations of SCCLF and the borrower. Each individual loan receivable is analyzed separately and has its own specific terms. Under ASC 606, late fee income related to these loan receivables are recognized as revenue at a point in time when the loan payments are due and the customer has not paid these payments per the terms in the signed contract. As the due date passes for the loan payments and the amounts go unpaid, SCCLF will recognize late fees for the loaned funds at the respective terms per the individual loan document.

SCCLF had a Homebuyer Assistance Program for several years as discussed earlier in Note 1. Under this program, SCCLF is eligible for a portion of sales proceeds for a property that they have previously provided HBA funds on to assist the buyer. At the time of the original advance of HBA funds, a signed contract was entered into with all customers that received funds from SCCLF which stated the terms of repayment of a portion of the net sales proceeds if the property was sold before 20 years from the date of the funds, which constitutes a contract between SCCLF and the customer. Under these contracts, SCCLF is considered to meet its performance obligations at a point in time when the respective property is determined to be sold in < 20 years from the advance of funds by the SCLF and the sale of the property to a 3rd party has been closed. Under ASC 606, the amount of the revenue is determined at the time of the sale per the closing statement and recognized as revenue at that point in time.

NMTC Placement Fee:

NMTC sub-allocation fees are paid at the time a NMTC closing occurs. SCCLF requires a signed agreement with all borrowers which states the NMTC allocation fee for the respective loan, which constitutes a contract between SCCLF and the customer. Fee amounts are detailed in the financial forecasts prepared for each individual NMTC deal and are listed as a step in the flow of funds document that details the transfer of money between entities involved in the NMTC deal on the date of closing. The performance obligation is the successful closing of the NMTC deal. Should a borrower default and the deal structure collapse before the end of the seven year compliance period, no portion of the sub-allocation fees are returned. Sub-allocation fees are recognized as revenue at a point in time when the deal closes. As noted, the sub-allocation fees are not contingent on the seven year compliance period. Therefore, the fees do not have to be recognized over a period of time.

NMTC Asset Management Fees:

NMTC asset management fees are paid by the sub-CDE, an entity that is 99.99% owned by a Tax Credit Investor and .01% owned by SCCLF. SCCLF requires a signed agreement for all NMTC transactions which states the NMTC asset management fee for the respective transaction, which constitutes a contract between SCCLF and the customer. The amount of asset management fees to be paid are outlined in the financial forecasts prepared and included in the NMTC closing documents. The performance obligation is to manage the NMTC investment. Under ASC 606, the NMTC allocation fees related to these sub-allocation transactions will be recognized over time since the performance obligations are met over the 7 years. Payments for asset management fees made in advance are initially recorded as deferred revenue. As the performance obligation is met, revenue is released from deferred status and recognized.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Revenue recognition, continued:

Interest Income:

Interest income is recognized over time based on the life of the loan as the funds continue to be loaned to the customer. SCCLF requires a signed promissory note with all borrowers which constitutes a contract between SCCLF and the customer, states the loan terms (loan amount, borrowing length, interest rate, payment terms, and assessment of late fees and how the fees are determined), and lays out the obligations of SCCLF and the borrower. Each individual loan receivable is analyzed separately and has its own specific terms. Under ASC 606, as each month passes and the funds are still advanced, SCCLF recognizes interest income for the loaned funds at the respective interest rate per the individual loan document.

Contributions:

Contributions that are unrestricted or restricted by donor are earned and recognized when the donation is received or unconditionally pledged, as long as there are no performance obligations attached to the contribution. These contributions would not fall under the ASC 606 guidance. In the instance where there is a performance obligation attached to the contribution, the portion that is attached to a performance obligation is recorded as deferred revenue until it is earned (i.e. sponsorships as discussed below), and the portion that is considered to be a contribution is recorded as revenue when received or unconditionally pledged.

Sponsorship and Ticket Revenue

Sponsorships and ticket revenue for events are recognized as revenue when the scheduled event occurs (i.e. at a point in time). Any funds related to these sponsorships or ticket sales received in advance will be deferred until such time as the event occurs. If an event were to be canceled, any funds received would be refunded.

Grants:

Grants are recorded and recognized as revenue when the grant funds are received or unconditionally pledged, if there is no performance requirement in the grant agreement. At that time, any grantor restrictions are considered. In accordance with industry guidance and prevailing practice for CDFI's, revenue from CDFI and other lending program grants are recognized as revenue and support when the funds are received. For any grant agreements that include performance obligations, SCCLF determines when the performance obligation(s) will be met (i.e. at a certain point in time or over time). Revenue is recognized accordingly when the related performance obligation is met. Funds from grants with a performance requirement which are received in advance are recorded as deferred revenue, and then recognized as revenue when performance requirements are met.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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:

Building and improvements	40 years
Furniture and equipment	10 years
Software	3 – 5 years
Vehicles	5 years
HVAC	10 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 without donor restriction 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 net assets with restrictions. 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 net assets with restrictions to net assets without restrictions at that time.

Availability of funds for general expenditures:

SCCLF has certain net assets that are available for general expenditures within one year of December 31, 2019 and 2018 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (See Note 2).

Functional allocation of expenses:

The cost of providing the various programs and other activities has been summarized on a functional basis in the Consolidated Statements of Activities and Consolidated Statements of Functional Expenses. Accordingly, certain costs 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 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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Functional allocation of expenses, continued:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated and the method of allocation include:

<u>Expense Type</u>	<u>Method of Allocation</u>
Salaries and wages	Time and effort
Payroll taxes and employment benefits	Time and effort
Professional fees and contracted services	Direct based on nature of services
Travel	Direct based on nature of expense
Communication and utilities	Direct based on location headcount
Advertising	Direct based on nature of expense
Rent	Headcount
Professional development	Direct based on nature of expense
Miscellaneous	Headcount
Office expenses	Time and effort
Insurance	Time and effort
Printing and postage	Direct based on nature of expense
Conferences and meetings	Direct based on nature of expense
Dues and subscription	Direct based on nature of expense
Repairs and maintenance	Direct based on nature of expense
Depreciation	Location headcount

Assets held for others:

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

Board designated reserves:

The Board of Directors has designated net assets without donor restrictions 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 3 months of operating cash with a minimum of \$500,000.

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.

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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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.

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, 2019 or 2018.

Reclassifications:

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent events:

In preparing these consolidated financial statements, SCCLF evaluated events and transactions for potential recognition or disclosure through April 29, 2020, which is the date these consolidated financial statements were available to be issued.

Note 2. Availability and Liquidity

Financial assets available for general expenditure that are without donor or other restrictions limiting their use within one year of the Consolidated Statement of Financial Position date are comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total assets at year end	\$ 33,458,630	\$ 31,840,546
Less amounts not available to be used within one year due to illiquidity:		
Assets held for others	56,760	4,230
Prepaid assets and deposits	64,348	49,380
Non-current notes receivable	16,005,714	15,456,664
Investments	500	-
Property and equipment, net	<u>921,098</u>	<u>813,757</u>
	17,048,420	16,324,031
Less amounts not available to be used within one year due to:		
Contractual or donor imposed restrictions:		
Notes receivable – non recourse	6,200,000	6,200,000
Restricted cash	<u>758,410</u>	<u>757,866</u>
	<u>6,958,410</u>	<u>6,957,866</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,451,800</u>	<u>\$ 8,558,649</u>

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 2. Availability and Liquidity, Continued

As part of its liquidity plan, SCCLF has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

Note 3. Loans Receivable, Net

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

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 2,714,202	\$ 1,784,010
Receivable in one to five years	9,315,214	9,431,608
Receivable in more than five years	<u>6,690,500</u>	<u>6,025,056</u>
Total loans receivable	18,719,916	17,240,674
Less allowance for loan loss	<u>(1,560,097)</u>	<u>(1,366,500)</u>
Loans receivable, net	<u>\$ 17,159,819</u>	<u>\$ 15,874,174</u>

Loans receivable are held with interest rates ranging from 1.00% - 8.25% 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.

The table below represents outstanding loans receivable, net, by program activity as of December 31, 2019:

	<u>Affordable Housing</u>	<u>Community Business</u>	<u>Community Facilities</u>	<u>Healthy Food</u>	<u>Grand Total</u>
Beginning balance	\$ 6,321,801	\$ 3,078,702	\$ 7,643,218	\$ 1,676,195	\$ 18,719,916
Provision for loan losses	<u>(393,075)</u>	<u>(316,833)</u>	<u>(447,278)</u>	<u>(402,911)</u>	<u>(1,560,097)</u>
December 31, 2019	<u>\$ 5,928,726</u>	<u>\$ 2,761,869</u>	<u>\$ 7,195,940</u>	<u>\$ 1,273,284</u>	<u>\$ 17,159,819</u>

The table below represents outstanding loans receivable, net by program activity as of December 31, 2018:

	<u>Affordable Housing</u>	<u>Community Business</u>	<u>Community Facilities</u>	<u>Healthy Food</u>	<u>Grand Total</u>
Beginning balance	\$ 5,989,476	\$ 2,904,046	\$ 6,641,171	\$ 1,705,981	\$ 17,240,674
Provision for loan losses	<u>(372,911)</u>	<u>(235,005)</u>	<u>(359,862)</u>	<u>(398,722)</u>	<u>(1,366,500)</u>
December 31, 2018	<u>\$ 5,616,565</u>	<u>\$ 2,669,041</u>	<u>\$ 6,281,309</u>	<u>\$ 1,307,259</u>	<u>\$ 15,874,174</u>

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 3. Loans Receivable, Net, Continued

For the year December 31, 2019, one loan was 30 days past due, owing a balance of \$113,083 on a \$120,000 loan. For the year December 31, 2018, one loan was 60 days past due, owing a balance of \$115,536 on a \$120,000 loan.

Note 4. New Market Tax Credit Transactions

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 Consolidated 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.

In August 2019, SCCLF was awarded a NMTC allocation of \$20 million from the US CDFI Fund to allocate to qualified projects based on its qualification as a CDE. As part of that award, SCCLF also created 5 sub-CDE entities to which the SCCLF CDE may sub-allocate the tax credits for separate, authorized projects to make a qualified investment in a Qualified Active Low-Income Community Business (“QALICB”) in accordance with the terms of the NMTC program pursuant to 45D of the Internal Revenue Code. In 2019, the SCCLF entered into its first NMTC transaction through its sub-allocation of NMTC funds to its first sub-CDE named “SCCLF Sub-CDE I, LLC” for \$5 million. An investor made a capital contribution of \$5 million in anticipation of receiving new markets tax credits of approximately \$5.85 million. SCCLF serves as the Managing Member of the sub-CDE LLC, contributed nominal capital, and has financial interests in the NTMC entity.

At December 31, 2019, SCCLF has a 0.01% interest in the entity. The following is the unaudited, summarized condensed financial information of SCCLF’s investment in SCCLF Sub-CDE I, LLC as of and for the year ended December 31, 2019. There were no investments held at December 31, 2018.

Total assets	\$ 5,000,500
Total liabilities	-
Members’ capital	5,000,500
Total revenue	11,403
Total expenses	4,653
Net income	6,750

Under the agreement with the sub-CDE, SCCLF earns fees for its initial services including investor syndication, LLC organization, loan origination, NMTC sub-allocation, etc. SCCLF also earns continuing fees for loan servicing during the 7 year compliance period required under the program as more fully described in Note 1. During the year ended December 31, 2019, SCCLF earned \$242,153 in sub-allocation and asset management servicing fees.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5. Property and Equipment, Net

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

	<u>2019</u>	<u>2018</u>
Building	\$ 712,138	\$ 712,138
Building Improvements	72,671	45,919
HVAC	7,825	7,825
Vehicles	90,908	-
Furniture and equipment	61,522	36,417
Software	<u>61,579</u>	<u>61,579</u>
	1,006,643	863,878
Less accumulated depreciation	<u>(85,545)</u>	<u>(50,121)</u>
Property and equipment, net	<u>\$ 921,098</u>	<u>\$ 813,757</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$35,424 and \$7,683 respectively.

Note 6. 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>2019</u>	<u>2018</u>
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing March 2023; 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. Matured May 2019; unsecured.	-	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>\$ 1,200,000</u>	<u>\$ 1,250,000</u>

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 6. Other Liabilities – Program Related Investments, Continued

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

2020	\$	100,000
2021		500,000
2022		-
2023		100,000
2024		100,000
Thereafter		400,000
		<u>\$ 1,200,000</u>

Note 7. 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>2019</u>	<u>2018</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
Capital Bank, 3% interest-only payments, payable quarterly. Maturing September 2023, with an option to extend for an additional year; unsecured; subordinated.	350,000	350,000
Carolina Alliance Bank, 2% interest-only payments, payable quarterly. Maturing August 2022; unsecured; subordinated.	100,000	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. Matured October 2019; unsecured; subordinated with rolling maturity.	-	100,000
PNC Bank, 3% interest-only payments, payable quarterly. Matured December 2019, in the process of exercising the one five year extension option; unsecured; subordinated.	500,000	500,000

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 7. Other Liabilities – Equity Equivalent Investments, Continued

Small Business Lending Fund, 2% interest-only payments, payable quarterly. Interest increases to 9% in year eight. Matured September 2019; unsecured; subordinated.	-	392,000
South State Bank, 3% interest-only payments, payable quarterly. Effective as of the 10 th anniversary of the Disbursement Date, in addition to and together with the regularly scheduled interest payments for accrued but unpaid interest, Borrower shall make Twenty (20) equal quarterly principal payments of \$37,500 each to fully repay the EQ2 as of the Maturity Date. Maturing January 2033; unsecured; subordinated.	750,000	750,000
South State Bank, 3% interest-only payments, payable quarterly. Effective as of the 10 th anniversary of the Disbursement Date, in addition to and together with the regularly scheduled interest payments for accrued but unpaid interest, Borrower shall make Twenty (20) equal quarterly principal payments of \$37,500 each to fully repay the EQ2 as of the Maturity Date. Maturing January 2034; unsecured; subordinated.	750,000	-
United Community Bank, 2% interest-only payments, payable quarterly. Maturing November 2024 with an option to extend for an additional five years; unsecured; subordinated.	99,297	-
United Community Bank, 2% interest-only payments, payable quarterly. Matured November 2019; unsecured; subordinated.	-	100,000
United Community Bank, 2% interest-only payments, payable quarterly. Maturing September 2023 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.	<u>750,000</u>	<u>750,000</u>
	<u>\$ 5,149,297</u>	<u>\$ 4,792,000</u>

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 7. 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:

2020	\$ 700,000
2021	1,000,000
2022	350,000
2023	450,000
2024	399,297
Thereafter	<u>2,250,000</u>
	<u>\$ 5,149,297</u>

Note 8. Other Liabilities – Other Investments

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

	<u>2019</u>	<u>2018</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. Matured February 2019; unsecured.	-	400,000
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	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
Bank of America – USDA Guarantee, 1% interest only payments, payable quarterly. Maturing January 2025.	757,350	757,350
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. Matured March 2019; unsecured.	-	672,000

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 8. Other Liabilities – Other Investments, Continued

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. Matured May 2019; unsecured.	-	150,000
Jonathan Zucker, 2% interest only payments, payable quarterly. Maturing August 2024 with an option to extend an additional five years; unsecured	50,000	-
Synovus, 3% interest only payments, payable quarterly. Maturing July 2022; unsecured.	1,000,000	100,000
Opportunity Finance Network, 3% interest only payments, payable quarterly. Maturing December 2027; unsecured.	350,000	350,000
PNC Bank, 3% interest only payments, payable quarterly. Maturing December 2021; unsecured.	500,000	500,000
PNC Bank, 3.75% interest only payments, payable quarterly. Maturing June 2023; unsecured.	998,708	1,000,000
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 January 2022; unsecured.	350,000	350,000
TD Bank, 2% interest-only payments, payable quarterly. Maturing December 2024; unsecured;	1,000,000	1,000,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing January 2020; unsecured.	100,000	100,000
Robert Johnston, 2% interest only payments, payable quarterly. Matured February 2019; unsecured.	-	100,000
Robert Johnston, 2% interest only payments, payable quarterly. Maturing August 2024 with an option to extend an additional five years; unsecured.	400,000	-
Russ McCray, 2% interest only payments, payable quarterly. Maturing December 2020; unsecured.	22,957	22,957

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 8. Other Liabilities – Other Investments, Continued

Tom Baker, 2% interest only payments, payable quarterly. Maturing February 2021; unsecured. Note transferred from Architectural Associates in 2016.	25,000	25,000
USDA, 2.38% interest and principal payments in monthly installments on the last day of each month. Maturing December 2056; unsecured.	3,725,195	3,789,555
Woodforest National Bank, 2.75% interest only payments, payable quarterly. Maturing October 2021; unsecured.	<u>600,000</u>	<u>600,000</u>
	<u>\$ 13,195,391</u>	<u>\$ 11,233,043</u>

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

2020	\$ 622,957
2021	2,680,682
2022	1,350,000
2023	1,498,708
2024	1,450,000
Thereafter	<u>5,593,044</u>
	<u>\$ 13,195,391</u>

Note 9. Operating Leases

SCCLF rents office space in Columbia with an operating lease through December 2019. The lease was renewed to extend through November 2022.

SCCLF rents office space in Spartanburg, with an operating lease through March 2019. The lease was renewed through March 2020.

Future minimum lease payments for the year ending December 31 are as follows:

2020	\$ 31,467
2021	30,719
2022	28,932

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 10. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
Healthy Food Feeding Innovation program	\$ 600,000	\$ -
Lending-Healthy Food program	35,616	90,516
Persistent Poverty Counties	250,000	-
Specific operational expenses	<u>652,533</u>	<u>317,927</u>
	<u>\$ 1,538,149</u>	<u>\$ 408,443</u>

Note 11. Board Designated Reserves

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

	<u>2019</u>	<u>2018</u>
Operating reserve	\$ 500,000	\$ 500,000
Investor liquidity reserve	<u>1,506,344</u>	<u>2,172,000</u>
Total board designated reserves	<u>\$ 2,006,344</u>	<u>\$ 2,672,000</u>

Note 12. Related Party Transactions

As of December 31, 2019 and 2018, SCCLF had loans outstanding, investments, EQ2 investments as well as individual contributions from Board members. Related party transactions are as follows as of and for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Donations from individual board members and staff	\$ 5,176	\$ 11,227
Loans receivable from entities affiliated with board members	-	5,261
Program-related investments and EQ2s due to individuals and entities affiliated with board members	3,700,000	1,650,000

In addition, SCCLF's building renovations were performed by a company whose principal is a SCCLF board member. The amount paid for building improvements for the year ending December 31, 2019 was \$24,224.

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, 2019 and 2018, SCCLF had \$1,116,845 and \$2,795,413, respectively, held in committed funds.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 13. Commitments, Continued

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 December 31, 2019, \$3,825,000 had been drawn down from the agreement.

Note 14. Subsequent Events

In April 2019, SCCLF received an award letter for CDFI funding from the Department of Treasury in the amount of \$714,000 for funding beginning November 2019. However, funding does not become unconditional until an assistance agreement has been signed by SCCLF and approved by the Department of Treasury. As of the report date, SCCLF was waiting on approval and receipt of the signed assistance agreement and funding.

The 2019 novel coronavirus (or “COVID-19”) has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact SCCLF and its borrowers and lenders, and the U.S. economy. These conditions could adversely affect SCCLF’s business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of SCCLF’s operations, which could significantly disrupt SCCLF’s operations and the operations of SCCLF’s borrowers and lenders. The extent of the adverse impact of the COVID-19 outbreak on SCCLF cannot be predicted at this time.

In March 2020, the Mary Reynolds Babcock Foundation (the “Foundation”) amended their investments to help alleviate any negative economic impact on SCCLF from the novel coronavirus. The Foundation’s \$100,000 outstanding loan due to mature in December 2021 will be converted to a grant. The Foundation’s \$400,000 outstanding loan due to mature in December 2021 with an interest rate of 2% will be reduced to a non interest bearing loan. Additionally, the Foundation amended their 2019 grant agreement by extending the award period through 2022 and gifting an additional \$150,000, to be received in 2020.

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 consolidated financial statements of South Carolina Community Loan Fund ("SCCLF"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2020

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 consolidated 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 consolidated 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 consolidated 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 style with a large, sweeping initial 'E'.

Charleston, South Carolina
April 29, 2020

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, 2019. 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, 2019.

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
April 29, 2020

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, 2019

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 - 2018	21.020	181FA023163	\$ -	\$ 700,000
Community Development Financial Institutions Program - 2013	21.020	131FA011442	-	48,022
Community Development Financial Institutions Program - 2014	21.020	141FA012641	-	492,312
Total U. S. Department of the Treasury			-	1,240,334
Total Federal Expenditures			\$ -	\$ 1,240,334

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 - 2018	21.020	181FA023163	\$ 700,000
Community Development Financial Institutions Program - 2013	21.020	131FA011442	\$ 48,022
Community Development Financial Institutions Program - 2014	21.020	141FA012641	\$ 492,312

South Carolina Community Loan Fund

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2019

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