

South Carolina Community Loan Fund

Report on Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

South Carolina Community Loan Fund

Contents

	<u>Page</u>
Independent Auditor's Report	1-2
 Financial Statements	
Consolidated Statements of Financial Position as of December 31, 2018 and 2017	3
Consolidated Statement of Activities for the year ended December 31, 2018	4
Statement of Activities for the year ended December 31, 2017	5
Consolidated Statement of Functional Expenses for the year ended December 31, 2018	6
Statement of Functional Expenses for the year ended December 31, 2017	7
Consolidated Statement of Cash Flows for the year ended December 31, 2018 and Statement of Cash Flows for the year ended December 31, 2017	8
Notes to Consolidated Financial Statements	9 - 29
 Reporting Under <i>Government Auditing Standards</i>	
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 <i>Government Auditing Standards</i>	30-31
 Reporting Under the <i>Uniform Guidance</i>	
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the <i>Uniform Guidance</i>	32-33
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	35



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, 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. We have also audited the accompanying financial statements of South Carolina Community Loan Fund 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 years then ended, and the related notes to the 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, 2018 and 2017, 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.

Adoption of a New Accounting Standard

As discussed in Note 1, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses presentation of net asset classifications for consistency and understandability, provides information about liquidity and availability of resources, and allows consistency in information provided about expenses and investment return. The SCCLF adopted ASU 2016-14 during the year ended December 31, 2018, and it was applied retrospectively. The adoption of this standard did not have any impact on South Carolina Community Loan Fund's net assets or changes in net assets. Our opinion is not modified with respect to this matter.

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 22, 2019, 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 22, 2019

South Carolina Community Loan Fund

Consolidated Statements of Financial Position

As of December 31, 2018 and 2017

	Consolidated	
	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 8,108,199	\$ 6,974,972
Restricted cash	757,866	-
Accounts and grants receivable	-	7,291
Other current assets	76,667	44,382
Interest receivable	9,883	-
Loans receivable	1,784,010	2,515,513
Total current assets	<u>10,736,625</u>	<u>9,542,158</u>
Other assets		
Property and equipment, net	813,757	33,171
Loans receivable, net of allowance for loan loss and current portion	14,090,164	10,434,590
Note receivable - non-recourse	6,200,000	6,200,000
Total other assets	<u>21,103,921</u>	<u>16,667,761</u>
Total assets	<u>\$ 31,840,546</u>	<u>\$ 26,209,919</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 21,038	\$ 18,722
Accrued expenses	46,280	43,973
Assets held for others	4,230	23,602
Other liabilities - program related investments	50,000	100,000
Other liabilities - equity equivalent investments	700,000	100,000
Other liabilities - other investments	1,422,000	800,000
Total current liabilities	<u>2,243,548</u>	<u>1,086,297</u>
Other liabilities		
Other liabilities - program related investments, net of current portion	1,200,000	1,250,000
Other liabilities - equity equivalent investments, net of current portion	6,192,000	4,692,000
Other liabilities - other investments, net of current portion	9,811,043	6,923,638
Note payable - non-recourse	6,200,000	6,200,000
Total other liabilities	<u>23,403,043</u>	<u>19,065,638</u>
Total liabilities	<u>25,646,591</u>	<u>20,151,935</u>
Net assets		
Without donor restrictions		
Undesignated	3,113,512	2,541,426
Board designated	2,672,000	2,734,612
With donor restrictions	408,443	781,946
Total net assets	<u>6,193,955</u>	<u>6,057,984</u>
Total liabilities and net assets	<u>\$ 31,840,546</u>	<u>\$ 26,209,919</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			
Foundation grants	\$ 1,382,500	\$ 230,000	\$ 1,612,500
Individual and community contributions	7,949	-	7,949
Sponsorship revenue	75,840	-	75,840
Financial institution contributions	10,500	-	10,500
Total public support	<u>1,476,789</u>	<u>230,000</u>	<u>1,706,789</u>
Revenue			
Loan program interest	885,625	-	885,625
Loan program origination fees	146,597	-	146,597
Loan program application fees	5,940	-	5,940
Loan program cap rate, service, and late fees	11,331	-	11,331
Program service revenue	46,075	-	46,075
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

Statement of Activities

For the year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue			
<i>Public support</i>			
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>
<i>Revenue</i>			
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>
<i>Expenses</i>			
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
<i>Net assets, beginning of year</i>	<u>5,030,663</u>	<u>771,510</u>	<u>5,802,173</u>
<i>Net assets, end of year</i>	<u>\$ 5,276,038</u>	<u>\$ 781,946</u>	<u>\$ 6,057,984</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	604,187	188,874	192,402	985,463
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	1,537,600	350,125	231,705	2,119,430
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

Statement of Functional Expenses

For the year ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
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	<u>376,111</u>	<u>253,488</u>	<u>75,080</u>	<u>704,679</u>
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	<u>1,076,380</u>	<u>372,103</u>	<u>87,843</u>	<u>1,536,326</u>
Provision for loan loss (Note 3)	189,649	-	-	189,649
Loan subsidy (Note 1)	15,650	-	-	15,650
Depreciation	2,850	950	-	3,800
Total expenses	<u>\$ 1,284,529</u>	<u>\$ 373,053</u>	<u>\$ 87,843</u>	<u>\$ 1,745,425</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, 2018 and 2017

	Consolidated 2018	2017
Operating activities		
Change in net assets	\$ 135,971	\$ 255,811
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	7,683	3,800
Provision for loan loss	518,453	189,649
Changes in:		
Accounts and grants receivable	7,291	242,709
Interest receivable	(9,883)	-
Other current assets	(32,285)	(22,211)
Accounts payable and accrued expenses	4,623	32,134
Deferred revenue	-	(32,500)
Assets held for others	(19,372)	(23,115)
Net cash provided by operating activities	<u>612,481</u>	<u>646,277</u>
Investing activities		
Community development loans made	(7,916,558)	(5,378,614)
Net proceeds from repayment of loans receivable	4,474,034	2,396,397
Payments for property and equipment	(788,269)	(27,183)
Net cash used for investing activities	<u>(4,230,793)</u>	<u>(3,009,400)</u>
Financing activities		
Proceeds from equity equivalent investments	2,200,000	1,100,000
Payments on equity equivalent investments	(100,000)	-
Proceeds from program related investments	100,000	150,000
Payments on program related investments	(200,000)	(250,000)
Proceeds from other investments	4,896,905	573,105
Payments on other investments	(1,387,500)	(50,000)
Net cash provided by financing activities	<u>5,509,405</u>	<u>1,523,105</u>
Net increase (decrease) in cash and cash equivalents	1,891,093	(840,018)
Cash and cash equivalents, beginning of year	<u>6,974,972</u>	<u>7,814,990</u>
Cash and cash equivalents, end of year	<u>\$ 8,866,065</u>	<u>\$ 6,974,972</u>
Cash and cash equivalents	\$ 8,108,199	\$ -
Restricted cash	757,866	-
Ending cash balance	<u>\$ 8,866,065</u>	<u>\$ -</u>
Supplemental disclosures		
Cash paid for interest	<u>\$ 475,272</u>	<u>\$ 361,154</u>

See Notes to Consolidated Financial Statements

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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. 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.

Principles of consolidation:

South Carolina Community Loan Fund’s 2018 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.

The 2017 financial statements do not include any consolidated entities.

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, 2018 and 2017

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, 2018 and 2017

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.

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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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 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, 2018 and 2017

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 (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 6.

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 8.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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.

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.

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 \$757,866 which is used as a guarantee for the USDA Community Facilities loan. The guarantee is funded through a Bank of America 1% interest loan.

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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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

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, as management believed all outstanding amounts were collectible. There were no accounts or grants receivable as of December 31, 2018.

Loans receivable:

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

It is the policy of 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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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

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 4.

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.

Revenue recognition:

Contributions received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from 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.

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

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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
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, 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, 2018 and 2017

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	Time and effort
Travel	Time and effort
Communication and utilities	Time and effort
Rent	Time and effort
Conferences and meetings	Time and effort
Advertising	Time and effort
Professional development	Time and effort
Printing and postage	Time and effort
Insurance	Time and effort
Office expenses	Time and effort
Dues and subscriptions	Time and effort
Miscellaneous	Time and effort

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 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. For the year ended December 31, 2017 a cash balance was maintained for the reserve. The cash balance was no longer required as of December 31, 2018.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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

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.

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, 2018 or 2017.

New accounting pronouncements:

The Financial Accounting Standards Board ("FASB"), on August 18, 2016, published ASU ("Accounting Standards Update") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources. SCCLF has adopted this standard for the year ended December 31, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, the FASB issued guidance 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. The guidance in ASU 2014-09 will be effective for SCCLF for reporting periods beginning after December 15, 2018. SCCLF is currently evaluating the impact of this new guidance on its consolidated financial statements.

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. SCCLF is currently in the process of evaluating the impact of adoption of this guidance on the consolidated financial statements.

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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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

Subsequent events:

In preparing these consolidated financial statements, SCCLF evaluated events and transactions for potential recognition or disclosure through April 22, 2019, 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 of December 31, 2018, are comprised of the following at December 31, 2018:

Financial assets at year end	\$ 31,840,545
Less amounts not available to be used within one year due to illiquidity:	
Assets held for others	4,230
Prepaid assets	49,380
Non-current notes receivable	15,456,664
Property and equipment, net	<u>813,757</u>
	<u>16,324,031</u>
Less amounts not available to be used within one year due to:	
Contractual or donor imposed restrictions:	
Note receivable – non recourse	6,200,000
Restricted cash	<u>757,866</u>
	<u>6,957,866</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,558,648</u>

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.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 3. Loans Receivable, Net

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

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 1,784,010	\$ 2,515,513
Receivable in one to five years	<u>15,456,664</u>	<u>11,282,638</u>
Total loans receivable	17,240,674	13,798,151
Less allowance for loan loss	<u>(1,366,500)</u>	<u>(848,048)</u>
Loans receivable, net	<u>\$ 15,874,174</u>	<u>\$ 12,950,103</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. See Note 12.

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	(372,911)	(235,005)	(359,862)	(398,722)	(1,366,500)
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
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>

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

	<u>Affordable Housing</u>	<u>Community Business</u>	<u>Community Facilities</u>	<u>Healthy Food</u>	<u>Grand Total</u>
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>

There were no past due payments on outstanding loans receivables as of December 31, 2017. For the year December 31, 2018, one loan was 60 days past due, owing a balance of \$2,013 on a \$115,536 loan.

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4. 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 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.

Note 5. Property and Equipment, Net

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

	<u>2018</u>	<u>2017</u>
Building	\$ 712,138	\$ -
Building Improvements	45,919	-
HVAC	7,825	-
Furniture and equipment	36,417	14,031
Software	<u>61,579</u>	<u>61,579</u>
	863,878	75,610
Less accumulated depreciation	<u>(50,121)</u>	<u>(42,439)</u>
Property and equipment, net	<u>\$ 813,757</u>	<u>\$ 33,171</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$7,683 and \$3,800, 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>2018</u>	<u>2017</u>
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Matured March 2018; unsecured.	\$ -	\$ 100,000
Frances P. Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing March 2023; unsecured.	100,000	-
James O. and Harriet P. Rigney Endowment of Coastal Community Foundation, 2% interest only payments, payable quarterly. Matured December 2018; unsecured.	-	100,000

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 6. Other Liabilities – Program Related Investments, Continued

	<u>2018</u>	<u>2017</u>
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>\$ 1,250,000</u>	<u>\$ 1,350,000</u>

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

2019	\$ 50,000
2020	100,000
2021	500,000
2022	-
2023	100,000
Thereafter	<u>500,000</u>
	<u>\$ 1,250,000</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>2018</u>	<u>2017</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.	350,000	-

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 7. Other Liabilities – Equity Equivalent Investments, Continued

	<u>2018</u>	<u>2017</u>
Carolina Alliance Bank, 2% interest-only payments, payable quarterly. Maturing August 2022.	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. 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
PNC Bank, 3.75% interest only payments, payable quarterly. Maturing June 2023; unsecured.	1,000,000	-
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
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 \$37,500.00 each to fully repay the EQ2 as of the Maturity Date. Maturing January 2033; unsecured; subordinated.	750,000	-
TD Bank, 2% interest-only payments, payable quarterly. Maturing December 2020; unsecured; subordinated.	1,000,000	1,000,000
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 September 2023 with an option to extend for an additional five years; unsecured; subordinated.	100,000	-

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 7. Other Liabilities – Equity Equivalent Investments, Continued

	<u>2018</u>	<u>2017</u>
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
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>\$ 6,892,000</u>	<u>\$ 4,792,000</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:

2019	\$ 700,000
2020	1,200,000
2021	1,392,000
2022	350,000
2023	1,450,000
Thereafter	<u>1,800,000</u>
	<u>\$ 6,892,000</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>2018</u>	<u>2017</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

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 8. Other Liabilities – Other Investments, Continued

	<u>2018</u>	<u>2017</u>
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	-
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 May 2019; unsecured.	150,000	150,000
NBSC, 3% interest only payments, payable quarterly. Maturing December 2019; unsecured.	100,000	100,000
Opportunity Finance Network, 3% interest only payments, payable quarterly. Maturing December 2027; unsecured.	350,000	-
PNC Bank, 3% interest only payments, payable quarterly. Maturing June 2018; unsecured.	-	500,000
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 December 2021; unsecured.	350,000	350,000

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 8. Other Liabilities – Other Investments, Continued

	<u>2018</u>	<u>2017</u>
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. Matured November 2018; unsecured.	-	50,000
Robert Johnston, 2% interest only payments, payable quarterly. Matured July 2018; 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
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
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 May 2058; unsecured.	3,789,555	-
USDA, 1% interest only payments for the first three years followed by quarterly principal payments. Maturing June 2044; unsecured.	-	37,500
Woodforest National Bank, 2.75% interest only payments, payable quarterly. Maturing October 2021; unsecured.	600,000	600,000
	<u>\$ 11,233,043</u>	<u>\$ 7,723,638</u>

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 8. Other Liabilities – Other Investments, Continued

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

2019	\$ 1,422,000
2020	622,957
2021	2,680,681
2022	350,000
2023	500,000
Thereafter	<u>5,657,405</u>
	<u>\$ 11,233,043</u>

Note 9. Concentrations

SCCLF received 59% of its revenue for the year ended December 31, 2018 from an individual foundation grant. This revenue is utilized to provide community development loans to qualified affordable housing, healthy food retail, community facility, and community business projects.

Note 10. Operating Leases

SCCLF obtained an operating lease for their current office facilities which expired 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.

SCCLF rents office space in Columbia, with monthly operating lease payments are \$1,754. The lease ends December 31, 2019.

SCCLF rents office space in Orangeburg, with monthly operating lease payments of \$650. The lease ends March 2019.

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

2019	\$ 22,998
------	-----------

Note 11. Net Assets With Donor Restrictions

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

	<u>2018</u>	<u>2017</u>
Healthy Food Feeding Innovation program	\$ -	\$ 17,240
Lending-Healthy food program restriction	90,516	114,290
Diverse Community Capital program	87,927	150,000
Specific operational expenses	<u>230,000</u>	<u>500,416</u>
	<u>\$ 408,443</u>	<u>\$ 781,946</u>

South Carolina Community Loan Fund

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 12. Board Designated Reserves

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

	<u>2018</u>	<u>2017</u>
Operating reserve	\$ 500,000	\$ 500,000
Investor liquidity reserve	2,172,000	1,386,564
Loan loss reserve	-	848,048
Total board designated reserves	<u>\$ 2,672,000</u>	<u>\$ 2,734,612</u>

Note 13. Related Party Transactions

As of December 31, 2018 and 2017, 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>2018</u>	<u>2017</u>
Donations from individual board members	\$ 11,227	\$ 10,181
Loans receivable from entities affiliated with board members	5,261	1,021,267
Program-related investments and EQ2s due to individuals and entities affiliated with board members	1,650,000	3,150,000

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, 2018 was \$39,070.

Note 14. 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, 2018 and 2017, SCCLF had \$2,795,413 and \$5,147,669, 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 December 31, 2018, \$3,825,000 had been drawn down from the agreement.

Note 15. Subsequent Events

In February 2019, SCCLF received an award letter for CDFI funding from the Department of Treasury in the amount of \$950,000 for funding beginning September 2018. 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.

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, 2018, 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 22, 2019.

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.

Elliott Davis, LLC

Charleston, South Carolina
April 22, 2019

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, 2018. 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, 2018.

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 22, 2019

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, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Award or Pass-through Number	Passed through to Subrecipients	Federal Expenditures
United States Department of Agriculture				
Direct				
USDA Community Facilities Loan	10.766		\$ -	\$ 3,825,000
Total U. S. Department of Agriculture			<u>\$ -</u>	<u>\$ 3,825,000</u>
U. S. Department of Treasury				
Direct				
Community Development Financial Institutions Program - 2013	21.020	131FA011442	\$ -	\$ 63,403
Community Development Financial Institutions Program - 2014	21.020	141FA012641	-	637,212
Total U. S. Department of the Treasury			<u>-</u>	<u>700,615</u>
Total Federal Expenditures			<u>\$ -</u>	<u>\$ 4,525,615</u>

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	\$ 63,403
Community Development Financial Institutions Program - 2014	21.020	141FA012641	\$ 637,212

South Carolina Community Loan Fund**Schedule of Findings and Questioned Costs****For the Year Ended December 31, 2018**

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
---	------------

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

Identification of major programs:

CFDA Number Name of Federal Program or Cluster

10.766	USDA Community Facilities Loan
--------	--------------------------------

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

Auditee qualified as low-risk auditee?	Yes
--	-----

Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Year Findings

None