

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

Carolina Small Business Development Fund

Years Ended June 30, 2024 and 2023

Audited Financial Statements, Supplementary Information, and Compliance Reports

Carolina Small Business Development Fund

Years Ended June 30, 2024 and 2023

Audited Financial Statements

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Carolina Small Business Development Fund as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Carolina Small Business Development Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Carolina Small Business Development Fund's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Independent Auditor's Report--Continued

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Carolina Small Business Development Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Carolina Small Business Development Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2024, on our consideration of Carolina Small Business Development Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Carolina Small Business Development Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carolina Small Business Development Fund's internal control over financial reporting and compliance.

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

Statements of Financial Position

Carolina Small Business Development Fund

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS:		
Operating funds	\$ 8,549,767	\$ 5,260,253
Committed loan support funds - small business lending	<u>6,148,999</u>	<u>9,190,529</u>
Total cash, cash equivalents, and restricted cash equivalents	14,698,766	14,450,782
OTHER COMMITTED SUPPORT FUNDS:		
SEDA - for CDCU lending	118,636	118,636
Mortgage loans - GCCU	<u>113,607</u>	<u>118,419</u>
	232,243	237,055
Less: Reserve on at-risk deposits/mortgage loans	<u>(28,506)</u>	<u>(37,869)</u>
Total other committed support funds	203,737	199,186
LOANS RECEIVABLE:		
Loans - small business lending	20,927,079	17,974,188
Less: Allowance for credit losses	<u>(1,888,728)</u>	<u>(1,500,000)</u>
Total loans receivable	19,038,351	16,474,188
OTHER RECEIVABLES:		
Grants receivable	149,718	550,829
NMTC Leverage Loan	1,762,330	1,762,330
Other	<u>30,467</u>	<u>123,060</u>
Total other receivables	1,942,515	2,436,219
PREPAID EXPENSES		
	65,533	72,518
FIXED ASSETS:		
Leasehold improvements	3,508	3,508
Equipment and computers	219,973	211,176
Furniture and fixtures	<u>81,859</u>	<u>81,859</u>
	305,340	296,543
Less: Allowance for depreciation	<u>(296,543)</u>	<u>(296,543)</u>
Total fixed assets	8,797	-
Right-of-Use Assets, net:		
Operating leases	<u>595,191</u>	<u>739,887</u>
TOTAL ASSETS	\$ <u>36,552,890</u>	\$ <u>34,372,780</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 111,005	\$ 98,761
Accrued interest	48,230	43,655
Accrued vacation	165,603	125,367
Deferred support	393,812	211,317
Deferred revenue	-	15,000
Funds held in agency (not yet placed/disbursed):		
Durham Small Business Recovery Fund	137,202	451,825
Emergency Stabilization Loan Fund (Mecklenburg County)	145,306	133,544
Mecklenburg County Small Business Loan Program	957,397	182,393
NC Rapid Recovery Loan Program (Rural Center)	<u>31,030</u>	<u>14,375</u>
Total funds held in agency	1,270,935	782,137
Operating lease liabilities	613,540	751,351
Notes payable	12,263,770	12,213,913
Other liabilities	<u>5,021,563</u>	<u>4,521,563</u>
TOTAL LIABILITIES	19,888,458	18,763,064
NET ASSETS		
Without donor restrictions	15,289,601	14,252,088
With donor restrictions	<u>1,374,831</u>	<u>1,357,628</u>
TOTAL NET ASSETS	<u>16,664,432</u>	<u>15,609,716</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>36,552,890</u>	\$ <u>34,372,780</u>

See independent auditor's report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 3,505,000	\$ 2,173,088	\$ 5,678,088
Program sponsorship	47,500		47,500
Contributions	29,458		29,458
Special events revenue:			
Ticket sales	3,984		3,984
In-kind donations	7,673		7,673
Other	67,063		67,063
Contract administrative fees	306,556		306,556
Dividend income	150,502	1,171	151,673
Mortgage interest	16,880		16,880
Loan closing/servicing revenue	116,442	1,222	117,664
Repayment of bad debt	107,114		107,114
Business loan interest	1,349,703	84,223	1,433,926
Origination fees	67,306	10,000	77,306
Other income	176		176
Net assets released from restrictions due to satisfaction of purpose and/or time restrictions	2,252,501	(2,252,501)	-
TOTAL SUPPORT, REVENUES, AND OTHER INCOME	8,027,858	17,203	8,045,061
EXPENSES:			
Program services	5,571,807		5,571,807
Support services:			
Management and general	1,367,466		1,367,466
Fundraising	51,072		51,072
Total support services	1,418,538	-	1,418,538
TOTAL EXPENSES	6,990,345	-	6,990,345
CHANGE IN NET ASSETS	1,037,513	17,203	1,054,716
Net assets, beginning of year	14,252,088	1,357,628	15,609,716
NET ASSETS, END OF YEAR	\$ 15,289,601	\$ 1,374,831	\$ 16,664,432

See independent auditor's report and notes to financial statements.

Statement of Activities

Carolina Small Business Development Fund

Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER INCOME:			
Grant income	\$ 35,500	\$ 6,794,584	\$ 6,830,084
COVID-19 financial assistance		809,394	809,394
Program sponsorship	65,500		65,500
Contributions	20,986		20,986
Special events revenue:			
In-kind donations	17,430		17,430
Other	107,872		107,872
Contract administrative fees	1,003,189		1,003,189
Dividend income	70,687	1,687	72,374
Mortgage interest	10,716		10,716
Loan closing/servicing revenue	132,278	1,571	133,849
Repayment of bad debt	216,804		216,804
Business loan interest	1,160,016	50,913	1,210,929
Origination fees	89,237	3,200	92,437
Other income	252		252
Net assets released from restrictions due to satisfaction of purpose and/or time restrictions	<u>8,645,023</u>	<u>(8,645,023)</u>	<u>-</u>
TOTAL SUPPORT, REVENUES, AND OTHER INCOME	11,575,490	(983,674)	10,591,816
EXPENSES:			
Program services	7,818,608		7,818,608
Support services:			
Management and general	1,517,770		1,517,770
Fundraising	107,489		107,489
Total support services	<u>1,625,259</u>	<u>-</u>	<u>1,625,259</u>
TOTAL EXPENSES	<u>9,443,867</u>	<u>-</u>	<u>9,443,867</u>
CHANGE IN NET ASSETS	2,131,623	(983,674)	1,147,949
Net assets, beginning of year	<u>12,120,465</u>	<u>2,341,302</u>	<u>14,461,767</u>
NET ASSETS, END OF YEAR	<u>\$ 14,252,088</u>	<u>\$ 1,357,628</u>	<u>\$ 15,609,716</u>

See independent auditor's report and notes to financial statements.

Statement of Functional Expenses

CAROLINA SMALL BUSINESS DEVELOPMENT FUND

Year Ended June 30, 2024

	Program Services	Support Services	Total
PERSONNEL:			
Salaries	\$ 2,215,513	\$ 792,664	\$ 3,008,177
Employee benefits	291,533	104,304	395,837
Payroll taxes	180,011	64,404	244,415
Total personnel	<u>2,687,057</u>	<u>961,372</u>	<u>3,648,429</u>
OTHER EXPENSES:			
Interest expense	376,512		376,512
Marketing and newsletter	35,595	8,899	44,494
Bank fees	18,015		18,015
Telephone	26,426	7,453	33,879
Professional fees	96,884	27,326	124,210
Contract services	493,918	139,310	633,228
Subscriptions, sponsorships and dues	76,489	21,574	98,063
Staff travel	76,865	21,680	98,545
Seminars, conferences, and workshops	8,160	1,440	9,600
Board meeting expenses	5,262	2,476	7,738
Office supplies and expenses	51,932	13,805	65,737
Software	128,554	26,330	154,884
Office occupancy	159,611	45,019	204,630
Insurance and bonding	37,844	10,674	48,518
Postage	2,001	564	2,565
Board development	17,150	4,837	21,987
Provision for credit losses	927,764		927,764
Loan servicing fees	36,019	10,159	46,178
Legal expenses	184,653	52,082	236,735
Staff development	44,198	12,466	56,664
Special events (including in-kinds)		51,072	51,072
Grant repayment	55,990		55,990
Grants	24,908		24,908
Total other expenses	<u>2,884,750</u>	<u>457,166</u>	<u>3,341,916</u>
Total operating expenses before depreciation	5,571,807	1,418,538	6,990,345
Depreciation			-
TOTAL EXPENSES	<u><u>\$ 5,571,807</u></u>	<u><u>\$ 1,418,538</u></u>	<u><u>\$ 6,990,345</u></u>

See independent auditor's report and notes to financial statements.

Statement of Functional Expenses

Carolina Small Business Development Fund

Year Ended June 30, 2023

	Program Services	Support Services	Total
PERSONNEL:			
Salaries	\$ 1,976,044	\$ 900,643	\$ 2,876,687
Employee benefits	279,653	127,460	407,113
Payroll taxes	161,020	73,390	234,410
Total personnel	<u>2,416,717</u>	<u>1,101,493</u>	<u>3,518,210</u>
OTHER EXPENSES:			
Interest expense	462,876		462,876
Marketing and newsletter	50,066	12,517	62,583
Bank fees	10,519		10,519
Telephone	26,440	7,457	33,897
Professional fees	88,009	24,823	112,832
Contract services	611,381	172,441	783,822
Subscriptions, sponsorships and dues	43,187	12,181	55,368
Staff travel	116,194	32,773	148,967
Seminars, conferences, and workshops	7,075	1,248	8,323
Board meeting expenses	4,088	1,924	6,012
Office supplies and expenses	67,851	18,036	85,887
Printing and copying	8,245	2,326	10,571
Software	128,678	26,356	155,034
Office occupancy	157,238	44,349	201,587
Insurance and bonding	43,908	12,384	56,292
Postage	2,841	800	3,641
Provision for losses on loans	727,722		727,722
Decrease in CDBG loans receivable:			
Forgiven, based on program guidelines	100,000		100,000
Deemed uncollectible, not eligible for forgiveness	300,000		300,000
Loan servicing fees	35,344	9,969	45,313
Legal expenses	102,366	28,872	131,238
Staff development	25,933	7,314	33,247
Special events (including in-kinds)		107,489	107,489
Grant repayment	25,489		25,489
Capacity grants	65,000		65,000
Small business grants	2,189,645		2,189,645
Total other expenses	<u>5,400,095</u>	<u>523,259</u>	<u>5,923,354</u>
Total operating expenses before depreciation	7,816,812	1,624,752	9,441,564
Depreciation	<u>1,796</u>	<u>507</u>	<u>2,303</u>
TOTAL EXPENSES	<u>\$ 7,818,608</u>	<u>\$ 1,625,259</u>	<u>\$ 9,443,867</u>

See independent auditor's report and notes to financial statements.

Statements of Cash Flows

Carolina Small Business Development Fund

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,054,716	\$ 1,147,949
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	-	2,303
Provision for credit losses	927,764	727,722
Forgiveness/write-off of CDBG loans receivable	-	400,000
Interest expense added to note principal	-	21,435
Changes in operating assets and liabilities:		
Grants receivable	401,111	1,540,320
Other receivables	92,593	(85,880)
Prepaid expenses	6,985	14,812
Operating lease right-of-use assets	144,696	140,859
Accounts payable and accrued expenses	57,055	81,856
Deferred support	169,994	(26,879)
Deferred revenue	(2,500)	(123,850)
Funds held in agency	488,798	(8,476,907)
Operating lease liabilities	<u>(137,811)</u>	<u>(129,395)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,203,401	(4,765,655)
INVESTING ACTIVITIES		
Decrease in other committed support funds	4,812	24,903
Small business loans funded	(5,972,433)	(5,310,020)
Principal payments received on small business loans	2,471,143	3,299,538
Payment received on NMTC Leverage Loan	-	372,670
Purchases of fixed assets	<u>(8,797)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	(3,505,275)	(1,612,909)
FINANCING ACTIVITIES		
Proceeds from borrowings	750,000	750,000
Principal payments on borrowings	<u>(200,142)</u>	<u>(2,568,475)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	549,858	(1,818,475)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS		
	247,984	(8,197,039)
Cash, cash equivalents, and restricted cash equivalents, beginning of year	<u>14,450,782</u>	<u>22,647,821</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, END OF YEAR		
	<u>\$ 14,698,766</u>	<u>\$ 14,450,782</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 371,936	\$ 431,622
NONCASH INVESTING AND FINANCING ACTIVITIES		
Charge-offs against loan loss reserves:		
Uncollectible loans	\$ 539,036	\$ 533,169
Increase in operating lease right-of-use assets and liabilities	-	880,746

See independent auditor's report and notes to financial statements.

Notes to Financial Statements

Carolina Small Business Development Fund

Years Ended June 30, 2024 and 2023

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization: Founded in 1990, Carolina Small Business Development Fund (the Organization/Carolina Small Business) is a statewide nonprofit and U.S. Treasury-certified Community Development Financial Institution (CDFI) that fosters economic development in underserved communities by providing access to capital, technical assistance, and policy research to light the way for small businesses. Carolina Small Business is also a Community Advantage Small Business Lending Company (CA SBLC), licensed by the U.S. Small Business Administration. An SBLC license allows the Organization to utilize government guarantees when underwriting small business loans to reduce the level of risk to the lender and cost to the borrower.

Since launching its Small Business Revolving Loan Fund Program in 2010, the Organization has contributed more than \$117 million through more than 1,270 loans and 1,790 grants to dedicated small businesses across North Carolina, helping to create or retain more than 5,150 full-time jobs.

Carolina Small Business is the sole member of Carolina Capital Impact, Inc., a 501(c)3 nonprofit entity formed in March 2017. The subsidiary has no holdings and no activity to date.

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

Change in Accounting Principle: Carolina Small Business adopted FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326), as amended, on its effective date of July 1, 2023, using the modified retrospective transition approach. The most significant change in this standard is a shift from the incurred loss model to the expected loss model (referred to as CECL, *Current Expected Credit Loss*). CECL requires the recognition of estimated credit losses over the life of a financial instrument, incorporating historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including some off-balance-sheet credit exposures such as unfunded commitments to extend credit.

Carolina Small Business adopted ASC 326, as amended, for all financial assets measured at amortized cost (loans receivable) as of July 1, 2023. The estimated allowance for credit losses on loans receivable as of July 1, 2023 approximated the allowance for loan loss reserves recognized previously as of June 30, 2023. Management identified no off-balance-sheet credit exposures subject to CECL as of July 1, 2023. Therefore, the adoption of CECL resulted in no adjustment to net assets as of July 1, 2023. Results for fiscal 2024 are presented in accordance with ASC 326, while amounts for fiscal 2023 continue to be presented in accordance with previously applicable GAAP. Refer also to *Allowance for Credit Losses* that follows in Note A herein.

Display of Net Assets by Class: The Organization’s net assets have been grouped into the following classes:

Net Assets Without Donor Restrictions: These net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization’s net assets without donor restrictions include Board-designated net assets as detailed below. Board-designated net assets are not available to cover operating expenses, including budget shortfalls, unless specifically approved by the Board. Net assets without donor restrictions consist of the following at June 30:

	<u>2024</u>	<u>2023</u>
Operating reserves	\$ 7,001,729	\$ 6,921,436
Board-designated:		
Small business lending	8,287,872	7,330,652
Property and equipment, net	<u>-</u>	<u>-</u>
Total net assets without donor restrictions	<u>\$ 15,289,601</u>	<u>\$ 14,252,088</u>

Carolina Small Business Development Fund

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

The only other limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its formation documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions: These net assets are subject to restrictions imposed by donors and grantors. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that require resources to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions. At June 30, 2024 and 2023, the Organization has no net assets with donor restrictions that require resources to be maintained in perpetuity. Refer also to *Note F--Net Assets With Donor Restrictions / Conditional Awards*.

Recognition of Support: The Organization evaluates contributions, grants, and contracts to determine whether the transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred, or (2) a contribution. If determined to be an exchange transaction, revenue is recognized in accordance with ASC Topic 606. If the transfer of assets is determined to be a contribution, the Organization evaluates whether the contribution is conditional based on whether the agreement includes both (1) one or more barriers that must be overcome and (2) either a right of return of assets transferred or a right of release from the donor's obligation to transfer assets. Grants and contributions requiring a match are considered conditional until the match is satisfied, wholly or in part, as defined by agreement. Cost-reimbursement grants are considered conditional until qualifying expenditures are incurred. Support from loan assistance programs is generally recognized upon closing of the funded loans or upon incurrence of other qualifying expenditures. Event sponsorships are considered conditional until the event is held. Amounts received in advance of conditions being met are included in deferred support in the statement of financial position.

Support from unconditional grants and contributions is recognized as an increase in either net assets without donor restrictions or net assets with donor restrictions, based on the absence or presence of any donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Goods and Services: In-kind contributions of goods or facilities are recorded at their estimated fair value on the date of donation. Donated services are recognized as both a revenue and an expense in accordance with ASC 958-605 if the services (a) create nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated services are valued at the estimated fair value of such services or what the Organization would have had to pay for the donated services if such services had been purchased. Donated goods, use of facilities, and services having a fair value of \$257, \$4,171, and \$3,245, respectively, were recognized in connection with special events in fiscal 2024. Donated goods, use of facilities, and services having a fair value of \$3,980, \$2,500, and \$10,950, respectively, were recognized in connection with special events in fiscal 2023.

Recognition of Revenues: Revenues are derived primarily from the Organization's small business lending program and from contracts to administer grant and loan programs on behalf of others. Revenues are recognized when performance obligations in an exchange transaction are satisfied. Revenue from service contracts is recognized as services are provided in an amount that reflects the consideration the Organization expects to be entitled to receive in exchange for those services. Amounts collected in advance are included in deferred revenue. Refer also to *Note J--Administration of Loan and Grant Programs / Funds Held in Agency*.

Carolina Small Business Development Fund

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

Cash, Cash Equivalents, and Restricted Cash Equivalents: *Operating funds* consist of amounts held in various bank (credit union) checking and money market (savings/master share) accounts, as well as certificates of deposit (share term certificates) with minimal penalties for early withdrawal. Operating funds include \$877,310 and \$501,113, held in money market accounts at June 30, 2024 and 2023, respectively. Restricted cash equivalents at June 30, 2024 and 2023 consist of \$300,000 held in a bank certificate of deposit that collateralizes certain bank debt.

Committed loan support funds are available for small business lending and may be subject to certain restrictions of the donor or creditor agency. These funds are held on deposit with various banks, including \$2,884,763 and \$1,203,454 held in money market accounts at June 30, 2024 and 2023, respectively.

Refer also to *Note C--Significant Concentrations* and *Note I--Fair Value Measurements*.

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

Loans Receivable: Carolina Small Business originates, processes, and underwrites loan applications and funds, and holds and services small business loans in portfolio. Terms and rates of loans vary depending upon the borrower's capital requirements and management's assessment of risk. Loans are placed on non-accrual status if 90 days past due and not in the process of collection. Loans are secured by the borrower; however, the realizable value of the borrower's collateral is generally dependent upon the operating results of the borrower's small business. Loans may also be secured under guaranteed loan programs and may be sold in the secondary market. Refer also to *Note D--Loans Receivable / Allowance for Credit Losses*.

Allowance for Credit Losses: Carolina Small Business provides an allowance for credit losses sufficient to cover expected credit losses over the life of the loans. Funded loan loss reserves are also maintained in compliance with specific funding or program guidelines.

As discussed previously in Note A herein, the Organization adopted the expected credit loss model (referred to as CECL, *Current Expected Credit Loss*) as of July 1, 2023, which is the effective date of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). The methodology used for the implementation of CECL is summarized as follows:

Carolina Small Business chose to use the Weighted Average Remaining Maturity (WARM) methodology to estimate expected credit losses for its small business loans receivable. WARM is a loss-rate approach that applies an average loss rate to future expected outstanding balances over the life of each loan pool.

CSBDF segmented its loan portfolio into the following five distinct pools based on shared risk characteristics:

- Startup Business Loans Guaranteed by SBA (U.S. Small Business Administration).
- Startup Business Loans without an SBA Guarantee.
- Loans to Existing Businesses Guaranteed by SBA.
- Loans to Existing Businesses without an SBA Guarantee.
- Impaired Loans.

Carolina Small Business Development Fund

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

The WARM methodology incorporates the following key factors that were used across the five distinct loan pools:

Historical Average Annual Loss Rate: Calculated as 3.53%, using charge-off data for the 10-year period ended June 30, 2023.

Historical Average Annual Prepayment Rate: Calculated at 6.48%, using data for principal reductions above the amortization schedule and/or early loan payoff rates for the 10-year period ended June 30, 2023.

Qualitative Adjustments: Reflective of current and forecasted economic conditions specific to the North Carolina small business environment. These adjustments incorporate regional economic indicators, such as GDP growth and employment statistics, as predictive elements to refine loss estimates.

Qualitative Adjustments by Loan Pool: Various economic factors specific to North Carolina, including gross domestic product (GDP) and employment data, were incorporated to adjust credit loss estimates as follows:

- Loan Pools 1-4: A qualitative adjustment of -0.65% was applied due to the positive indicators present in North Carolina's small business economy.
- Loan Pool 5 (Impaired Loans): A qualitative adjustment of +10.17% was applied, reflecting the elevated risk associated with impaired loans.

The CECL model emphasizes management's ability to make reasonable judgments based on available information. Carolina Small Business used regional economic metrics and trends, combined with historical loss and prepayment data, to enhance the predictive value of its estimates. These estimates are subject to regular review and are adjusted as necessary to reflect changes in economic conditions or other relevant factors.

Prior to the implementation of CECL, management utilized historical losses and loss migration in estimating credit losses in the performing loan portfolio. Historical losses were adjusted for any qualitative or environmental factors that may have caused estimated losses to differ from historical loss experience. Non-performing loans were individually evaluated for impairment and specific reserves were allocated to cover any estimated impairment.

Refer also to *Note D--Loans Receivable /Allowance for Credit Losses*.

Grants Receivable: Grants receivable consist primarily of amounts due from federal and state agencies. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible based on contractual terms with the various agencies. Receivables are recorded at net realizable value, are unsecured, and are due within a year.

NMTC Leverage Loan: On August 1, 2018, Carolina Small Business agreed to participate as an Intermediary Community Development Entity (CDE) in a collaborative effort to increase investment in low-income communities, while providing investors access to certain New Market Tax Credits (NMTC) allocated by the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI). Carolina Small Business extended a Leverage Loan of \$2,135,000 to a member of the investment group. The Leverage Loan (receivable) requires quarterly interest payments at 5% per annum, with principal due upon maturity on October 31, 2025. The Leverage Loan is collateralized by the borrower's interest in an investee of the investment group, as defined by agreement. Carolina Small Business also entered into promissory notes totaling \$3,050,000 with members of the investment group. The notes payable of \$3,050,000 require quarterly interest payments at 3.5%, with principal due upon maturity on October 31, 2025. Carolina Small Business, in turn, committed loans of \$1,350,000 and \$1,700,000, respectively, to two businesses serving low-income communities. For its participation as an Intermediary CDE, Carolina Small Business is designated to receive exit fees of \$205,875, unless otherwise defined by agreement, on or about October 31, 2025.

Carolina Small Business Development Fund

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

Other Receivables: Other receivables at June 30, 2024 consist primarily of accrued interest on the NMTC Leverage Loan. Other receivables at June 30, 2023 consist primarily of administrative fees due under a municipal service contract. The Organization has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are recorded at net realizable value, are unsecured, and are due within a year.

Fixed Assets: Fixed assets are recorded at cost at the date of purchase or at fair market value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, contributions of fixed assets are recorded without donor restrictions. Depreciation is computed over the estimated useful lives of the respective assets on a straight-line basis. Fixed asset purchases greater than \$2,500 are capitalized, with purchases below that threshold expensed as incurred.

Right-of-Use Assets/Lease Liabilities: The Organization determines if an arrangement contains a lease at inception based on whether the Organization (as lessee) has the right to control the asset during the contract period and other facts and circumstances (FASB ASC 842). Right-of-use (ROU) assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations.

Upon commencement of a lease, the Organization (as lessee) determines its total lease payments required over the lease term (the noncancelable period of the lease and any option periods for which the Organization is reasonably certain to exercise its option). Lease payments generally include the following: fixed payments, less any lease incentives paid or payable to the lessee; variable lease payments that depend on an index or rate; and the exercise price of a reasonably certain option to purchase the underlying asset. The lease liability is recorded at the present value of the lease payments not yet paid. The discount rate is based on the risk-free rate for a comparable lease term, if the rate implicit in the lease is not readily determinable. The related right-of-use (ROU) asset is recorded at cost and generally consists of the following: the amount of the measurement of the initial lease liability; any lease payments made to the lessor at or before the commencement date, minus any lease incentives received; and any initial direct costs incurred by the lessee.

The Organization has elected not to record leases with an initial term of twelve months or less on the statement of financial position. Related lease payments are instead recognized in the statement of operations on a straight-line basis over the lease term.

For operating leases, the Organization recognizes a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis (unless another systematic basis is more representative of the benefit pattern). The remeasured right-of-use asset is generally carried at the amount of the remeasured lease liability, adjusted for cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, unamortized lease incentives, unamortized initial direct costs, and any impairment of the ROU asset.

For finance leases, right-of-use assets are recorded net of accumulated amortization, with amortization expense generally recognized on a straight-line basis over the lease term or the estimated useful life of the asset. Interest expense is recognized on the lease liability such that at all points during the lease, the lease liability reflects the present value of all remaining lease payments. The Organization had no finance leases in fiscal 2024 and fiscal 2023.

Tax Status: Carolina Small Business Development Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law, except on net income, if any, derived from unrelated business activities. The Organization had no unrelated business income for the years ended June 30, 2024 and 2023, and management is aware of no uncertain tax positions. The Organization qualifies for the charitable contributions deduction under Section 170(b)(1)(A)(vi) and, therefore, has been qualified as an organization that is not a private foundation under Section 509(a)(2).

Carolina Small Business Development Fund

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

Fair Value of Financial Instruments: The carrying values of grants receivable, accounts payable, and accrued expenses are considered to approximate the fair values of such at June 30, 2024 and 2023, due to the short-term maturity of these financial instruments. Certificates of deposit are carried at face value plus accrued interest which approximates the fair value of such based on current market rates for financial instruments of similar size and remaining maturities. Other committed support funds are carried at fair value as further described in *Note I--Fair Value Measurements*. Loans receivable are carried at face value, less an allowance for credit losses. Notes payable are carried at face value. Carolina Small Business makes and receives loans with stated interest rates that are consistent with community development market rates. Therefore, management believes the carrying values of loans receivable and notes payable approximate the fair values of these financial instruments.

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

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

Reclassifications: Certain amounts in the accompanying financial statements for fiscal 2023 have been reclassified to conform to the current year presentation.

NOTE B--AVAILABILITY AND LIQUIDITY OF ASSETS

The following reflects the Organization's financial assets that are available for general expenditures within one year of the statement of financial position date (June 30):

	<u>2024</u>	<u>2023</u>
Operating funds	\$ 8,549,767	\$ 5,260,253
Grants receivable	149,718	550,829
Other receivables	30,467	123,060
Less: Minimum cash balance required by lender	<u>(300,000)</u>	<u>(300,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,429,952</u>	<u>\$ 5,634,142</u>

Management expects cash collected in advance as pertains to deferred support and/or deferred revenue to be expended in connection with the Organization's primary programs within a year.

NOTE C--SIGNIFICANT CONCENTRATIONS (including subsequent events)

Deposit Risk: Carolina Small Business maintains operating deposits and other support funds at various financial institutions, the financial condition and credit ratings of which are monitored by the Organization's management on an ongoing basis. Deposit accounts are eligible for up to \$250,000 of insurance coverage per bank (credit union) provided by the Federal Deposit Insurance Corporation (National Credit Union Administration). Deposits in excess of federally insured limits approximated \$12,543,000 at June 30, 2024, though the Organization has incurred no loss as a result of such.

Carolina Small Business Development Fund

NOTE C--SIGNIFICANT CONCENTRATIONS (including subsequent events) -- Continued

Credit Risk: At June 30, 2024, loans receivable includes \$1,700,000 (8.1%) and \$829,612 (4.0%) due from two borrowers. No amounts due from these borrowers were past due at June 30, 2024 or subsequent thereto. At June 30, 2024, grants receivable includes approximately \$92,065 (61%) due from a federal agency.

Support Risk: Approximately 71% and 72% of the Organization’s support, revenues, and other income for the years ended June 30, 2024 and 2023, respectively, was derived from grants and financial assistance awards.

On November 18, 2021, North Carolina passed a biennial budget that includes an appropriation of \$7,000,000 for Carolina Small Business Development Fund for small business loans, financial training to start-ups, and lending services to community-based organizations. The Organization’s grant with the North Carolina Department of Commerce has an effective date of March 3, 2021, and identifies the source of funds as federal Coronavirus State Fiscal Recovery Funds (SFRF), authorized by the American Rescue Plan Act. All eligible expenditures were required to be incurred or obligated by December 31, 2024 and expended by December 31, 2026. The Organization recognized support of \$1,070,345, \$4,001,766, and \$1,927,889 for the years ended June 30, 2024, 2023, and 2022, respectively, based on the incurrence of eligible expenditures.

On September 20, 2023, North Carolina passed a biennial budget that includes an appropriation of \$7,000,000 for Carolina Small Business Development Fund (\$3,500,000 for fiscal 2024 and \$3,500,000 for fiscal 2025) for financial capital and technical assistance to small businesses, economic development policy research, and technology and capital costs. The Organization recognized support of \$3,500,000 for the year ended June 30, 2024.

NOTE D--LOANS RECEIVABLE / ALLOWANCE FOR CREDIT LOSSES

Loans receivable of \$20,927,079 (including 185 loans) and \$17,974,188 (including 173 loans) at June 30, 2024 and 2023, respectively, are due from small businesses in underserved communities throughout North Carolina. Outstanding loans at June 30, 2024 have terms ranging from one to twenty years and bear interest at rates ranging from 2% to 12.99%.

Principal maturities of loans receivable approximate the following at June 30, 2024:

<u>Years Ending June 30</u>	
2025	\$ 4,421,791
2026	4,988,098
2027	2,521,241
2028	3,166,723
2029	2,094,250
Thereafter	<u>3,734,976</u>
	<u>\$ 20,927,079</u>

Charge-Offs: Charge-offs of \$539,036 and \$533,169 were taken against loans receivable for the years ended June 30, 2024 and 2023, respectively. Loans are charged-off when all or a portion of the loan balance is deemed uncollectible.

Carolina Small Business Development Fund

NOTE D--LOANS RECEIVABLE / ALLOWANCE FOR CREDIT LOSSES -- Continued

Allowance for Credit Losses: Loans receivable at June 30, 2024 and 2023, are recorded net of an allowance for credit losses of \$1,888,728 (9.0%) and \$1,500,000 (8.3%), respectively, based on management's estimate of expected credit losses. Management's estimate as of June 30, 2024 is based on the CECL methodology described in Note A herein (due to the adoption of FASB ASC 326 effective July 1, 2023). Management's estimate as of June 30, 2023 is based largely on assessed risk ratings and the significance of nonperforming, past due, and restructured loans. The changes in the allowance for credit losses are as follows for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Balance, beginning	\$ 1,500,000	\$ 1,305,447
Provision charged to expense	927,764	727,722
Amounts charged off	<u>(539,036)</u>	<u>(533,169)</u>
Balance, ending	<u>\$ 1,888,728</u>	<u>\$ 1,500,000</u>

Loan Modifications: The Organization considers the modification of loan terms a viable solution to assist a borrower to repay the loan obligation. The modification may or may not have credit risk implications. Most of the loans modified by the Organization are experiencing a heightened risk of default or loss and may have already reached a defaulted status, including delinquency, maturity, business closure, or bankruptcy. These modifications may include payment forbearance and extension of maturity, reduced payments and extension, and interest rate reductions to a rate below market for new debt with similar risk. When Carolina Small Business, for legal or economic reasons related to the borrower's financial difficulties grants a concession, such modification may be considered a troubled debt restructuring (TDR). The borrower does not have to be in default at the time of the modification.

At June 30, 2024, loans receivable of \$1,600,896 (7.7%) are due under nonperforming loans, including \$741,851 considered delinquent (90 days or more past due and still accruing) and \$859,045 in nonaccrual status. At June 30, 2023, loans receivable of \$1,270,924 (7.1%) are due under nonperforming loans, including \$349,377 considered delinquent (90 days or more past due and still accruing) and \$921,547 in nonaccrual status.

A loan is placed on non-accrual status when the loan exceeds 90 days past due, when it becomes likely the borrower cannot or will not make scheduled principal or interest payments, when full repayment of principal and interest is not expected, the Organization may pursue the liquidation of the collateral pledged as part of the loan agreement, and/or pursue the borrowers and/or guarantors via a judgment to be obtained through the state court system. These actions may also be initiated if the Organization determines the risk of loss is heightened with a loan.

Credit Quality Indicators: The Organization uses internal risk ratings to monitor the likelihood of losses resulting from loans receivable. The Organization categorizes loans receivable into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, and credit documentation, among other factors. The Organization analyzes loans individually by classifying the loans receivable as to credit risk.

The credit risk factors, delineated by the number of days past due and by the loans designated as Troubled Debt Restructures, for the loan portfolio are summarized below:

<u>Risk Rating</u>	<u>Loan Balance</u>	<u>31 – 60 Days</u>	<u>61 – 89 Days</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Troubled Debt Restructures</u>
<i>June 30, 2024</i>						
Pass	\$ 18,441,426	\$ 216,813	\$ 16,756	\$ -	\$ 233,569	\$ 458,251
Watch	808,365	17,292	72,460	-	89,752	403,505
Classified	<u>1,677,288</u>	<u>-</u>	<u>-</u>	<u>1,598,593</u>	<u>1,598,593</u>	<u>754,707</u>
	<u>\$ 20,927,079</u>	<u>\$ 234,105</u>	<u>\$ 89,216</u>	<u>\$ 1,598,593</u>	<u>\$ 1,921,914</u>	<u>\$ 1,616,463</u>

Carolina Small Business Development Fund

NOTE D--LOANS RECEIVABLE / ALLOWANCE FOR CREDIT LOSSES -- Continued

<u>Risk Rating</u>	<u>Loan Balance</u>	<u>31 – 60 Days</u>	<u>61 – 89 Days</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Troubled Debt Restructures</u>
<i>June 30, 2023</i>						
Pass	\$ 15,403,797	\$ 14,845	\$ -	\$ -	\$ 14,845	\$ 1,132,694
Watch	1,196,389	174,129	-	175,248	349,377	640,960
Classified	<u>1,374,002</u>	<u>-</u>	<u>73,880</u>	<u>725,753</u>	<u>799,633</u>	<u>828,505</u>
	<u>\$ 17,974,188</u>	<u>\$ 188,974</u>	<u>\$ 73,880</u>	<u>\$ 901,001</u>	<u>\$ 1,163,855</u>	<u>\$ 2,602,159</u>

The general characteristics for each risk rating are as follows:

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

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

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

Significant Estimate: Carolina Small Business has recognized an allowance for credit losses on loans at June 30, 2024 and 2023, based on management’s best estimate of credit losses over the life of the loans. Management believes that the allowance for credit losses adequately provides for potential losses; however, it is at least reasonably possible that management’s estimate of potential losses may change significantly in the near term.

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

USDA–Intermediary Relending Program (IRP). Loans receivable of \$1,130,410 and \$782,537 at June 30, 2024 and 2023, respectively, bear interest at rates ranging from 5% to 11.75%. The program requires the Organization to maintain funded reserves of at least 6.0% of outstanding loans. Funded reserves approximate \$120,750 (10.7%) at June 30, 2024. No charge-offs were made during the years ended June 30, 2024 and 2023. A loan with an outstanding balance of \$193,256 has payments over 60 days past due at June 30, 2024. Refer to *Note E--Notes Payable and Other Liabilities* as pertains to pay-back of the loan funds.

USDA–Rural Micro-entrepreneur Assistance Program (RMAP). Loans receivable of \$136,527 and \$99,072 at June 30, 2024 and 2023, respectively, bear interest at rates ranging from 7.0% to 10.75%. The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Funded reserves approximate \$61,349 (44.9%) at June 30, 2024. Charge-offs of \$0 and \$2,003 were made for the years ended June 30, 2024 and 2023, respectively. No loans have payments over 60 days past due at June 30, 2024. Refer also to *Note E--Notes Payable and Other Liabilities* as pertains to pay-back of the loan funds.

SBA Intermediary Lending Pilot (ILP) Program. Loans receivable of \$401,824 and \$420,988 at June 30, 2024 and 2023, respectively, bear interest at rates ranging from 6% to 9.75%. The program requires the Organization to maintain funded reserves of at least 5.0% of outstanding loans. Funded reserves approximate \$50,358 (12.5%) at June 30, 2024. No charge-offs were made for the years ended June 30, 2024 and 2023. A loan with an outstanding balance of \$16,756 has payments over 60 days past due at June 30, 2024. Refer also to *Note E--Notes Payable and Other Liabilities* as pertains to pay-back of the loan funds.

Carolina Small Business Development Fund

NOTE D--LOANS RECEIVABLE / ALLOWANCE FOR CREDIT LOSSES -- Continued

Guaranteed Loan Programs: Carolina Small Business participates in certain guaranteed loan programs in order to provide long-term financing to small business concerns that would otherwise not be available.

The SBA's Community Advantage (CA) lender program was introduced by the U.S. Small Business Administration (SBA) to meet the credit, management, and technical assistance needs of small businesses in underserved markets. Carolina Small Business has participated in the CA guarantee program since November 1, 2012, initially as a participant in the CA Pilot Program and as a Community Advantage (CA) Small Business Lending Company (SBLC) since September 21, 2023. The CA program provides mission-oriented lenders access to (a) loan guarantees up to 85% for loans of \$350,000 or less (up from \$250,000 or less prior to April 2022). Approximately \$7,261,309 of the Organization's loans receivable at June 30, 2024 are guaranteed up to 75% or 85% by the CA program. CA-guaranteed loans of \$2,543,386 were sold at a premium of \$96,561 in the secondary market during the year ended June 30, 2019. Carolina Small Business has sold no loans on the SBA 7(a) secondary market since June 30, 2019. As prescribed in the U.S. Small Business Administration's (SBA) Community Advantage (CA) SBLC Loan program, Carolina Small Business is required to maintain various financial, operational, and reporting covenants, which include minimum credit loss reserve fund and allowance requirements. As of June 30, 2024, Carolina Small Business was in compliance with all such covenants and requirements.

Charlotte Community Capital Fund Program (CCCF) is a program to provide financing to small businesses within the Charlotte, North Carolina region that show promise, but do not meet one or more of participating lenders' normal underwriting criteria. CCCF provides participating lenders access to loan guarantees up to 85% for loans of \$150,000 or less. Approximately \$61,902 of the Organization's loans receivable at June 30, 2024 are guaranteed up to 85% by the Charlotte Community Capital Fund.

North Carolina Capital Access Program (NC CAP) is a program run by NC Rural Center, and available to partner lenders in all 100 North Carolina counties. Under the NC CAP program, the borrower and the lender contribute a total of two to seven percent of the loan amount, and the NC Rural Center matches this amount dollar-for-dollar. These funds grow to create a reserve account that each participating lender may use to offset losses on enrolled loans, thus helping offset the lender's risk. During fiscal year 2024, the Organization started a second NC CAP program. At June 30, 2024, the NC CAP I and II programs hold approximately \$193,874 and \$33,493 as a credit enhancement reserve for Carolina Small Business loans enrolled in the program. Enrolled loans have outstanding balances of approximately \$497,717 in the aggregate at June 30, 2024.

The National Association for Latino Community Asset Builders (NALCAB) Guarantee program offers a loan guarantee for a portion of the current principal balance on secured loans made by a NALCAB Network Member Lender. The NALCAB Guarantee program eligibility requirements are for loans to be made to small businesses that are in operation for at least one year, and have annual revenues of < \$1 million and a loan term of five years. The NALCAB Guarantee limit for real estate loans is up to 50% of loan principal balance, with the guarantee amount not to exceed \$75,000. The NALCAB Guarantee limit for small business loans (loans that are not secured with real estate) is up to 50% of loan principal balance, with the guarantee amount not to exceed \$20,000. Approximately \$125,468 of the Organization's loans receivable at June 30, 2024 are guaranteed by the NALCAB Guarantee program.

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE AND OTHER LIABILITIES (including subsequent events)

Notes payable consist of the following:

Lender	Principal Payments	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2024	June 30, 2023
NMTC-PNC	Due in full at maturity	3.50%	Quarterly	Oct. 2025	Secured by QALICB loans receivable and underlying collateral	\$ 2,529,612	\$ 2,529,612
First Bank	Due in full at maturity	2.00%	Monthly	Dec. 2026	Unsecured	250,000	250,000
Mercy Investment Services	Due in full at maturity	3.50%	Quarterly	May 2029	Full recourse obligation	750,000	500,000
Appalachian Community Capital	Due in full at maturity	2.73%	Monthly	Sep. 2027	Unsecured	500,000	500,000
USDA RMAP	Monthly	2.00%	Monthly	Nov. 2034	Partially secured by RMRF deposits/loans receivable	341,012	346,477
USDA RMAP	Monthly beginning May 2019	2.00%	Monthly beginning May 2019	Apr. 2037	Partially secured by RMRF deposits/loans receivable	341,012	387,640
US SBA ILP	Quarterly	1.00%	Quarterly	Sep. 2031	Partially secured by ILP deposits/loans receivable	428,942	486,031
Bank of America	Annually beginning August 2024	1.00%	Quarterly	Aug. 2026	Partially secured by specific loans receivable funded by BOA	525,000	525,000
Spectrum Communications Indemnity Inc.	Due in full at maturity	2.50%	Semi-Annually	Apr. 2026	Partially secured by deposits/loans receivable funded by Spectrum	1,050,945	1,050,945
Opportunity Finance Network	Due in full at maturity	2.00%	Quarterly	July 2026	Unsecured	1,000,000	1,000,000
Olamina Fund	Due in full at maturity	3.25%	Quarterly beginning December 2021	Sep. 2026	Unsecured	2,000,000	2,000,000
PNC Bank - new consolidated note	Due in full at maturity	3.25%*	Quarterly	Dec. 2024*	Partially secured by \$300,000 minimum deposit account	1,216,125	1,216,125
USDA IRP	Annually	1.00%	Annually	Nov. 2040	Partially secured by IRP deposits/loans receivable	424,828	457,991
USDA IRP	Annually	1.00%	Annually	May 2030	Partially secured by IRP deposits/loans receivable	136,945	163,566
USDA IRP	Annually beginning September 2019	1.00%	Annually	Sep. 2036	Partially secured by IRP deposits/loans receivable	517,200	528,434
USDA IRP	Annually	1.00%	Annually	Jan. 2046	Partially secured by IRP deposits/loans receivable	252,149	272,092
Total Notes Payable						\$ 12,263,770	\$ 12,213,913

QALICB=Qualified Active Low-income Community Business

*at rate of 4.50% and maturity in December 2027, as subsequently amended.

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE AND OTHER LIABILITIES (including subsequent events)--Continued

Other liabilities consist of long-term, subordinated promissory notes, that lenders are classifying as Equity Equivalent Investments (EQ2). EQ2s are a means by which not-for-profit CDFIs can access equity-like capital. Unlike permanent capital, an equity equivalent must eventually be repaid and requires interest payments during its term.

EQ2 Lender	EQ2 Term	Interest Rate	Interest Payments	Maturity Date	Collateral	Principal Balance	
						June 30, 2024	June 30, 2023
CDFI Community Investment Fund, LLC (formerly Woodforest National Bank)	Due in full at maturity; may be extended for two one-year periods.	3.00%	Quarterly	Dec. 2027, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	\$ 525,000	\$ 525,000
Pinnacle Bank (formerly Bank of North Carolina)	Due in full at maturity; may be extended for one two-year period.	1.00%	Quarterly	Feb. 2027, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	1,250,000	1,250,000
First National Bank	Subject to renewal on December 28, 2025, and, if renewed, each 3-year anniversary thereafter.	3.00%	Annually	End of last renewal period	Full Recourse Obligation; subordinate to Senior Debt, but on par with other EQ2s.	500,000	500,000
First Tennessee	Due in full at maturity; may be extended for one year	2.75%	Quarterly	Jan. 2028, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	496,563	496,563
Wells Fargo	Quarterly beginning April 2026	2.00%	Quarterly	Apr. 2028	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	1,000,000	1,000,000
Wells Fargo	Quarterly beginning August 2024, as amended	2.00%	Quarterly	May 2026	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	500,000	500,000
United Bank	Due in full at maturity in Apr. 2028, may be extended to Apr. 2033.	2.00%	Quarterly	Apr. 2028, unless extended.	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	250,000	250,000
First Citizens Bank	Due in full at maturity in Apr. 2029, may be extended for two one-year option periods, subject to certain terms and conditions.	2.00%	Annually	Apr 2029, unless extended	Unsecured; subordinate to Senior Debt; on par with other EQ2s.	500,000	0
Total Other Liabilities						\$ 5,021,563	\$ 4,521,563

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE E--NOTES PAYABLE AND OTHER LIABILITIES (including subsequent events) -- Continued

Interest expense totaled \$376,512 and \$462,876 for the years ended June 30, 2024 and 2023, respectively.

Principal maturities of notes payable and other liabilities (EQ2s) at June 30, 2024 approximate the following:

<u>Years Ending June 30</u>	
2025	\$ 2,194,835
2026	4,536,848
2027	3,958,909
2028	2,482,128
2029	2,714,141
Thereafter	<u>1,398,472</u>
	<u>\$ 17,285,333</u>

Financial Covenants/Ratios: Certain of the preceding notes payable and EQ2s require the Organization to comply with various financial covenants and ratios over the terms of the related notes. The Organization met these commitments at June 30, 2024 and subsequent thereto.

Bank Line of Credit: The Organization has a \$1,000,000 bank line of credit with Pinnacle Bank to support surety bond guarantees. Outstanding principal on the line is due in one payment on August 25, 2024. Interest is payable on outstanding balances monthly, based on the 1-month CME Term Secured Overnight Financing Rate plus 2.300 percentage points (resulting in an initial rate of 7.625% per annum). The line is secured by a \$1,000,000 certificate of deposit with Pinnacle Bank. No borrowings were taken against the line of credit through June 30, 2024 or subsequent thereto. The line expired on August 25, 2024; however, management is in the process of securing a new line of credit.

Other Subsequent Events: The Organization received proceeds of \$2,000,000 from Pinnacle Bank on July 3, 2024, in connection with an Equity Equivalent Investment, requiring interest quarterly at 2.0% per annum, and maturing July 3, 2029. The EQ2 may be extended for two additional one-year option periods, subject to certain terms and conditions. The EQ2 is subordinate to other creditors of the Organization, except the EQ2 shall be on par with any other equity equivalent investments structured as loans that are made on similar subordinate terms.

NOTE F--NET ASSETS WITH DONOR RESTRICTIONS / CONDITIONAL AWARDS

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

	<u>Years Ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
Small business lending	\$ 442,068	\$ 1,297,029
Women's Business Center	465,314	343,212
Training and technical assistance	165,096	175,278
NC Disaster Recovery Loan Program	55,990	425,489
Oak City Biz Labs Program (described below)	-	2,189,645
Capacity building	18,688	-
Latino program	35,000	-
General operations	<u>1,070,345</u>	<u>4,214,370</u>
	<u>\$ 2,252,501</u>	<u>\$ 8,645,023</u>

Oak City Biz Labs Program: In April 2022, the City of Raleigh contracted with Carolina Small Business to assist the City in administering the distribution/use of up to \$5,000,000 of Coronavirus State and Local Fiscal Recovery Funds, authorized by the American Rescue Plan Act of 2021. The Organization was responsible for administering the Oak City Biz Labs Program for small businesses located in Raleigh. The Organization distributed grants totaling \$2,189,645 to eligible businesses (through May 2023) and provided technical assistance services to the grant recipients. Carolina

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE F--NET ASSETS WITH DONOR RESTRICTIONS / CONDITIONAL AWARDS -- Continued

Small Business recognized administrative fees of \$348,783 for services provided in fiscal 2023. (No services were provided under the agreement in fiscal 2022.) Services provided in fiscal 2024 involved only submission of the final survey to close-out the program.

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2024</u>	<u>2023</u>
Small business lending	\$ 932,624	\$ 864,412
Women's Business Center	4,982	-
NC Disaster Recovery Loan Program	<u>437,225</u>	<u>493,216</u>
	<u>\$ 1,374,831</u>	<u>\$ 1,357,628</u>

Support from awards for the following remains conditional at June 30, 2024:

Small business lending	\$ 16,397
Women's Business Center	60,323
Capacity building	381,312
Latino program	<u>35,000</u>
	<u>\$ 493,032</u>

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

NOTE G--OPERATING LEASES

The Organization leases its primary office space in Raleigh under an operating lease scheduled to expire in April 2028. The lease requires minimum rentals plus pro rata payments for common area maintenance. The lease, as amended in April 2020, provides for the conditional abatement of rent from May 2020 to October 2020. The lease may be extended for one five-year period with base rent at fair market value. At July 1, 2022 (the beginning of the period of adoption of ASC Topic 842) and on the date the accompanying financial statements were available to be issued, management was not reasonably certain that the Organization would exercise its option to extend the lease. Therefore, the term of the lease is limited to its initial term.

The following summarizes the line items in the statement of financial position that relate to the Organization's operating lease for its primary office space as of June 30:

	<u>2024</u>	<u>2023</u>
Operating lease right-of-use assets:		
Office space	\$ 880,746	\$ 880,746
Accumulated amortization	<u>(285,555)</u>	<u>(140,859)</u>
Total operating lease right-of-use assets, net	<u>\$ 595,191</u>	<u>\$ 739,887</u>
Operating lease liabilities, current portion	\$ 146,613	\$ 137,811
Operating lease liabilities, noncurrent portion	<u>466,927</u>	<u>613,540</u>
Total operating lease liabilities	<u>\$ 613,540</u>	<u>\$ 751,351</u>

Carolina Small Business has various other space leases that generally have terms of one year or less, are cancellable by either party without penalty, or require rentals of nominal value. Related lease payments are recognized ratably over the lease term.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE G--OPERATING LEASES -- Continued

The following summarizes cash flow information for the Organization's primary office space lease for the years ended June 30:

	<u>2024</u>	<u>2023</u>
<u>Cash flows from operating activities:</u>		
Changes in operating lease liabilities	\$ (137,811)	\$ (129,395)
Interest charged to rent expense	(19,844)	(23,681)
<u>Noncash investing and financing activities:</u>		
Operating lease ROU assets obtained in exchange for operating lease liabilities	-	880,746

Maturities of operating lease liabilities are as follows at June 30, 2024:

<u>Years Ending June 30</u>		
2025		\$ 162,373
2026		167,249
2027		172,265
2028		147,575
Thereafter		<u>-</u>
Total lease payments		649,462
Less: Interest		<u>(35,922)</u>
Present value of lease liabilities		<u>\$ 613,540</u>

The following summarizes the weighted average remaining lease term and discount rate for the Organization's primary office space lease as of June 30:

	<u>2024</u>	<u>2023</u>
<u>Weighted Average Remaining Lease Term:</u>		
Operating leases	3.84 years	4.84 years
<u>Weighted Average Discount Rate:</u>		
Operating leases	2.88%	2.88%

The following summarizes the line items in the statements of activities which include the components of lease costs (for all space leases) for the years ended June 30:

	<u>2024</u>	<u>2023</u>
<u>Operating lease costs included in:</u>		
Office occupancy:		
Program services	\$ 159,611	\$ 157,238
Support services	<u>45,019</u>	<u>44,349</u>
Total operating lease costs	<u>\$ 204,630</u>	<u>\$ 201,587</u>

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE H--EMPLOYEE BENEFIT PLAN

Carolina Small Business sponsors a 401(k) retirement plan. Employees are eligible to participate after attaining age 21 and completing one month of service. The Organization makes Safe Harbor matching contributions at the rate of 100% of a participant's elective deferrals up to 5% of the participant's Compensation for the plan year. Employer matching contributions totaled \$126,505 and \$121,365 for the years ended June 30, 2024 and 2023, respectively. The plan also provides for discretionary, nonelective employer contributions, though no such contributions were approved for the years ended June 30, 2024 and 2023.

NOTE I--FAIR VALUE MEASUREMENTS

Carolina Small Business applies U.S. generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value of financial instruments. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

The following represents assets and liabilities measured (and carried) at fair value on a recurring basis by Carolina Small Business:

<u>June 30, 2024</u>	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Operating funds:</i>				
Certificates of deposit	\$ 1,648,179	\$ -	\$ 1,648,179	\$ -
<i>Other committed support funds</i>	<u>203,737</u>	<u>-</u>	<u>118,636</u>	<u>85,101</u>
Total	<u>\$ 1,851,916</u>	<u>\$ -</u>	<u>\$ 1,766,815</u>	<u>\$ 85,101</u>
<u>June 30, 2023</u>	<u>Fair Value</u>	(Level 1)	(Level 2)	(Level 3)
<i>Operating funds:</i>				
Certificates of deposit	\$ 337,065	\$ -	\$ 337,065	\$ -
<i>Other committed support funds</i>	<u>199,186</u>	<u>-</u>	<u>118,636</u>	<u>80,550</u>
Total	<u>\$ 536,251</u>	<u>\$ -</u>	<u>\$ 455,701</u>	<u>\$ 80,550</u>

Carolina Small Business Development Fund

NOTE I--FAIR VALUE MEASUREMENTS -- Continued

Level 2: Operating funds and other committed support funds include holdings in certificates of deposit (and share term certificates), the carrying values of which approximate the fair values based on current market rates for financial instruments of similar size and remaining maturities. Certificates of deposit consist of the following at June 30, 2024: a \$339,963 certificate (including accrued interest), 5-year term, at 2.47%, maturing in July 2028; a \$151,711 certificate, 18-month term, at 4.6%, maturing in October 2025; a \$151,436 certificate, 6-month term, at 3.78%, maturing in August 2024, which was subsequently renewed at the same rate and term to February 27, 2025; a \$5,069 certificate, 2-year term, at 0.15%, maturing in December 2025; a \$1,000,000 certificate, 25-month term, at 4.05%, maturing in September 2025; a \$106,443 certificate, 5-year term, at 3.00%, maturing in January 2026; and a \$12,193 certificate, 5-year term, at 3.00%, maturing in August 2027.

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

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

	Year Ended	
	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Beginning balance, beginning of year	\$ 80,550	\$ 85,217
Collections on mortgages purchased from GCCU	(4,812)	(4,667)
Net decrease in allowance	<u>9,363</u>	<u>-</u>
Ending balance, end of year	<u>\$ 85,101</u>	<u>\$ 80,550</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Carolina Small Business believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a significantly different fair value measurement at the reporting date.

NOTE J--ADMINISTRATION OF LOAN AND GRANT PROGRAMS / FUNDS HELD IN AGENCY

Carolina Small Business began administering certain loan and grant programs in fiscal 2020 on behalf of certain municipalities and a nonprofit organization. Loans placed and grants disbursed on behalf of these programs are not reflected in the accompanying financial statements. The Organization is required to follow standard and commercially reasonable collection practices on all delinquent loans, but will not be required to repay any loans deemed uncollectible. Revenue from service contracts is recognized as services are provided in an amount that reflects the consideration the Organization expects to be entitled to receive in exchange for those services. Amounts collected in advance are included in deferred revenue. Advances of loan or grant funds are recorded as a liability until placed or disbursed. Amounts due to the Organization for loans placed or grants disbursed are included in other receivables. Loan and grant programs administered by Carolina Small Business, many of which originated in response to the COVID-19 pandemic, are summarized herein.

Carolina Small Business Development Fund

NOTE J--ADMINISTRATION OF LOAN AND GRANT PROGRAMS / FUNDS HELD IN AGENCY --
Continued

Mecklenburg County Small Business Loan Program: The Organization entered into a contract with Mecklenburg County, effective June 1, 2019, to provide lending services to qualified small and start-up businesses in Mecklenburg County. The 5-year contract includes an option to renew for one 3-year term. The County has committed to provide loan capital of \$2,750,000 to fund loans of up to \$75,000. Carolina Small Business receives administrative fees to perform trainings and technical assistance for the program not-to-exceed \$500,000, plus monthly servicing fees, over the 5-year contract term. Administrative fees are payable in quarterly payments of \$25,000. Administrative fees of \$226,000 and \$100,000 were recognized in fiscal 2024 and 2023, with servicing fees of \$12,400 and \$7,518 recognized for fiscal 2024 and 2023, respectively. In January 2024, the County provided an additional \$700,000 to the program for lending. Loan funds of \$957,397 and \$182,393 received from Mecklenburg County, but not placed as of June 30, 2024 and 2023, respectively, are recorded as a liability in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$2,331,452 and \$2,589,604 at June 30, 2024 and 2023, respectively. The contract with the County (which was due to expire May 31, 2024) was renewed for one 3-year term.

Emergency Stabilization Loan Fund (Mecklenburg County): In April 2020, Carolina Small Business entered into a 10-year contract to provide lending services to small businesses located in Mecklenburg County. The County has committed to provide loan capital of \$5,000,000. Carolina Small Business will receive administrative fees to perform training and technical assistance for the program not-to-exceed \$500,000, plus monthly servicing fees, over the 10-year contract term. Administrative fees of \$55,556 were recognized in fiscal 2024 and 2023, with servicing fees of \$13,670 and \$17,308 recognized for fiscal 2024 and 2023, respectively. Principal and interest repayments of \$145,306 and \$133,544 collected from borrowers (net of fees) are recorded as a liability at June 30, 2024 and 2023, respectively, in the accompanying financial statements. Loans receivable, due from borrowers and payable to the County, totaled \$2,446,773 and \$3,101,129 at June 30, 2024 and 2023, respectively.

NC Rapid Recovery Loan Program (Rural Center): In March 2020 and May 2020, Carolina Small Business entered into contracts with the Rural Economic Development Center, Inc. (Rural Center), whereby the Organization agreed to participate as lender and servicing agent for loans to small businesses negatively impacted by Hurricane Florence, Hurricane Dorian, or COVID-19. The loans were funded by grants from the Golden LEAF Foundation to the Rural Center, the term of which expired on April 1, 2021. Carolina Small Business is entitled to administrative fees of 2% and a portion of interest collected from borrowers, as defined by contract. Loans receivable, due from borrowers and payable to the Rural Center, totaled \$447,190 and \$746,009 at June 30, 2024 and 2023, respectively.

Durham Small Business Recovery Fund (City of Durham): On June 11, 2020, Carolina Small Business entered into a contract with the City of Durham whereby the Organization agreed to administer and seek contributions for the Durham Small Business Recovery Fund. The City of Durham committed \$1,000,000 in Public Funds and another source committed \$1,000,000 in Private Funds. Public Funds are available for loans and Private Funds are available for grants, both of which are intended to help preserve eligible small businesses within the City of Durham that have been impacted by the COVID-19 pandemic. The loans are non-revolving and will be repaid to the City of Durham upon collection. The grants will not be repaid. All grant funds were disbursed by October 2021. All loans were placed by November 2022. Principal and interest repayments of \$6,523 and \$16,954 collected from borrowers (net of fees) are recorded as a liability at June 30, 2024 and 2023, respectively. Loans receivable, due from the borrowers and payable to the City of Durham, totaled \$694,702 and \$777,286 at June 30, 2024 and 2023, respectively.

Carolina Small Business Development Fund

NOTE J--ADMINISTRATION OF LOAN AND GRANT PROGRAMS / FUNDS HELD IN AGENCY --
Continued

Durham Small Business Recovery Fund (Durham County): On June 22, 2020, Durham County voted to commit \$1,000,000 to the Durham Small Business Recovery Fund. The County agreed to provide \$833,333 for loan capital and \$83,333 for administrative fees payable to Carolina Small Business. Loan funds of \$127,936 and \$434,871 received from Durham County, but not placed as of June 30, 2024 and 2023, respectively, as well as principal and interest repayments of \$2,743 for each year (net of fees), are recorded as a liability in the accompanying financial statements. Loans receivable, due from the borrowers and payable to Durham County, totaled \$694,304 and \$401,206 at June 30, 2024 and 2023, respectively.

RETOOLNC Grant Program: In September 2020, the North Carolina Department of Administration, Office for Historically Underutilized Businesses (NCHUB) partnered with Carolina Small Business Development Fund and the North Carolina Institute of Economic Development to administer the RETOOLNC Grant Program. Funding for the program was sourced from Coronavirus Relief Funds of \$12,600,000 awarded to the North Carolina Pandemic Recovery Office. The program provided grants of up to four months of operational expenses for eligible businesses registered with the NCHUB or which shared a similar profile to a HUB-certified business. These grant funds were intended to aid small historically underutilized businesses in North Carolina to make pivotal changes to meet industry needs during the coronavirus pandemic. Carolina Small Business disbursed grants of approximately \$6,500,000 and \$4,781,815 in fiscal 2021 and fiscal 2022, respectively.

Grant funds of \$8,206,044 received but not disbursed and administrative fees of \$138,850 received but not earned as of June 30, 2022, were disbursed and earned, respectively, by mid-October 2022. Additional administrative fees of \$335,000 were received and recognized in mid-October 2022. Carolina Small Business received additional funding in late-October 2022 of approximately \$323,900 and \$980,000 for RETOOLNC grants, for which the Organization received an administrative fee of \$5,000 and \$20,000, respectively, for disbursing the funds. All grant funds were disbursed by November 30, 2022.

City of Charlotte Contractor Development Program: The City of Charlotte's Contractor Development Program provides technical assistance, business development, and financial guidance to small minority, and women-owned firms. Carolina Small Business entered into a one-year contract with Merriwether & Williams Insurance Services Inc. ("MWIS"), effective July 1, 2023, to provide collateral in the form of Irrevocable Letters of Credit (ILOC) for the City's Bond Readiness Program and lending capital for the Contract-Based Finance (CBF) Program. Carolina Small Business will maintain a cash-secured line of credit with a partner bank for the purpose of issuing Surety bond guarantees in the form of ILOCs for qualified businesses in the program. The maximum exposure for the initial launch of the program will not exceed \$1,000,000. Each ILOC issued will be assessed a fee equal to 2.0% of the ILOC face value. Administrative fees of \$25,000 were recognized by the Organization in fiscal 2024 and the contract was renewed for another year.

NOTE K--RELATED PARTY TRANSACTION

In July 2018, the Organization extended a loan of \$1,700,000 to EMP Commercial, LLC, owned by Eagle Market Streets Development Corporation (Eagle Market Streets, hereafter) and Mountain Housing Opportunities, Inc. (Mountain Housing). All loan documents, including unlimited guarantees on the loan, were signed by both Eagle Market Streets and Mountain Housing. The signer on behalf of Eagle Market Streets was its President/Manager, who also served as the Vice Chair for the Organization's Board of Directors. The Vice Chair abstained from voting when the Board approved the loan to EMP Commercial, LLC. The loan requires 87 monthly interest-only payments (at approximately 3.50%), with principal due in full on October 31, 2025. At June 30, 2024, the loan balance is \$1,700,000 and interest payments are being made on a monthly basis.

Notes to Financial Statements--Continued

Carolina Small Business Development Fund

NOTE L--COMMITMENTS AND CONTINGENCIES (including subsequent events)

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

The Organization has committed to repay one-half of principal collected on certain disaster recovery loans. At June 30, 2024 and 2023, loans receivable of \$874,451 and \$986,432, respectively, are subject to this repayment provision. Principal maturities are scheduled as follows at June 30, 2024: \$56,268 in fiscal 2025; \$633,390 in fiscal 2026; \$62,173 in fiscal 2027; \$65,342 in fiscal 2028, and \$57,278 in fiscal 2029.

The Organization participates in a forgivable disaster loan program whereby one-third of no-interest loan principal is forgiven at the end of years one, two, and three if certain requirements are met. If not forgiven, repayment of these loans is due in full as defined by agreement within the three-year term. Loans totaling \$100,000 were forgiven in fiscal 2023 and loans totaling \$300,000 were written off in fiscal 2023. No loans remained outstanding at June 30, 2023.

NOTE M--SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 9, 2024, the date on which the financial statements were available to be issued. No further adjustments to or disclosures in the financial statements are considered necessary.

SUPPLEMENTARY INFORMATION

Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2024

Grantor/ Pass-through Grantor/ Program Title	Assistance Listing #	Pass-through Entity Identifying Number	Federal Expenditures*	State Awards	
				Support	Expenditures
FEDERAL AWARDS:					
<u>U.S. Department of Agriculture, Rural Development:</u>					
<i>Intermediary Relending Program (IRP):</i>					
Loans due to federal agency at beginning of fiscal year	10.767		\$ 1,422,083		
<i>Rural Microentrepreneur Assistance Program (RMAP):</i>					
Training and technical assistance to micro-borrowers	10.870		7,167		
Loans due to federal agency at beginning of fiscal year	10.870		734,118		
			<u>741,285</u>		
<u>U.S. Department of Commerce, Minority Business Development Agency:</u>					
<i>Minority Business Resource Development:</i>					
<u>National Association for Latino Community Asset Builders:</u>					
<i>Project to improve access to capital for Minority Business Enterprises (MBEs).</i>	11.802	Sub-Grant Agreement	35,000		
<u>U.S. Department of the Treasury:</u>					
<i>Coronavirus State and Local Fiscal Recovery Funds (authorized by the American Rescue Plan Act)</i>					
<u>State of North Carolina Appropriation:</u>					
<i>COVID-19: State Fiscal Recovery Funds (SFRF)</i>					
<u>N.C. Department of Commerce (disbursing agency):</u>					
Appropriated for small business loans, financial training to start-ups and lending services to community-based organizations.	21.027	Agreement signed Jun. 28, 2022/effective Mar. 3, 2021	1,070,345		
<u>City of Charlotte:</u>					
<i>Small Business Ecosystem Partner Grant: City of Charlotte COVID-19 Assistance Program.</i>	21.027	#2023000128	111,317		
<u>City of Raleigh:</u>					
<i>COVID-19: Local Fiscal Recovery/Oak City Biz Labs Program:</i>					
Training & technical assistance/administrative costs	21.027	Subrecipient Agreement	90,363		
			<u>1,272,025</u>		
<u>U.S. Small Business Administration:</u>					
<i>Women's Business Ownership Assistance:</i>					
Western Women's Business Center (SBAOEDWB220186/SBAOEDWB230229)	59.043		121,145		
<i>Intermediary Loan Program (ILP):</i>					
Loans due to federal agency at beginning of fiscal year	59.062		486,031		
			<u>4,077,569</u>		
TOTAL FEDERAL EXPENDITURES			\$	<u>4,077,569</u>	
STATE AWARDS:					
<u>State of North Carolina Special Appropriation:</u>					
North Carolina Department of Commerce - Directed Grant:					
Small business lending (including committed funds)		NC Grant ID 72899	\$ 272,000	\$	272,000
General operations			<u>3,228,000</u>		<u>3,228,000</u>
			3,500,000		3,500,000
North Carolina Department of Commerce:					
<i>North Carolina CDFI Capacity Building Program</i>					
Rural Economic Development Center, Inc.:					
<i>To fund building of the CDFI's capacity to expand lending services to small businesses.</i>					
			18,688		18,688
<u>State of North Carolina Appropriation under The Disaster Recovery Act of 2016:</u>					
The Golden LEAF Foundation:					
<i>North Carolina Disaster Recovery Loan Program:</i>					
Small business lending (advance refunded)		FY2017-149	(55,990)		-
			<u>(55,990)</u>		<u>-</u>
TOTAL STATE AWARDS			\$	<u>3,462,698</u>	\$ <u>3,518,688</u>

* No amounts were passed through to subrecipients.

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

Notes to Schedule of Federal and State Awards

Carolina Small Business Development Fund

Year Ended June 30, 2024

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of federal and state awards (the Schedule) includes the federal and state grant activity of Carolina Small Business Development Fund for the year ended June 30, 2024. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and U.S. Department of the Treasury's guidance and FAQs published in the *Federal Register*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C--FEDERAL LOAN / LOAN GUARANTEE PROGRAMS

The following federal loan programs are administered by the Organization, with balances and transactions relating to these programs included in the Organization's basic financial statements. Loans outstanding at the beginning of the fiscal year and loans taken during the fiscal year are included in the federal expenditures presented in the Schedule. The balance of loans due to the federal agencies at June 30, 2024 consists of:

Assistance <u>Listing #</u>	<u>Program Name</u>	Outstanding Balance <u>June 30, 2024</u>
10.767	USDA IRP	\$ 1,331,122
10.870	USDA RMAP	682,024
59.062	US SBA ILP	428,942

Loans receivable from borrowers of approximately \$7,261,309 at June 30, 2024, are guaranteed (up to 75% or 85%) under the SBA Community Advantage Pilot Loan Program.

Loans receivable from borrowers of approximately \$61,902 at June 30, 2024, are guaranteed (up to 85%) under the Charlotte Community Capital Fund Program.

Loans receivable from borrowers of approximately \$497,717 at June 30, 2024, are guaranteed (up to 7%) under the NC Capital Access Program.

Loans receivable from borrowers of approximately \$125,468 at June 30, 2024, are guaranteed under the National Association for Latino Community Asset Builders (NALCAB) Guarantee program.

NOTE D--INDIRECT COST RATE

The Organization elected to charge indirect costs as provided by the Organization's grant agreements, instead of using the 10% de minimis indirect cost rate allowed by the Uniform Guidance.

COMPLIANCE REPORTS



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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Carolina Small Business Development Fund (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

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*--Continued

Purpose of This Report

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

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

Raleigh, North Carolina
December 9, 2024



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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Carolina Small Business Development Fund's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Carolina Small Business Development Fund's major federal programs for the year ended June 30, 2024. Carolina Small Business Development Fund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Carolina Small Business Development Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Carolina Small Business Development Fund and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Carolina Small Business Development Fund's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Carolina Small Business Development Fund's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Carolina Small Business Development Fund's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Carolina Small Business Development Fund's compliance with the requirements of each major federal program as a whole.

Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance--Continued

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Carolina Small Business Development Fund's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Carolina Small Business Development Fund's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Carolina Small Business Development Fund's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

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

Raleigh, North Carolina
December 9, 2024

Schedule of Findings and Questioned Costs

Carolina Small Business Development Fund

Year Ended June 30, 2024

Section I - Summary of Auditor's Results

Type of auditor's report issued on financial statements: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal award programs:

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

Noncompliance material to major federal award programs? yes no

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

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

Identification of major federal programs:

<u>Assistance Listing Number(s)</u>	<u>Program Name</u>
21.027	U.S. Department of the Treasury, <i>Coronavirus State and Local Fiscal Recovery Funds</i>

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

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs--Continued

Carolina Small Business Development Fund

Year Ended June 30, 2024

Section II - Financial Statement Findings

There were no such findings to report.

Section III - Federal Award Findings and Questioned Costs

There were no such findings to report.